



DNP

PRINTING & BEYOND

DNP Annual Report 2005
Year ended March 31, 2005





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Ukiyo-e: The Starting Point of Japanese Printing

The roots of today's printing, with its lines drawn to nanometer-level precision, can be found in the Ukiyo-e woodblock prints that first appeared during the Edo Period (1603-1867). The single-minded craftsmanship that was expressed in each strand of human hair and each streak of rain lives on today in modern Japanese printing. Printing technology has already developed far beyond what anyone could have imagined in the past. With the advent of an emergent society, the possibilities for the future are infinite.



Yoshitoshi Kitajima
Chairman of the Board
President and Chief Executive Officer

Message to Our Shareholders



Fiscal Year Results

Record high sales, operating profits and net profits

Despite a difficult business environment, we are very happy to be able to report that DNP achieved growth to record levels not just in sales, but also in operating and net profits. We believe this shows that our efforts toward expanding our business under the “P&I Solutions” vision, whereby we combine printing and information technologies to offer customers unique solutions, have begun to pay off in a variety of ways.

This fiscal year, DNP’s net sales rose 5.2% over the previous year to 1,424.9 billion yen, marking a record high for the second year in a row. Operating income (up 17.7% to 120.5 billion yen) and net income (up 13.1% to 59.9 billion) all rose for the third consecutive term and reached record levels.

Higher revenues and profits in every segment

This year’s positive results included higher sales and profits in every segment. In Information Communication, sales of printed materials like books and periodicals were sluggish, but commercial printing, such as flyers and pamphlets, increased as economic recovery stimulated advertising activity. Among business form-related items, ledger sales were slow, but we gained an overwhelming share of the smart-card market by making the most of our best-in-the-industry expertise and providing sophisticated security technologies such as biometric identification. Also, our information processing services (IPS) business did well. As a result, the Information Communication segment’s net sales grew 1.7% from the previous year, to 640.7 billion yen, while operating income grew 13.0% to 49.4 billion yen.

In the packaging sector of Lifestyle & Industrial Supplies, sluggish personal consumption and other factors resulted in flat sales of paper containers. However, for the fourth consecutive term, several beverage manufacturers adopted our aseptic filling systems for PET bottles, so we enjoyed a great increase in sales of preform bottles. Sales of film packaging and paper cups also increased. In decorative materials, we succeeded in expanding our market share, both domestically and overseas, of healthy and environmentally friendly decorative sheets for building interiors. In Industrial Supplies, sales grew greatly thanks to a boost in the production capacity of functional optical films used for displays. Sales of ink ribbons for plain-paper fax machines declined, but ink ribbons for color printers sold well, thanks to an expanded market for printing photos taken with digital cameras. As a whole, the Lifestyle & Industrial Supplies segment's net sales increased by 5.6% year-on-year to 450.0 billion yen, while operating income grew 11.0% to 36.0 billion yen.

In the Electronics segment, unit prices for LCD color filters declined, but there was still a sharp rise in revenues from manufacturers of computer monitors and home televisions, partially due to the start-up of a new fifth-generation production line at our Mihara plant in Hiroshima. Sales of shadowmasks also increased greatly, mainly for use in home televisions. Partly due to a boost in production in Italy as of October 2003, photomask sales were good, with demand focusing on leading-edge products in Japan and overseas. Overall, we achieved major increases in sales and profits in our Electronics segment: sales

grew 14.0% to 269.6 billion yen, and operating income climbed 20.2% to 39.7 billion yen.

Meanwhile, in the Beverages segment, we worked actively to promote sales through various campaigns, but the market was sluggish in the Hokkaido region, and sales volume declined, in part due to the effects of an unusually severe typhoon. Given this situation, we set about to improve our cost competitiveness and profitability potential, based on our medium-term business plan called "Rebirth 2006." This included a review of our labor-force structure, the reorganizing of our sales systems by sales channel, consolidating our vending machine-operating subsidiaries, and closing our Obihiro plant. As a result, Beverages sales grew 4.7% to 73.0 billion yen. Operating income was 1.6 billion yen, compared to an operating loss of 372 million yen the previous year.

Medium-term Vision

"P&I Solutions" Focus Has Begun Contributing Greatly to Profits

In May 2001, the DNP Group declared our new corporate philosophy to "contribute to the intellectually active, prosperous, evolving society of the 21st century." By "emerging" we mean a situation whereby mutual stimulation between individuals results in the creation of new values, and that the new value acts upon the whole to uplift the individuals. In an "emerging society," people who hold a variety of values stimulate each other and create new values.

In this type of society, how DNP uses its

technologies to create new values and how we realize sustainable growth are questions that underpin our corporate vision – the ideas that indicate the direction in which the company should move. Our vision is to be a “P&I Solutions” provider. In other words, to combine the printing technology (P) that we fostered since our company’s establishment with the information technology (I) that we began to accumulate from the first part of the 1970s, and use that blend to solve a variety of problems for our customers.

In the four years since adopting this vision, we have been offering P&I Solutions in the awareness that the source of our revenues lies in solving our customers’ problems. Two concrete examples of this are cards and information processing services, and these have been steadily producing results.

Demand for cards is soaring due to the need to prevent card forgeries. DNP currently produces almost all of the cards issued by Japanese megabanks. Not only is this due to the highly sophisticated manufacturing technology that supports our track record, but also because of our ability to develop solutions for all operating systems, including Java, MULTOS, and FeliCa, and to use new technologies such as biometric identification. In addition this is due to the organizational strength that enables us to operate cards after they are issued and our ability to propose new services and solutions based on our comprehensive strengths.

In the IPS field, also, our comprehensive strengths and ability to propose solutions has led to expanded business. IPS is a generic name for data processing services whereby different information is directed to each

recipient. This type of service delivers optimal message contents to each consumer, which is very important in customer relationship management (CRM) communications.

To prepare for the enforcement of the Personal Information Protection Act in April 2005, companies that send direct mail worked actively to put information security measures in place. DNP responded by taking ironclad measures such as obtaining Privacy Mark certification not only for our IPS divisions, but for all divisions that handle personal information. In order to increase information security, we also offer smart card-protected services and data storage systems. We intend to continually and strongly promote the kind of high-added-value solutions-based businesses that only DNP can offer.

Accelerating Our P&I Solutions Businesses

The printing industry depends on receiving orders from customers. DNP provides books, periodicals, pamphlets and other basic printed materials that are customized for each of our regular customers. Since our founding 129 years ago, we have visited customers frequently. We ask about their various needs and respond with concrete solutions.

The aim of P&I Solutions is to get a good grasp of what customers need and want, and mobilize DNP’s comprehensive corporate power to offer new, customized solutions that extend beyond traditional printed materials, possibly to include software and services. DNP has customers in every industrial sector, and as society changes, their needs change in various ways. We have already been working for some time on realizing P&I Solutions, but

given the diverse values in the emerging society of the 21st century, DNP will face increasingly sophisticated demands.

When we look at the changes that have occurred in the business environment the past few years, at societal trends, or at our customers' needs, we feel sure that we have chosen the right path. We intend to keep exploring possibilities for developing our P&I Solutions businesses in the future.

Issues We are Addressing

Looking ahead, we expect that business conditions will remain very difficult, and that individual consumption, the world economy, crude oil prices and other fundamental factors will remain unpredictable. We expect the business climate to remain harsh in the printing industry, too, as lackluster growth in the existing market stimulates intensified competition. Other concerns include rising materials' prices.

In this climate, DNP intends to work harder than ever at business structure reform and cost structure reforms at the same time that we promote various projects in the pursuit of our 21st-century vision.

By "business structure reform," we mean a dramatic review of all our existing operations from the standpoint of profitability. We will make concentrated allocations of management resources in highly profitable, strategic areas, and will concentrate on offering products and services where we can make the most of our corporate strengths. We will respond quickly to customer needs, continually create highly functional products and services that outshine existing ones, and strive to create new added values.

In our new businesses, we will strongly promote the development of advanced, unique technologies and products, with a focus on fields like information security, IC tags, biometrics, and energy. We will find ways to speed up the commercialization of new projects. As part of our business structure reform, we intend to actively pursue alliances and M&As with companies that have special strengths, whether they are based in Japan or abroad.

Concerning cost structure reform, our corporate constitution has grown steadily stronger over the past three years thanks to the "Production 21" activities that we began implementing in April 2002. We will continue to use these activities to promote shared awareness of our corporate goals, to strengthen our core technologies, to implement integrated manufacturing and systematic maintenance, and to boost quality improvement and cost competitiveness.

Toward Sustainable Growth

As a Corporation That Fulfills Its Social Responsibilities

We believe that in order to improve our corporate competitiveness, it is essential that we fulfill our social responsibilities as a corporation that finds new values for society and earns the trust of all stakeholders, including shareholders, customers, consumers, and employees. We view the fulfillment of our corporate social responsibilities as one of our most important management concerns. While it goes without saying that we observe the law and

corporate ethics, we have also tried to maintain integrity in our corporate activities. This includes coexisting in the global environment, respecting human rights, and preserving social harmony. In October 2004 we established a new Corporate Social Responsibility Committee and a Corporate Social Responsibility Office to strengthen our management structure.

To protect the environment, we have taken active steps to conserve energy and reduce industrial waste. Also, we strive to develop products with strong consideration for environmental efficiency at every phase, from product design to distribution to final disposal. This term, as usual, we established DNP Group environmental goals aimed at helping to prevent global warming and building a sustainable, recycling-oriented society. We have been steadily implementing this plan, which includes reductions in the generation of industrial waste and toxic substances.

In recognition of our CSR efforts, this February, DNP received the 3rd Annual Grand Prize for “Key Firm of Integrity Award 2005” as sponsored by Sankei Newspaper and the management consulting company, Kfi. For our environmental efforts, we won the Minister of Environment’s Award as part of the 14th Global Environment Awards sponsored by the Fujisankei Business Group.

Corporate Governance and Corporate Culture

In order to fulfill DNP’s social responsibilities and to develop continuously along with society, we believe it is essential that we

establish strong corporate governance systems. We strive to build a comprehensive corporate governance framework that supports appropriate corporate decision-making, prompt execution of those decisions, and the construction of management systems that can be properly audited and monitored, while also providing thorough training and education to each employee in order to raise awareness of legal compliance.

We want to listen carefully and earnestly to each of our corporate clients and individual consumers, to unite printing technologies, which we fostered over the course of our long corporate history, with information technologies, and to offer leading-edge solutions. We are continually working to strengthen legal compliance and to address the various issues that confront us. We will do everything in our power to keep aiming for sustainable growth and to maximize values for all of DNP stakeholders.



Yoshitoshi Kitajima
Chairman of the Board
President and Chief Executive Officer



DNP in Brief



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Outline

Profile

Shueisha, the forerunner of Dai Nippon Printing Co., Ltd., was established in 1876 as Japan's first full-scale printing company. The company later branched out into a variety of fields, including commercial printing, business forms, packaging, decorative materials, industrial supplies, and electronics. Today, DNP has established itself as the leader in the world in the field of comprehensive printing.

Currently, DNP employs about 35,000 people. In Japan, DNP has 24 division offices in major cities, 48 sales bases, and 36 production plants, while overseas it has another 19 sales offices and seven production plants. The DNP includes 124 consolidated subsidiaries and 3 affiliated companies that are accounted for by the equity method.

In this annual report, DNP refers to the entire DNP Group, and "we" refers to DNP, or to the DNP management team.

Corporate Philosophy

The DNP Group contributes to the intellectually active, prosperous, evolving society of the 21st century.

We expect that progressive computerization will make the 21st century an active one in which people hold diverse values, respect each other's values, and stimulate each other to create even more new values.

We expect that the resulting new type of society will influence its members to create still more new values. This cycle will feed itself, causing society and individuals to evolve and develop. We call this an "emergent" situation.

For us, "emergent" means that individual and individual as well as individuals and society will stimulate each other to generate new values. In this kind of situation, 1+1 can equal three — or even four or five.

Business Vision

We are keenly aware of our mission and our responsibility as a business partner to our customers. We intend to keep solving all kinds of problems for our customers by providing valuable products and services, and by offering unique business models as Manufacturing Solutions and Business Design Solutions.

Manufacturing Solutions

In partnership with our customers, we solve their problems by offering products or a combination of products and services that assist customers in their manufacturing processes.

Business Design Solutions

We solve problems for consumers and for corporate customers by designing diverse business models that provide new value.

Business Concept

P&I Solutions DNP

(P = Printing Technology, I = Information Technology)

We have been solving a wide variety of problems for our customers by integrating "P" and "I." By making the most of our knowledge and expertise, we intend to continue to provide solutions that generate new value for the evolving society of the 21st century.

DNP's Businesses

After DNP developed world-class technologies needed to support our printing business, the company further developed aspects of each printing process until we could use these expanded technologies to enlarge our field of business in a variety of directions. As a result, DNP has not only become a world leader in the printing industry, but has also established a number one position in many fields, including electronics and information security.

Today, DNP has two main businesses. One is Printing, which is further divided into three strategic segments: Information Communication, Lifestyle and Industrial Supplies, and Electronics, and the other is Beverages.

Printing

Information Communication

Our Information Communication segment is composed of three sub-segments: the printing of books and periodicals, which has been one of our core businesses since DNP's founding, commercial printing, and business forms. This segment covers a wide variety of media, including both paper and electronic media such as internet and DVD publishing, satellite broadcasting, and services designed for mobile telephones. In addition to offering basic printed material, we combine services like marketing analysis, planning and production, system development, media content creation and distribution, and data security management, so that we can provide our customers with solutions for distributing their information by the most effective media and methods.

Lifestyle and Industrial Supplies

The Lifestyle and Industrial Supplies segment comprises three sub-segments: packaging, decorative materials, and industrial supplies. All of these operations handle a large number of products that are closely connected with ordinary people's lives. Starting with printing on non-paper materials like film or steel, we use coating and etching technologies and other basic printing skills to make products like optical film used in electronic displays. DNP is the world's largest supplier of a number of products, including ink ribbons for facsimile machines and barcode printers, and color ribbons for printing photos from digital cameras.

Electronics

DNP's Electronics segment uses the world's most advanced micro-processing technology to provide a large number of electronics products, including photomasks (original plates used in semiconductor production), and color filters that allow LCDs to display color images. Ever since DNP became the first in Japan to succeed at making a prototype shadow mask for use in a color television, the company has developed electronic devices and display-related products that we successfully commercialized one after another. In this way, we steadily built up a solid position for ourselves in the electronics sector. Becoming the first vendor of various products has given us an edge in the market. In today's world of information devices, DNP electronics components are the key to progress.

Beverages

DNP operates a beverages business through its subsidiary, Hokkaido Coca-Cola Bottling Co., Ltd.

Key Figures for 2005

Consolidated Financial Highlights

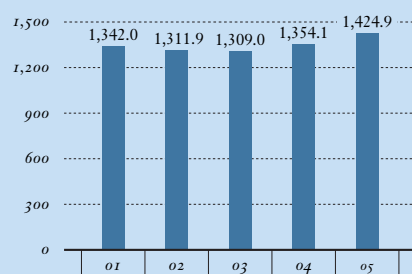
Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Yen in millions except per share amounts		Dollars in thousands except per share amounts		% change 2005/2004
	2005	2004	2005		
Fiscal Year					
Net sales	¥ 1,424,943	¥ 1,354,101	\$ 13,317,224		5.2%
Operating income	120,528	102,438	1,126,430		17.7%
Income before income taxes	107,686	93,137	1,006,411		15.6%
Net income	59,937	52,971	560,159		13.1%
Per Share Data (in yen)					
Net income	Primary	¥ 82.56	¥ 71.49	\$ 0.77	15.5%
	Fully diluted	—	—	—	—
Cash dividends	24.00	21.00			14.3%
At Year-end					
Total stockholders' equity	¥ 1,007,944	¥ 978,736	\$ 9,420,037		3.0%
Total assets	1,600,129	1,513,734	14,954,477		5.7%

Note: The Japanese yen amounts have been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥107=U.S. \$1, the approximate exchange rate at the Tokyo Foreign Exchange Market on March 31, 2005.

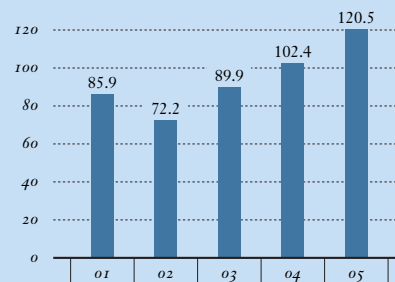
Net Sales

(in billions of yen)



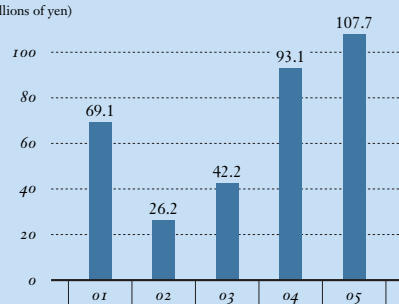
Operating Income

(in billions of yen)



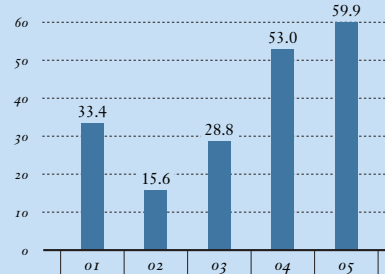
Income Before Income Taxes

(in billions of yen)



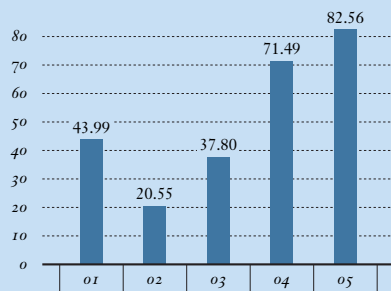
Net Income

(in billions of yen)



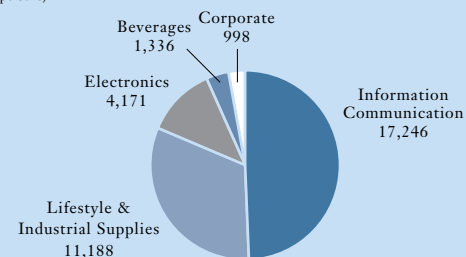
Net Income per Share

(¥)



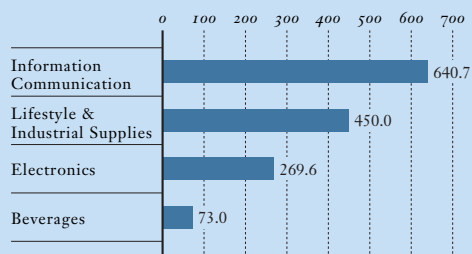
Employees by Segment

(persons)



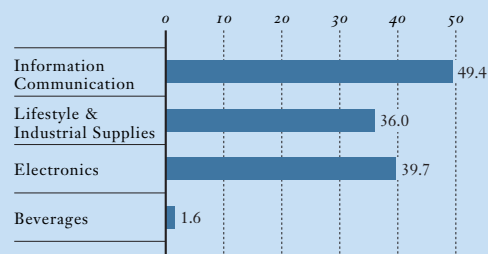
Net Sales by Segment

(in billions of yen)



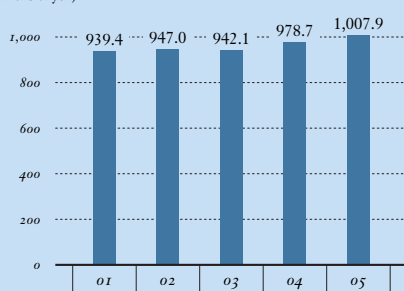
Operating Income by Segment

(in billions of yen)



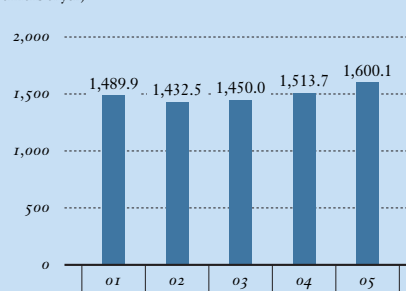
Total Stockholders' Equity

(in billions of yen)



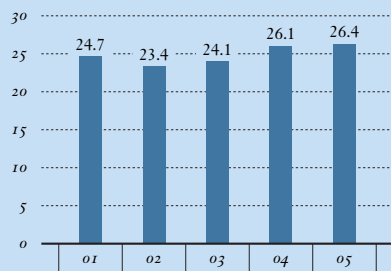
Total Assets

(in billions of yen)



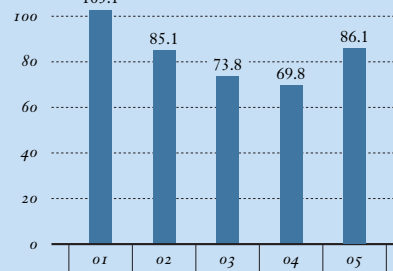
Research and Development Expenditures

(in billions of yen)



Capital Expenditure

(in billions of yen)

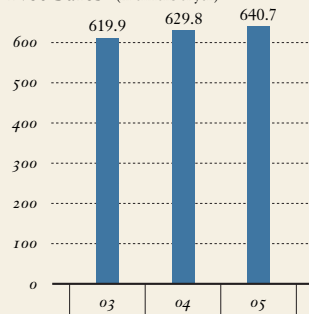


DNP At a Glance

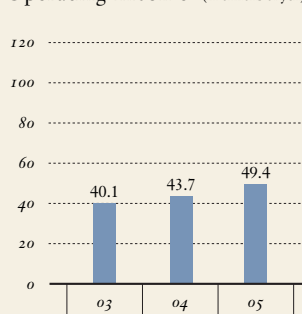
DNP's main businesses consist of three consolidated segments: Information Communication, Lifestyle & Industrial Supplies, and Electronics. Together, they contribute 94.9% of the group's net sales. The company also has a beverages sector, which generates 5.1% of net sales.

Information Communication

Net Sales (in billions of yen)

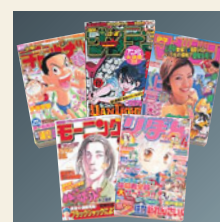


Operating Income (in billions of yen)



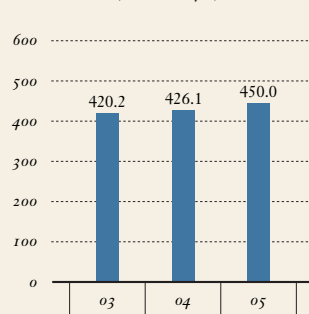
Books and Periodicals

Books, magazines, dictionaries, textbooks, graphic art collections, corporate histories, historical reviews, and other published materials

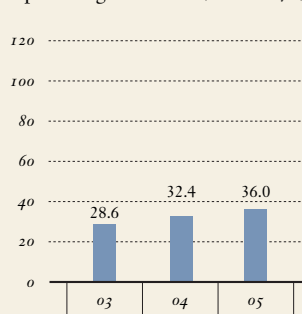


Lifestyle & Industrial Supplies

Net Sales (in billions of yen)

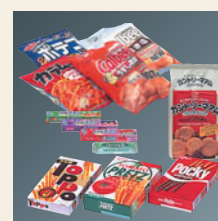
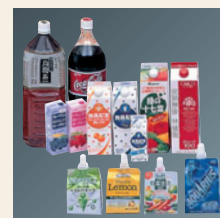


Operating Income (in billions of yen)



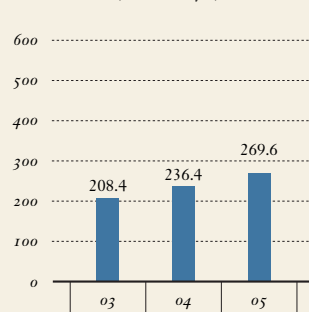
Packaging

Printed packaging products for food and beverages, cosmetics, and pharmaceuticals, and environmentally friendly containers, aseptic filling system

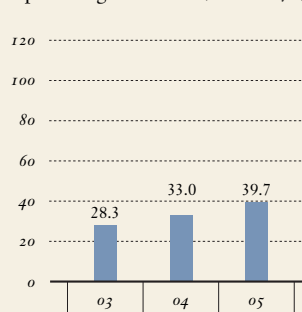


Electronics

Net Sales (in billions of yen)

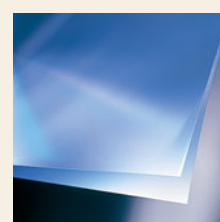


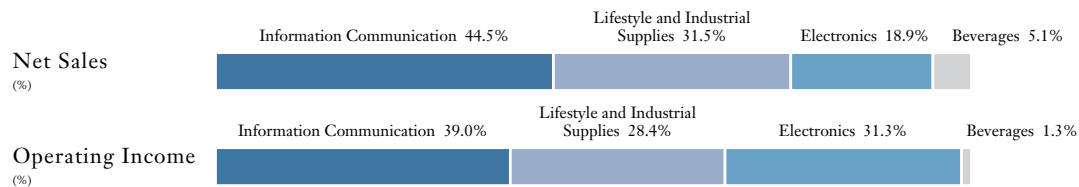
Operating Income (in billions of yen)



Displays

Color filters for LCDs, screens for rear-projection TVs, shadowmasks, back plates for plasma displays, inorganic and organic EL displays, hologram screens





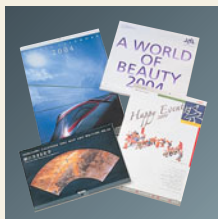
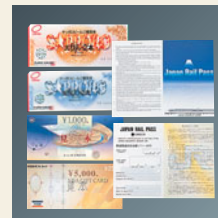
Commercial Printing

Catalogs, advertising flyers, pamphlets, posters, calendars, point-of-purchase and event advertising materials



Business Forms

Continuous ledger forms for use with computerized accounting systems, packing and delivery slips for parcel deliveries, direct mail, stock certificates, gift certificates, checks, all kinds of tickets, bank passbooks, plastic cards, smart cards, hologram products, IPS (information processing services)



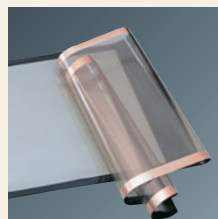
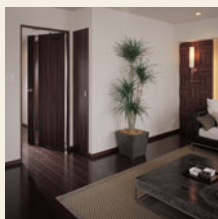
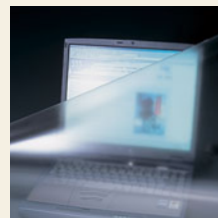
Decorative Products

Functional films for use in stores, offices, automobiles, home appliances and furniture, wall and door coverings



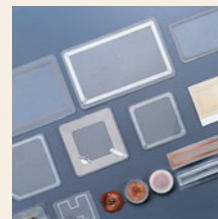
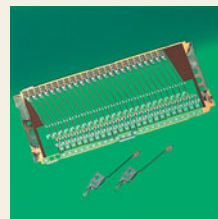
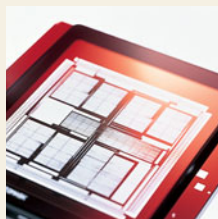
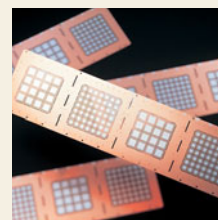
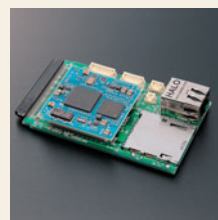
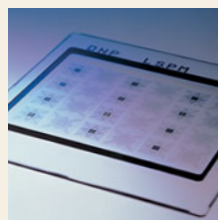
Industrial Supplies

Transfer ribbons for color printers and fax machines, optical film for displays, electrodes for lithium-ion rechargeable batteries



Electronic Devices

Photomasks, lead frames, package substrates, IC tags, on-chip color filters and other chemical etching products



* All figures in this section are before elimination or corporate.

DNP Solutions Businesses

Solutions Business Themes

DNP uses the knowledge and skills we have accumulated over the years to offer flexible solutions to problems that our corporate clients face. For example, “How can we make our daily operations more

Production & Distribution Operations
Boosting efficiency in receiving/placing orders for materials
Databasing of product information
Production line control systems
Delivery and distribution systems
Payment collection systems
Boosting the efficiency of manufacturing operations

Administrative Operations
Intellectual property rights support
Purchasing systems
ID issuing and management
On-line accounting systems
Computerization of corporate information

Public Relations
Corporate communication support
Archiving of corporate information
IR solutions

Training-related Operations
Computerized training programs
Educational materials production support
Editing of curriculum information

Sales Promotion Operations
Product development support
Enhancement of sales methods
Marketing and research
Promotional strategy proposals
Boosting the efficiency of sales tool production
Presentation support tools
Management of customer data

Solutions By Segment

Information Communication

(Books & Periodicals; Commercial Printing; Business Forms)

Not only does DNP process information using new types of media, we handle every step from planning and content creation through the delivery of finished products. We offer more effective, 21st-century information and marketing strategies that ease the burden on customers in a wide variety of industries and help deliver their messages to consumers with greater speed. In order to protect personal data in today's information society, we need to establish strong security systems. We offer a large number of security systems using smart cards.

Editorial support systems

Personalized DM – Catalogs

On-demand publishing

Cross-media solutions

Lifestyle & Industrial Supplies

(Packaging; Decorative Materials; Industrial Supplies)

DNP has been finding new uses for printing technologies in the development of products that become an intimate part of modern daily life and are indispensable to industry. Our reliable manufacturing technologies also serve as a base from which we develop a variety of solutions to make life more convenient and safe. In addition to environment-oriented solutions, these include product development, design, machinery design, system engineering, and sales promotion.

Packaging design systems

Product tracing systems

Online system for team package
design editing

Aseptic container-filling
systems

Decorative materials environmental
impact assessment system

Food and beverage-related
market research

Electronics

(Displays; Electronic Devices)

Virtual plant solutions allow customers to use the world-class electronics processing technologies of DNP's manufacturing facilities as if they were inside the customer's own factory. Every process from ordering to delivery can be easily confirmed. We also provide turnkey business solutions that handle everything from semiconductor circuit design to the production of final, packaged products. In other words, we offer high value-added services that go far beyond manufacturing.

LSI design

Turnkey businesses

Virtual plant systems

efficient?” “How should we compile data that will help us effectively promote sales?” “What makes a sales promotion scheme appealing?” “What should we do to protect our corporate data and our customers’ personal information?”

Digital Solutions

Network/Data Base Solutions

DNP offers a variety of solutions using applications and networked systems.

Providing Functionality for Websites

Development and setup of all kinds of active server pages (ASP)
Electronic application services e-statement issuance
Measurement of Web functions
Recommendation systems
Account settlement functions

Frameworks for Content Sales

Distribution platforms
Protection from unauthorized content distribution
Issuance of content IDs
Copyright protection system

Database & Customer Relationship Management Solutions

CRM support for loyalty point cards
Marketing data mining
Marketing information mapping

Operation of Information Sites

Digital content sales
Map information
Shopping guides for mobile phones
Incentive Marketing

Smart Card Solutions

DNP doesn't just manufacture cards, we also propose and develop operating systems and applications.

Smart Card Introduction Support & Consulting

DNP chip migration program

Smart Card Issuance Service

Contact smart cards Native OS MULTOS Java Card™
Non-contact smart cards Types A&B FeliCa®
Hybrid cards Dual-interface cards

Smart Card Software Development

OS Native OS MULTOS Java Card™
Desktop applications Drivers

Smart Card Peripheral Sales

Writing/reading devices; card issuance systems; gate systems, etc.

IC Tag Solutions

Because DNP manufactures books and food packages, we are in the best position to attach IC tags to individual products.

Applications Development

Product distribution management/tracing systems
Admissions systems for conferences & concerts
Electronic notification when children leave school
Electronic posters

IC Tag Peripheral Sales

Navigation carts; IC tag reader/writers

Backup Systems

DNP has created powerful backup systems that allow us to offer a variety of solutions

Security systems

Acquisition of Privacy Mark, ISO, etc., IP rights protection and software development, hardware enhancement, etc.

Internet data center

Data centers to support website operations; hosting and housing support; Can also be used to provide smart card data services

Database management

Analysis and processing of purchasing histories and response data, for use in sales promotions and customer strategies

Distribution platforms

Platforms for clients who run e-businesses or content distribution, etc.; includes copyright protection, accounting, authentication functions

Agency Functions

DNP is prepared to perform a variety of tasks on behalf of clients, in order to help them get their business done

Project management

Market research, project proposals, construction of frameworks for running campaigns, etc., total support for all kinds of projects

Creative support

Production support for all kinds of media, including Internet, printed materials, and animation

Fulfillment support

Back-end support through order centers, customer centers, logistics, payment collection, campaign office management, etc.

Major Events of the Fiscal Year Ended March 2005

May

DNP and DT Circuit-Technology succeeded in miniaturizing a fingerprint recognition module by using printed circuit-board technology with build-in parts. The module is intended for use in financial institution cards and similar applications. It reads fingerprint data quickly and accurately.

We also succeeded in developing a new front projection screen for use in projectors that can deliver clear, crisp images even in a bright room. We will actively push this product in areas where the projection screen market is expanding, which are primarily overseas.

June

DNP and Altech ADS Co., Ltd. agreed to jointly acquire a controlling share in Pixel Magic Imaging. DNP is the world's top player in dye sublimation media, while Altech ADS has a proven track record in photo-printer marketing. Through participation in Pixel Magic, we intend to enhance its services to its North American clients and expand its market share.

DNP signed an alliance agreement with ProMOS Technologies Inc., which operates the world's fifth-largest DRAM-only foundry. The main objectives of the alliance are to provide steady supplies of advanced photomasks under 180 nm, and to conduct the joint development of optimal leading-edge photo masks required for wafer processes below 90 nm.

July

DNP and a research group from Tokyo Medical and Dental University succeeded in forming capillary blood vessel patterns. DNP developed patterning substrates for cell culture

by making use of such printing technologies as plate-making and lithographic plating. The objective is to use artificially cultivated cells to treat patients who have lost organs or tissue due to illness or accident.

DNP and its overseas subsidiary, Tien Wah Press (PTE) LTD. completed construction of a new plant in Malaysia to meet the growing demand for printing in Asia.

August

DNP announced that it will construct a new plant in Kurosaki, Kita-Kyushu, to produce 6th-generation color filters for use in LCD televisions, which are expected to see further increases in demand. The two-story steel structure will take up 14,630 square meters on a 52,000 square-meter site, and will have 28,060 square meters of floor space. The total investment allocated for building the new plant is 30 billion yen. The new plant will be able to produce up to 60,000 6th-generation-size glass base-plates per month, with production to begin in the second quarter of 2005.

September

DNP joined the Cosmos Alliance — a global organization (headquartered in the US) aimed at commercializing advanced biotechnologies — and invested \$500,000 in each of three biotech ventures that belong to the alliance: Acucela, Inc., Cangen Biotechnologies, Inc., and Panacea Pharmaceuticals, Inc. In the future, DNP intends to continue to acquire technologies held by important biotech venture companies and advance its own participation in the field of biotechnology.

October

DNP established a Corporate Social Responsibility (CSR) Committee and a CSR Promotion Office. The CSR Committee promotes social responsibility-related activities horizontally among group companies. The CSR Task Force evaluates each division's activities from the standpoint of CSR, identifies issues to be dealt with horizontally among all group companies, and reports its findings to the public. DNP intends to further enhance its CSR activities and actively address CSR issues on a companywide basis.

November

We consolidated our sales and manufacturing companies in the Hokkaido and Tohoku regions, Hokkaido Dai Nippon Printing Co., Ltd. and Tohoku Dai Nippon Printing Co., Ltd. and formed two new companies: DNP Hokkaido Co., Ltd. and DNP Tohoku Co., Ltd. Our aim is to provide better service through efficient operations that integrate every stage from manufacturing to sales.

We began a mass production service as part of our Micro Electro Mechanical System (MEMS) foundry business, using micro-processing technology. We can now offer a full service covering every step from design to mass production. DNP became the first company in Japan to provide volume production of 8-inch wafers using MEMS dedicated equipment.

December

In February 2003, we began purchasing treasury stocks. This fiscal year, we purchased 10.47 million of our own shares. On December

7, we canceled shares for the first time: 9 million shares at 12.8 billion yen. In the future, we intend to continue acquiring and canceling treasury stocks in order to boost shareholder value, to the extent that we can in light of such factors as share price trends and our corporate funding needs.

January

DNP and Matsushita Battery Industrial Co., Ltd. established a joint venture to manufacture and sell electrodes for lithium-ion rechargeable batteries. The two companies aim to expand their business in lithium secondary batteries, which are used to power mobile phones, notebook computers, digital cameras, and other electronic goods that are expected to be targets of continued increasing demand.

February

DNP and several other manufacturers of office equipment and office automation equipment jointly established a corporate alliance called Shared Security Formats Cooperation (SSFC), aimed at achieving high-security office environments. The alliance held its first general meeting in February. The group intends to unify data format to introduce high-level data security systems that link a single smart card to all security-related devices and office equipment in offices.

DNP received the Grand Prize in the 3rd annual "Key Firm of Integrity Award 2005" sponsored by Sankei Newspaper and Kfi, in recognition of our fulfillment of corporate social responsibilities. DNP also won the Minister of Environment's Award, part of the 14th Global Environment Awards sponsored by the Fujisankei Business Group.

Corporate Governance

(as of June 29, 2005)

Fundamental Philosophy

DNP recognizes that fulfilling its corporate responsibilities to society as a corporation that finds new values for society and being trusted by its shareholders, customers, consumers, employees and other stakeholders is critical to improving the competitiveness of the company. Toward this end, we regard corporate governance as a top management priority. We have strived to establish an organizational structure that allows for appropriate managerial decision-making, prompt execution based on the decisions made, and proper supervision and surveillance; strengthen education and training to improve each employees' awareness of compliance issues; and enhance our overall corporate governance.

Progress on Corporate Governance Measures

1. The organizational structure for managerial decision-making, execution, and supervision, and other aspects of the corporate governance structure

Organizational details

DNP has a board of auditors in place and is organized around operating divisions so as to be able to adapt quickly to changes in business conditions. The objective of having a structure that allows directors with specialized expertise and experience in various business areas to participate in decision-making and have responsibility and authority in managing day-to-day operations, and other directors to supervise the management of operations is to improve the quality of the company's management. The Board of Directors consists of 26 directors, including one outside director. In principle, the board meets once a month. The board of statutory auditors consists of five auditors, including three outside auditors. The auditors cooperate closely as they execute their duties by sharing auditing of the head office, operational divisions, and subsidiaries.

The internal audit system and supervision

DNP has an internal auditing system conducted by the operations audit committee, audit division and other head office divisions, as well as auditing system conducted by the statutory auditors and the accounting auditors. The operations audit committee, which was newly established in 2003 and is made up of three directors, deliberates and approves the auditing department's audit plans and results in accordance with internal audit regulations to ensure that appropriate internal audits are conducted. The auditing department, which is independent from the operating divisions, performs DNP's accounting and operational audit from an

objective perspective and based on the annual audit plan approved by the operations audit committee, points out problems, proposes improvements, and follows up. The Corporate Ethics Committee and other head office divisions conduct regular internal audits of their respective areas. Each statutory auditor regularly exchanges information with the auditing department, and closely cooperates with the accounting auditors by receiving an explanation of the audit plan at the start of the fiscal year from the accounting auditors, assessing audit operations during the fiscal year as appropriate, and receiving a report of audit results at the end of the fiscal year.

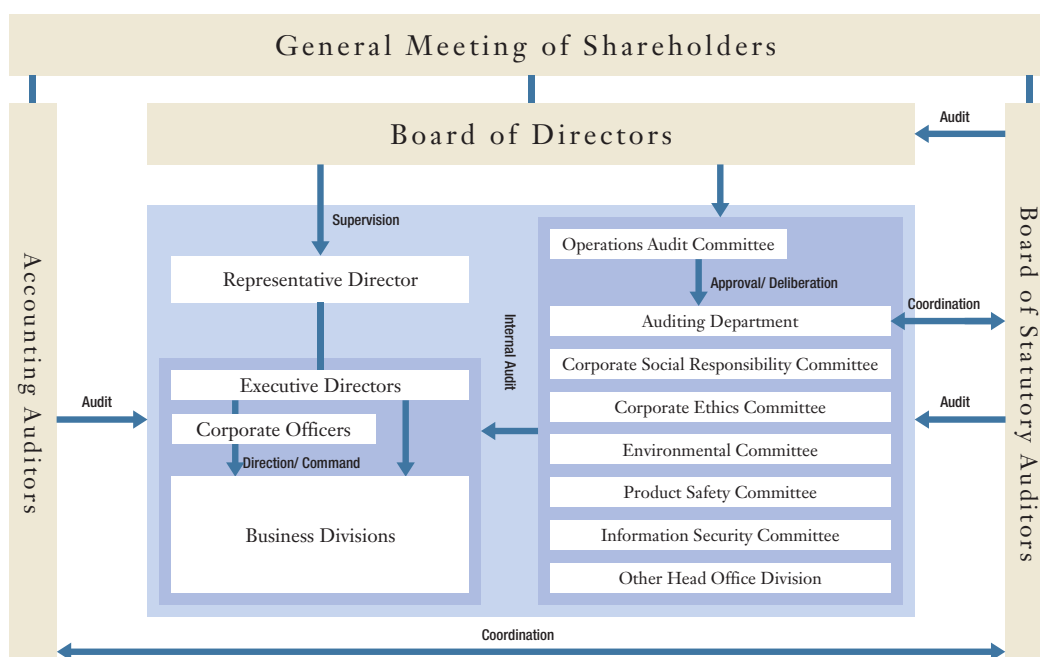
Progress on the development of a risk-management structure

DNP has established various corporate groups, including an Environmental Committee, Product Safety Committee, Information Security Committee, Central Disaster Prevention Council, and an Overseas Safety

Promotion Office, to be responsible for risk-related preemptive and response measures in their respective areas.

Progress on other corporate governance measures

Through the DNP Group Corporate Pledge (established in 1992, revised in 2002) and a DNP Group Employee Code, DNP has set down codes of conduct and specific guidelines for behavior for employees to follow, so as to ensure compliance with the laws and fair and appropriate corporate activity. The company also has established a Corporate Ethics Committee, part of the groupwide organization, and conducts both live and Intranet training sessions every year to establish our ethics guidelines more widely and deeply in the company. In October 2002, in order to enhance DNP's compliance further, we established an Open Door Room as a place where employees can feel free to air concerns.



Compensation paid to directors and auditors

(in millions of yen)

	Compensation based on articles of incorporation and resolutions at general meeting of shareholders	Bonuses based on profit	Directors' retirement benefits based on resolutions at general meeting of shareholders
Directors	767	210	42
Auditors	81	—	—
Total	849	210	42

Compensation paid to Meiji Audit Corporation (accounting auditor)

(in millions of yen)

Compensation for services in accordance with Article 2-1 of the Certified Public Accountants Law	56
Compensation for other services	—
Total	56

2. Interests between DNP and its outside director and outside auditors

Neither the outside director nor the three outside auditors have an interest in DNP.

3. Progress on corporate governance measures in the current fiscal year

We established a Corporate Social Responsibility Committee and a Corporate Social Responsibility Office in October 2004 to promote corporate social responsibility initiatives across the entire group. In light of societal trends, these units work with other committees to pinpoint and deal with corporate social responsibility issues within DNP.

In June 2005, we introduced a corporate officer system. The corporate officers are chosen by the Board of Directors and are responsible for executing decisions made by the Board of Directors. They have the responsibility and the authority to decide and to execute issues that have been entrusted to them by the Board of Directors. DNP hopes that close communication between the corporate officers and directors will help management to benefit from the ideas and perspective of those who work on the front lines of our business.

Board of Directors, Statutory Auditors and Corporate Officers

(as of June 29, 2005)

President and Chief Executive Officer

Yoshitoshi Kitajima (photo 1)

Senior Managing Directors

Koichi Takanami (photo 2)
Satoshi Saruwatari (photo 3)
Masayoshi Yamada (photo 4)
Mitsuhiko Hakii (photo 5)
Osamu Tsuchida (photo 6)
Teruomi Yoshino (photo 7)
Kosaku Mori (photo 8)
Yoshinari Kitajima (photo 9)

Managing Directors

Noriaki Nakamura
Hiromitsu Ikeda
Kenzo Isumi
Toshio Kawada
Kazumasa Hiroki
Yujiro Kuroda
Tatsuya Nishimura
Itsuo Totsuka
Masahiko Wada
Tetsuji Morino
Takashi Toida
Shigeru Kashiwabara
Kunikazu Akishige

Directors

Kenji Noguchi
Yoshiaki Nagano
Motoharu Kitajima
Tadao Tsukada^{*1}

Standing Statutory Auditors

Jitsuo Okauchi
Minoru Yoneda
Shizen Sasaki^{*2}

Statutory Auditors

Yasuchika Negoro^{*2}
Kuniaki Nomura^{*2}

^{*1} Outside Director

^{*2} Outside Auditors

Corporate Officers

Hidenori Nokubo
Tadashi Okubo
Junjiro Inoue

Tatsuo Komaki
Akira Ogura
Tatsuro Kitayuguchi

Taketsugu Yabuki
Koichi Hashimoto
Takao Shimizu



Investor Information

(as of March 31, 2005)

Dai Nippon Printing Co., Ltd.

Head Office:

1-1, Ichigaya Kagacho 1-chome, Shinjuku-ku,
Tokyo 162-8001, Japan

Established:

1876

Number of Employees (consolidated):

34,514

Paid-in Capital:

¥114,464 million

Number of Common Stocks:

Authorized 1,191,000,000 shares

Issued 750,480,693 shares

Number of Shareholders:

(more than 1,000 shares)

23,800

Stock Exchange Listings:

Tokyo, Osaka

Major Shareholders:

The Master Trust Bank of Japan, Ltd.	6.28%
The Dai-Ichi Mutual Life Insurance Co.	4.62%
Japan Trustee Services Bank, Ltd.	4.29%
State Street Bank and Trust Company	3.75%
Nippon Life Insurance Co.	2.43%
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	2.08%
Mizuho Corporate Bank, Ltd.	2.03%
Mizuho Bank, Ltd.	1.66%
Employees' Stock-holding Association	1.40%
Mellon Bank, N.A. as agent for its client Mellon Omnibus U.S. Pension	1.19%

Other than above, DNP holds 34,708,297 of its own shares.

*While the registered owner of these shares is Dai Nippon Printing Co., Ltd.,
1,000 of the shares are in effect not owned by the company.*

Transfer Agent:

Mizuho Trust & Banking Co., Ltd.

2-1, Yaesu 1-chome, Chuo-ku,

Tokyo 103-8670, Japan

Phone: +813-5213-5213

Annual Meeting of Shareholders:

The annual meeting of shareholders of DNP is normally
held in June each year in Tokyo, Japan

Investor Relations:

Dai Nippon Printing Co., Ltd.

Press and Public Relations

1-1, Ichigaya Kagacho 1-chome, Shinjuku-ku,

Tokyo 162-8001, Japan

Phone: +813-5225-8220

Facsimile: +813-5225-8239

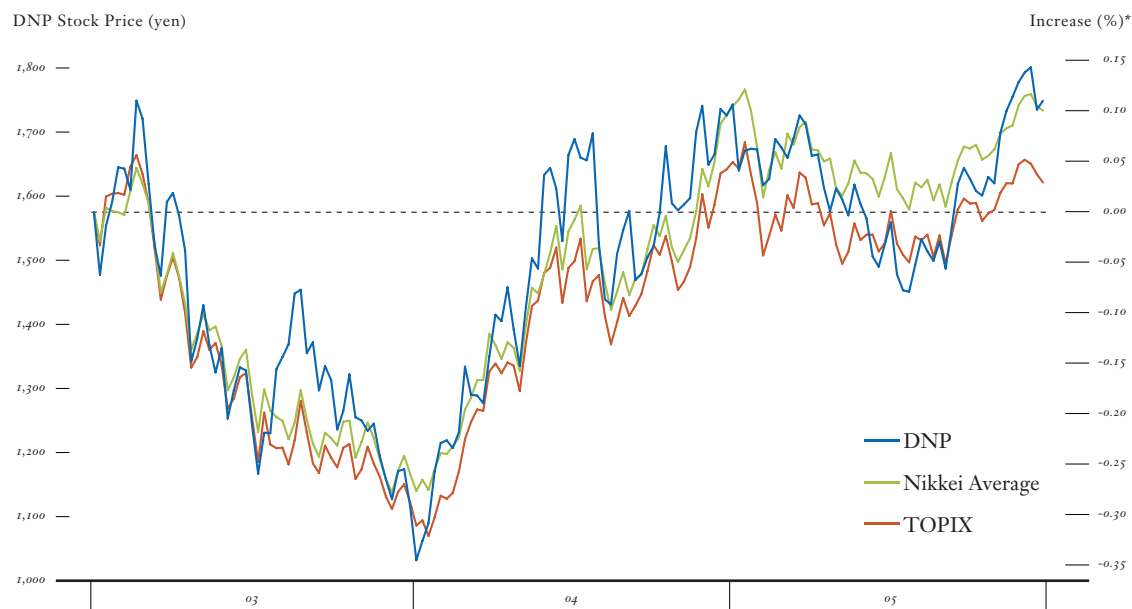
E-mail: info@mail.dnp.co.jp

Web Site Address:

<http://www.dnp.co.jp/>

Share Price Evolution (Tokyo Stock Exchange)

(between April 1, 2002 and March 31, 2005)



*Index 100 = March 31, 2002

Voting Rights

(as of March 31, 2005)

Type	Number of stocks (stocks)		Number of voting rights (rights)
Stocks with no voting rights	—		—
Stocks with limited voting rights (treasury stocks, etc.)	—		—
Stocks with limited voting rights (other)	—		—
Stocks with voting rights (treasury stocks, etc.)	Common stocks	36,154,000	—
Stocks with voting rights (other)	Common stocks	711,143,000	711,143
Stocks with less than trading units	Common stocks	3,183,693	—
Outstanding shares	750,480,693		—
Total voting rights of stockholders	—		711,143

Treasury Stocks

(as of March 31, 2005)

Holder	No. of Stocks Held	Percentage of Holding to No. of Outstanding Shares
Dai Nippon Printing Co., Ltd.	34,707,000	4.62
Kyoiku Shuppan Co., Ltd.	1,435,000	0.19
Cat Co., Ltd.	12,000	0.00
Total	36,154,000	4.82





拡張印刷

Printing & Beyond

Special Feature:

Printing & Beyond

Starting with printing technology as its core, DNP has expanded its business field immensely. Currently, our printing technology extends even to the nano level, and we have established ourselves in a dominant position in the various fields where we participate. Moreover, a ubiquitous society has developed rapidly since the start of the 21st century, and this gives DNP the opportunity to make the most of the information technology that is our other inherent strength. The printing industry is fundamentally a custom-order business. It demands close communication with customers and much working together. Through communication with our 30,000 client businesses, we have gained a good grasp of what their various concerns are. By combining the printing technologies and information technologies that we have cultivated over the years to create useful ideas that address those concerns, we aim to expand our printing business more than ever.

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Expansion Printing

Expansion of Printing Technology

Printing As Part of Life

Nowadays printing products can be found in every facet of our daily life. For example, it's easy to see that books, magazines, posters, and flyers are printed material. Besides these paper materials, DNP makes things like candy wrappers, toothpaste tubes, smart cards, and ribbons for digital photo printers. In addition, our electronic components like color filters, shadowmasks, photomasks, and lead frames play an important role in improving the functionality of electronic devices.

In other words, the printing industry is deeply involved in an extremely wide variety of products, and our lives would not be the same without them.

Because printing companies do not put a brand name on their products, most people have little awareness of who the printer is. Nevertheless, it is probably safe to say that there is no one in Japan who gets through a single day without using a DNP product or service.



The History of DNP's Business Development

Rapid Development Based on Our Expansion Printing Policy

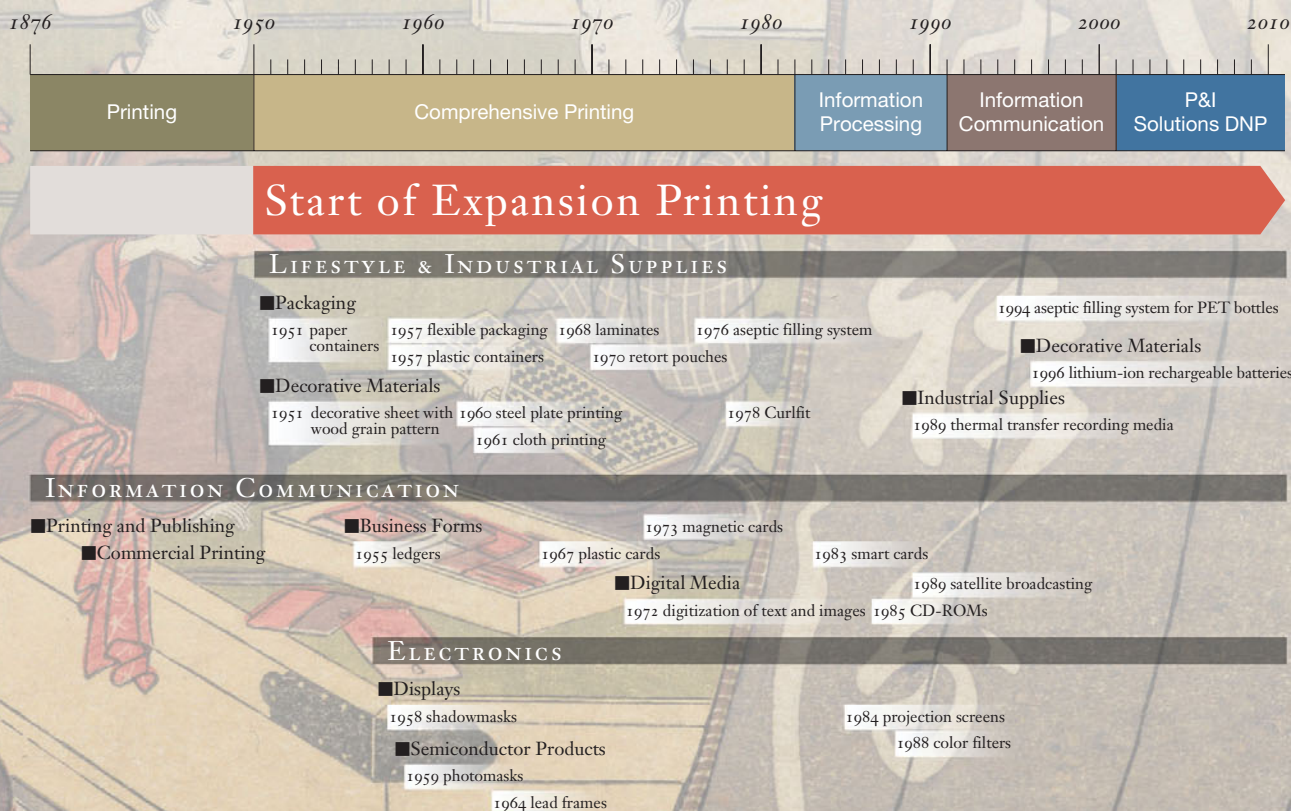
DNP got its start in 1876 as Japan's first full-scale printing company. For the first 75 years or so of its existence, DNP's main business was printing books and magazines. In the 1950s, DNP adapted its expansion printing policy and began applying printing technologies to new types of businesses.

In 1951, DNP entered the fields of packaging and decorative materials, and in 1958 the Company succeeded in developing shadowmasks, which opened the door to the electronics field. In the early 1970s, DNP was among the first to get involved in the digitization of text and images, and with the start of the 1980s, the company entered new media fields like processing information for use in CD-ROMs or high-definition television programming.

As its business fields expanded, DNP transformed itself from a printing company that prints on paper to a comprehensive printing company, an information processing industry, and now, an information communication industry. As of 2001, we have been blending printing technology (P) and information technology (I) to come up with new solutions for our customers under the slogan P&I Solutions DNP.

DNP has a large number of technologies that can be applied to a wide range of fields. In recent years, we have even expanded into the fields of energy and tissue engineering.

By further mining the depths of our printing technologies, we believe we can expand into an even wider range of fields in the future.

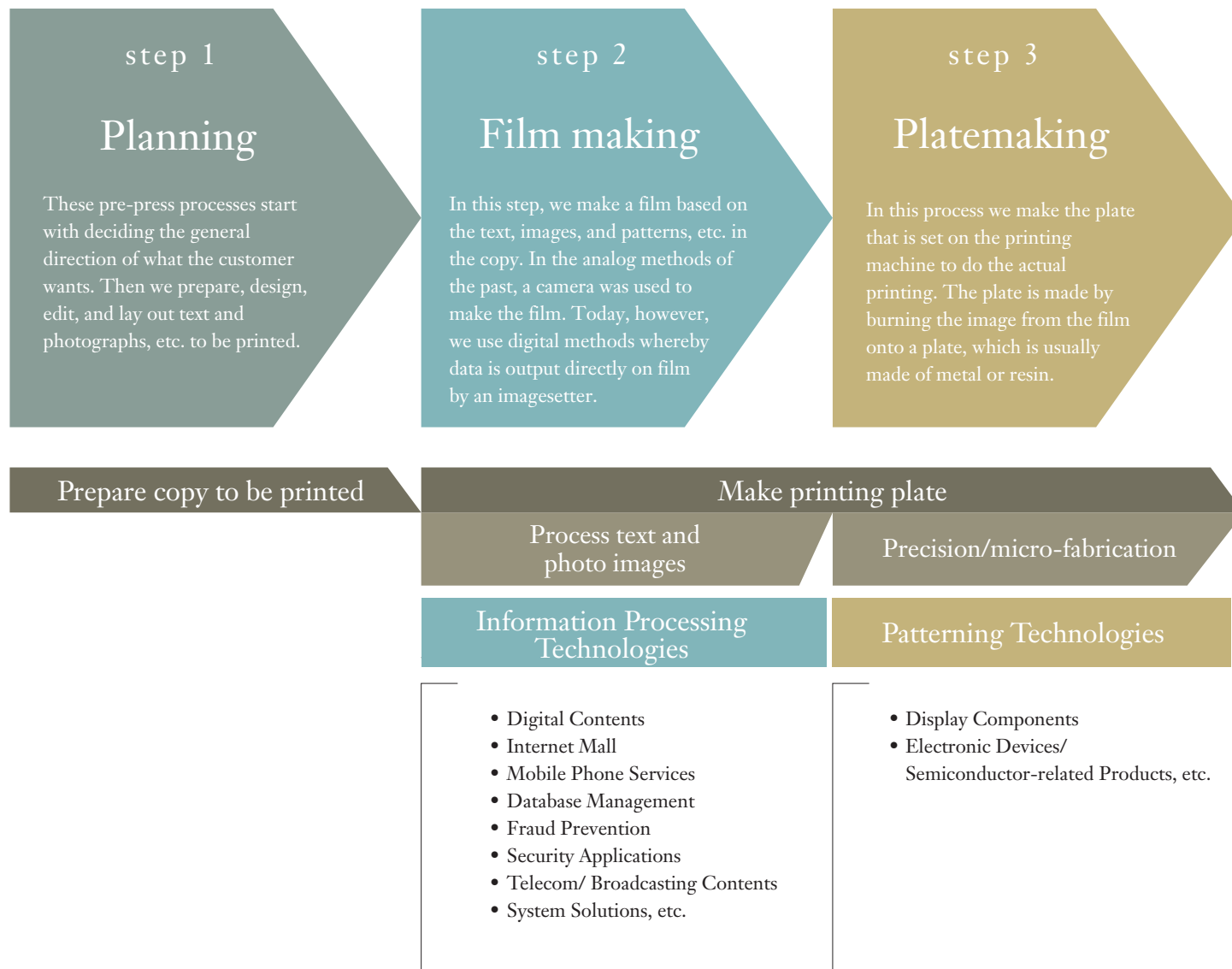


Printing Processes and Expansion Printing

Basic Technologies and Advanced Products That Grew Out Of Them: Process by Process

Printing can be defined as a generic term for techniques of transferring ink from an image on a form plate to another object in order to reproduce the original image. It entails five main processes: 1) planning, 2) film making, 3) plate making, 4) printing and 5) binding/post-processing. Through these five main processes, we have cultivated a truly wide range of skills and expertise.

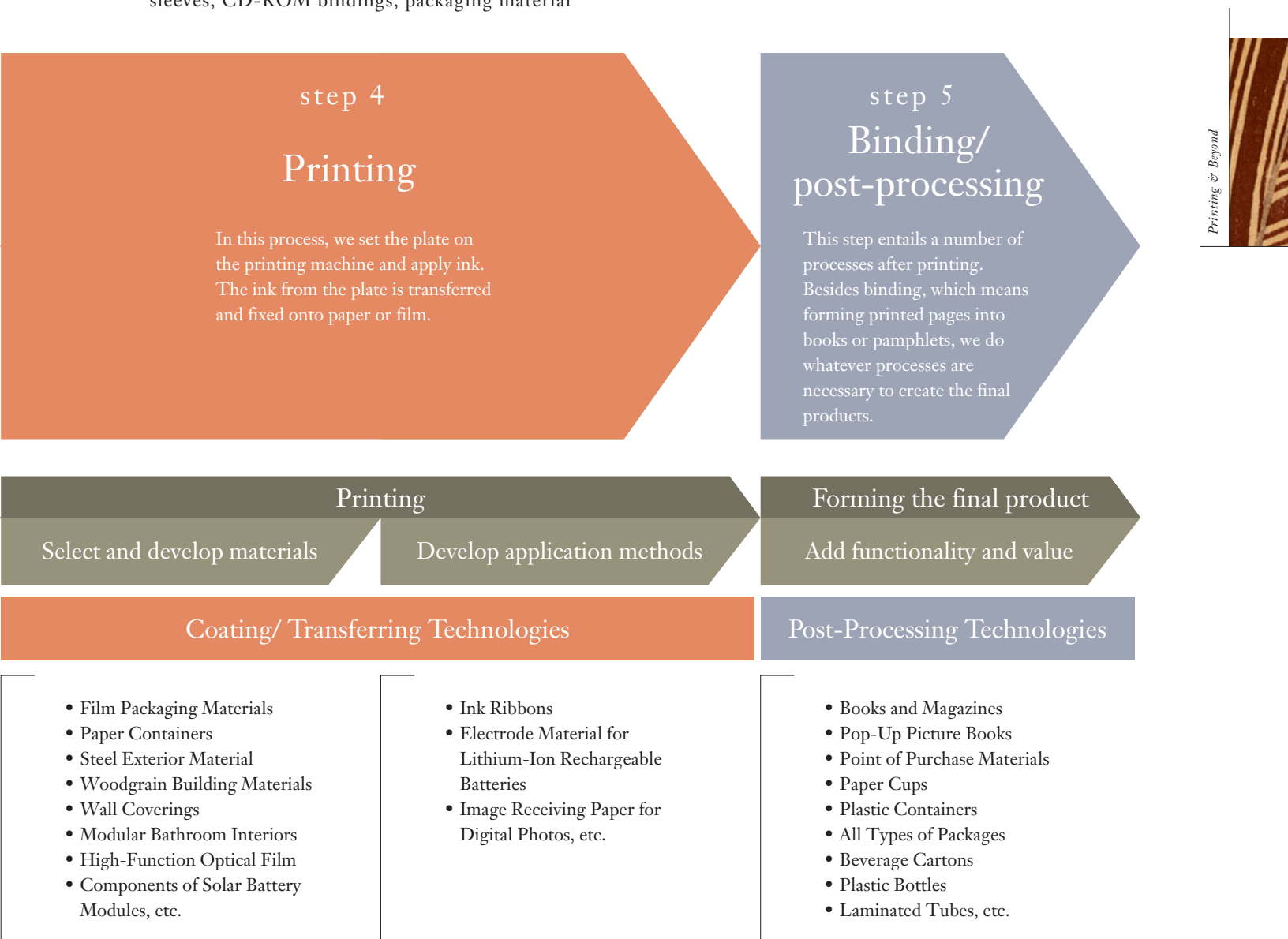
First, planning: this requires an amalgamation of knowledge and skills related to various fields, including marketing, media selection, planning, and the collection, editing, and processing of information. The preparation of form plates, including film making and platemaking, requires skills like sophisticated digital image processing, color management, optics, and micro-processing. The actual printing



process entails skills and knowledge related to paper, film, or other material to be printed, ink and a wide range of other materials, application techniques for fixing ink, and the mechanical skills required for the smooth operation of printing presses. Binding and post-processing involves skills needed to finish a variety of printed products, including bound-in sleeves, CD-ROM bindings, packaging material

production, and the formation of cups and plastic bottles.

As the reader can see, printing is a complex process with both soft and hard aspects. It requires the integration of content, all types of media, materials, and control of mechanical systems.



Information Processing Technologies

Treating Text and Images as Information and Processing it Flexibly to Suit Various Media

Before actual printing begins, we must prepare the text, photos, illustrations, etc. that make up the material to be printed. As part of this prepress process, we consider the printing method, size, materials, and methods of expression that will convey the material clearly, legibly, and most effectively. We then process the material according to the most effective mode of expression. Our job includes organizing and storing the processed information so that it can be revised and re-used in the future, as is often done with dictionaries and contact lists.

DNP's information processing skills are not limited to the domain of paper printing, but have evolved to include all kinds of media. The range of fields that we deal with expanded particularly suddenly in the 1970s, with the digitalization of printing processes.

Information processing technologies include image processing techniques, such as those aimed at optimizing the colors, outline, contrast, or coloration used in an image, data conversion techniques (e.g. converting the language, format, or size of a data file to fit paper, CD-ROM, Internet, or other media), and data-basing techniques for organizing, storing, and managing information.

We have expanded our range of services to include information processing services (IPS), whereby we input data, print, and send personalized mail on behalf of business clients. We also offer digital archiving, which means digitizing cultural assets like pictures and other art objects and creating databases that are easy to search and use, as well as secure data center operations.

Most recently, in light of the new demand for personal data protection, anti-counterfeit, and product traceability, DNP's information processing technology has become more advanced than ever. The information that our customers ask us to print is valuable material. Thanks to a corporate climate that allows us to take good care of that information, and thanks to our track record for taking good care of highly confidential printed matter such as bankbooks, bank cards and stock certificates, we have earned a high degree of trust from our customers. By combining hardware in the form of smart cards and IC tags with software applications, we are expanding into areas of information processing that other industries have not entered.

Examples of Information Processing Technology Applications

DNP has used its digital information processing expertise to address a variety of electronic media, including the Internet, DVDs, and telecommunications. We have expanded our business to prepare for a full-fledged ubiquitous society — in which necessary information is accessible anywhere, anytime — and to meet the demand for personal data protection.

Application Example 1 Developing user-oriented media

As a result of rapid computerization, consumers and corporations now exchange information in numerous ways. In order to deliver information to consumers effectively, businesses must use the communication styles that best match the consumers they target.

DNP began using computerized typesetting in the 1970s, and in 1995 we began offering comprehensive Internet services, becoming one of the first Japanese companies to join the digital revolution.

For us, printing is not just a set of techniques for applying ink to paper. In our view, printing means knowing how to process materials so as to communicate contents in ways that are easy to see and easy to access. We use whatever media best suits the end user, which might mean using paper, digital data processed in various ways, television or other data broadcasting, web sites, or mobile phones, etc.



One more step forward for information processing technology

Application Example 2 Information Security Guard “TranC’ert”

Today's society demands better data protection and management systems such as those that prevent leakage of personal data. DNP has developed a system called TranC’ert to improve the security of information systems.

The system provides a variety of functions by preventing leakage of corporate secrets and alteration or destruction of data. These include computer startup control, data scrambling, identification-based user restriction, write protection to other media such as floppy disks, and network access control using electronic certification and secret codes.



Patterning Technologies

Exposure, Development, and Etching: the Principles Are the Same Whether the Product Is Text or Semiconductors

Patterning is the art of making images on form plates to be used in the film making process that is part of the overall printing process. The image to be created on the form plate may consist of text, pictures, or a pattern.

Before the advent of full digitalization, the process of film making involved photographing camera-ready masters or original photos and exposing the images onto film to make positive film or negative film. Color photographs were separated into four colors: with tiny dots of yellow, magenta, cyan and black fixed onto four sheets of film.

The precisely drawn form plate image that was transferred from the film using patterning technology was then exposed onto a printing plate, usually made of resin or metal. Specifically, the image on the form plate was exposed onto a plate (usually made of resin or metal) that was coated with a photosensitizing agent. This is called photolithography. After exposing only the necessary parts of the resin or metal, a corrosive agent like acid was used to engrave the image. This was then washed off to make a gravure plate. This process is called etching.

As we refined this technology to the point that we now possess the most precise printing technology in the world, DNP developed its own production equipment and systems. Today, high-quality printing uses 2,400 dpi (dots per inch); each dot is just over one hundredth of a millimeter in diameter.

DNP took the ultra-fine patterning, photolithography, and etching skills that we accumulated in our printing work, and began applying these micro-processing technologies to the manufacture of electronic components. The first electronics-related product that we addressed was shadowmasks. Shadowmasks guide electron beams to a luminant; they are essential for giving color to images. A shadowmask is a thin steel plate, only 0.2 mm thick, containing over millions of ultra-microscopic holes. It is said to be impossible to achieve the necessary precision by punching, but it is possible to quickly mass-produce shadowmasks using printing technology.

Today, DNP's patterning technology has entered the realm of nanotechnology used for manufacturing photomasks, which serve as original plates in the manufacture of semiconductors. DNP's expansion into the field of electronics highlights the limitless possibilities of printing technologies.

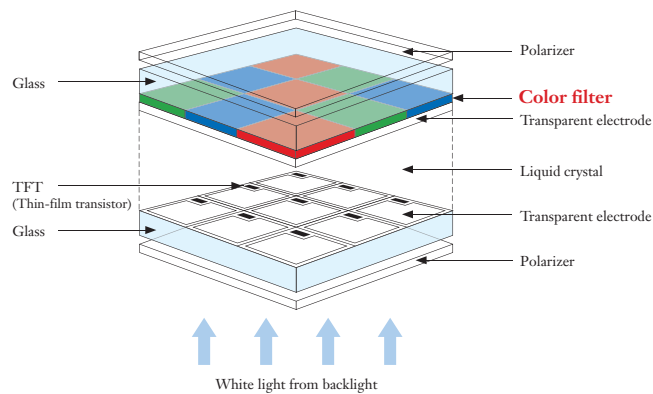
Examples of Applications for Patterning Technologies

DNP has continued to hold the world's largest share of the shadowmask market, and has gone on to claim winning positions in other global markets such as photomasks, which serve as original plates for making semiconductor circuits, and color filters used in liquid crystal displays (LCDs). DNP's Electronics business currently contributes 17% of consolidated net sales and 33% of operating income. As its importance approaches that of our mainstay Information Communication business, we view it as a core business that is essential to our overall corporate development.

Application Example 1 Display Products/ Color Filters for LCDs

LCD color filters consist of red, green and blue pigments arranged in an orderly array on glass substrates. Light from a backlight passes through the liquid crystals, and when it passes through the color filter, it creates a variety of colors.

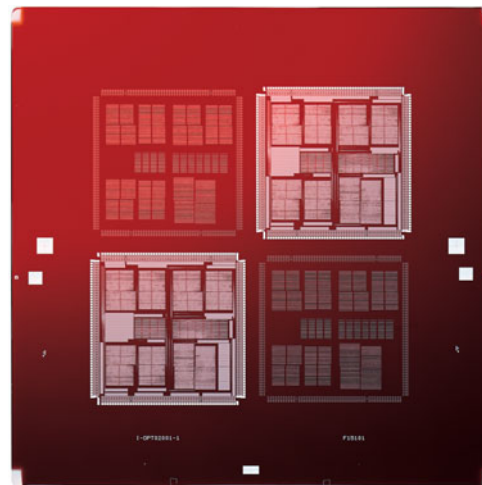
Color filter quality is determined by the formation of millions of pixels precisely in predetermined locations. This requires extremely sophisticated patterning technology.



Application Example 2 Electronic Devices/ Photomasks

Photomasks consist of highly precise circuit patterns, of submicron or nanometer order, formed on a glass substrate. They are essential to the manufacture of LSIs and ICs because they are the original plates used for printing circuits onto the surface of silicone wafers.

In recent years, as semiconductors have become increasingly highly integrated and larger in capacity, the line width required for high-end products has become smaller and smaller. Already, mass production is underway for products with 90 nm lines, and developers are working on ultra-advanced products with line width of 65 to 45 nm. Ever since DNP began producing photomasks, we have always worked at the leading edge of micro-processing technology and have remained at the forefront of technological development.



Coatings/ Transferring Technologies

Technologies for Applying Functional Coatings and Transferring Images

Coating technologies are to apply and fix ink from the image on a form plate to a material like paper or film. In other words, coating means transferring ink to the object that is to be printed. This is the process of printing in its narrowest sense. It goes without saying that DNP has developed basic technologies for improving image reproduction and accuracy by adjusting the amount of ink and printing pressure. We have also found ways to improve functions like coloration and durability by coating the paper surface with varnish or pigments, and have gone on to develop transfer technologies that support embossing, decorate printing and other types of texturing, as well as foil printing and other techniques that enhance the aesthetic effect of the end product.

With these types of technologies as a basis, we have expanded our business field to include printing on film used for packaging, magnetic tape used in bankbooks and cash cards, floor and wall coverings, wood-grain printing and other decorative materials for buildings and automotive interiors. By addressing a wide range of functions, like friction and abrasion resistance, lubrication, conductivity control, static or heat resistance, heat shielding and photocatalytic properties, we achieved a high level of functionality that led us to make major contributions in various fields. With the expansion of the market for displays in recent years, there has been a big jump in demand for functional films that reduce glare or reflection, and electro-magnetic wave shield-film for use in plasma display panels (PDPs). These developments have also created new business fields that present opportunities for DNP.

Besides the processes described above, there are also other printing processes whereby ink is applied first to a film or other material before being transferred by heat or other means to the material to be printed. Beginning with ink ribbons for fax machines, thermal transfer recording materials were later used in the instant photo-sticker booths that became wildly popular among young Japanese from the early 1990s. Demand for these materials soared, as did demand for thermal transfer fax receiving paper. The market for these materials is still growing, with the focus now on ink ribbons for digital photo printers.

Examples of Coating and Transferring Technology Applications

Having cultivated coating technologies over the years, DNP began to apply them to the production of sophisticated, commercial-use printed products like magnetic tape coatings for cash cards and functional optical films, and to a wide range of products including film packaging materials used in everyday life, and decorative materials like floor and wall coverings. We hold a large share of all of these markets.

We use our transferring technologies for making ink ribbons used in instant photo-sticker booths and digital photo printers, as well as for Curfit which uses water pressure to transfer patterns. These technologies are also used for the spot printing of automotive interior parts and formed plastic products.

Application Example 1 High-function Optical Film

The surface of the polarizing plate at the very front of an LCD is covered with a special, functional film, called anti-glare or anti-reflection film.

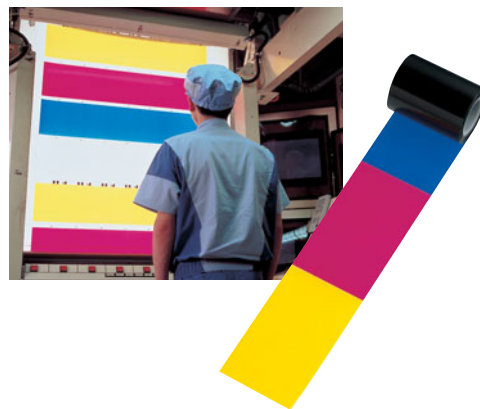
This film makes it easier to see the images on the screen by protecting the surface from scratches and by limiting the reflection of incident light such as fluorescent lights. A special anti-glare film is also used on front filters – the glass surface at the very front of PDPs. By making the most of the coating technologies that are among our core printing technologies and providing optical films that facilitate viewing and prevent eyestrain, DNP has captured an overwhelming share of the market for surface functional films.



Application Example 2 Ink Ribbons for Digital Photo Printers

Ink ribbons used for digital photo printers consist of a base film coated with yellow, magenta, cyan, and black inks to precisely controlled thicknesses. A certain amount of each color of ink is sublimated and transferred onto special receiving paper, depending on the amount of energy in the printer's thermal head. This method makes it possible to express very subtle variations in color and to produce prints that are very close to the quality obtained with silver halide photography.

As digital cameras and mobile phones with built-in cameras have rapidly gained popularity, there has been increasing demand for printing photos taken with these devices. In addition to the demand for supplying home-use printers, there has also been a surge in commercial demand, including printing services at major mass retail shops.



Post-processing Technologies

Refining the Final Shape and Making a Convenient Product: in Pursuit of Greater Usability

Even after printing has been completed, our job is not yet finished. In the case of books and magazines, it's only after we have completed the binding processes — folding the printed pages, fixing them together, cutting off unnecessary parts and cleaning up the edges — that we have a finished product.

The single word “bookbinding” comprises a large number of types of processing that we do in order to create a finished product. Depending on the number of pages and the purpose for which a document is to be used, we may use an expensive type of binding that yields a product with a luxurious feel or a less expensive method suited to high-volume products: options include saddle-stitching, side-stitching, burst binding and “perfect binding.”

Ever since DNP's founding, we have kept coming up with ideas for processing our final products so that they meet our customers' specific needs. In the early 1950s, with our entry into the packaging business, we began developing one post-processing technology after another. We started with three-dimensional processing of paper containers and went on to develop processes like sealing film packages and forming plastic. Eventually, we ended up developing and improving forming technologies for a variety of materials, including laminated tubes and plastic bottles.

In these processes, we must pay as much attention to the functionality of the end product as we do to the aesthetics of the printing. We must think not only about durability and other types of strength, but also about ease of use. When we are binding a very thick book like a computer manual, we must bind it very firmly. At the same time, we find a way to allow the manual to stay open at the desired page even when the reader has both hands on the computer. Because we seek maximum functionality in the arena of daily life, our post-processing technologies must also reflect consideration for aspects like environmental impact and universality of design.

The products that we make by applying these post-processing technologies are the result of matching DNP's technological strengths with what it is that our customers' want.

Examples of Post-Processing Technology Applications

The development of our post-processing technologies began with bookbinding. In recent years, regulations governing magazine supplements have been eased so that today we encounter supplements like clothing, cosmetic samples, umbrellas, and other items that were unheard of in the past. Because of this trend, DNP's development of new post-processing techniques has proceeded very rapidly. Our post-processing technology must always anticipate changes in the social environment and in consumers' desires, and respond quickly.

In the packaging business, which we entered in the 1950s, we are currently responding not only to changes in demand for functions like convenience and durability, but also to changes related to growing concern for the environment and Japan's aging society.

Application Example 1 Designing in Functionality and Comfort

A large amount of packaging material is used in everyday life. It is developed according to design principles calling for minimal environmental impact and maximum functionality.

For example, consumers don't see how much thought was given behind the scenes to designing the aluminum lid of a yogurt cup, which must be attached firmly enough to completely prevent leakage but not so firmly that people with little strength have trouble opening it. As another example, we considered the user's comfort in our design of a cup, making it double-sided so that the outside won't be hot to the touch even when the cup is filled with hot water.

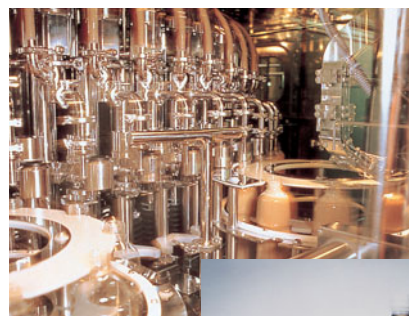


Application Example 2 Aseptic Filling System That Does Not Harm Delicate Flavors

DNP established its aseptic filling technology in 1976 with the development of containers that can preserve their contents at room temperature for a long period of time. These containers are used as portion packs for coffee cream and as packaging for prepared foods like stew or pasta sauce.

In recent years, DNP has also won high praise for its bottle filling system, which makes use of this same aseptic filling technology for packaging a variety of beverages.

Under this system, bottles are filled in an aseptic environment, so the contents are not damaged by thermal sterilization. This makes it possible to seal in the delicate flavors of beverages like Japanese green tea or black tea. Also, we provide parisons, or test-tube-like primary formed products. These are formed into bottles only immediately before filling, so their transportation entails less cost and less emission of CO₂. In recognition of how effective this system is at reducing the negative impact on the environment, DNP received an award from the LCA (Life Cycle Assessment) Japan Forum in December 2004.



The Limitless Possibilities of Expansion Printing

Development of Printing Technologies Awaited by the Next Generation

After decades of expanding its field of business by applying basic printing technologies, DNP today has a business structure unlike that of any other printing company in the world. This is a testimony to the depth and breadth of printing technologies.

Another factor behind DNP's unique business expansion is our connection with over 30,000 business clients. In principle, all printing products are custom ordered. Therefore, creating the products that our customers want requires an enormous amount of communication. We ask customers what they want, express that on paper, ask for confirmation, make revisions, and produce the final product. The communication

that takes place between DNP and customers during this process is accumulated as an extremely important asset for DNP.

DNP's corporate culture is one of responding to customer needs — sometimes predicting those needs — and working together with the customer to create products. This culture, combined with diverse printing technologies, is what led us to expand our business.

We will continue to add new links to our chain of printing technologies, and join forces with our customers to expand our field of business even into areas that appear to have nothing to do with printing.

Information Processing Technologies

Smart Cards That Use Biometric Identification

In 1948, DNP began printing stock and bond certificates for the securities industry. Through printing stock certificates, we refined our anti-counterfeiting technology by applying very fine engraving and using special printing techniques.

Smart cards developed as an extension of this type of printing. DNP began working on the smart cards some 20 years ago, but the source of our competitiveness is not only in our card manufacturing technology. It also lies in our development of operating systems and a variety of software applications designed for smartcard chips.

DNP developed a multi-application operating system (MULTOS) for the smart cards, and established a smart card data center to provide instant card issuing services. We also have received much praise for our biometric and other high-level security technologies. Our information processing technology is greatly contributing to the development of these technologies and services. Based on our track record, we have received orders to make smart cash cards not only for major banks, but for almost every bank in Japan.



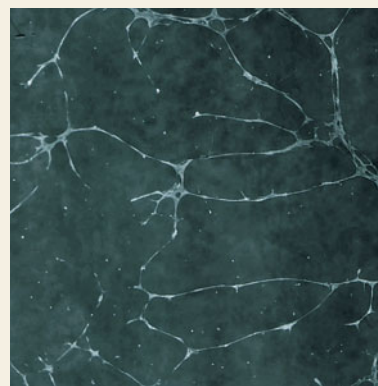
Smart card with biometric identification functions

Patterning Technologies

Using Printing Technology to Enter the Field of Tissue Engineering

In a joint development effort, DNP and Tokyo Medical and Dental University succeeded in forming blood vessel patterns, a feat that was declared to be very difficult. DNP put its printing technologies to work in a blood vessel regeneration method whereby endocapillary cells are formed, then transferred to medium culture to form a network of capillary blood vessels with exactly the same structure as the originals. DNP developed patterning substrates for cell culture based on patterning technology using photocatalytic reactions, while Tokyo Medical and Dental University developed technology for transferring the patterned, cultivated cells and getting them to form hollow blood vessels.

DNP has an endowed chair in tissue engineering, “Nano-Medicine DNP,” at Tokyo Medical and Dental University, and plans to continue to contribute to the medical field.



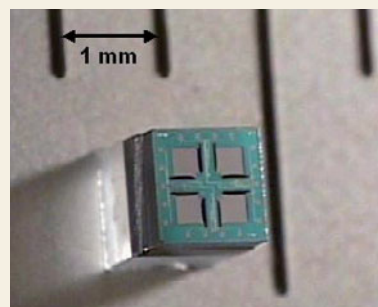
Capillary blood vessels after being transferred

Patterning Technologies

Micro-Machines: a Symbol of Micro-Processing Technology

Expanding on the ultra-microfabrication processing technologies that it uses for products like photomasks, DNP has succeeded in developing micro electro mechanical systems (MEMS) and has begun mass production. MEMS are three-dimensional structures made by concentrating mechanical elements, sensors, and electronic circuits on a single silicon wafer. DNP uses multi-layer precision etching to manufacture MEMS.

MEMS are expected to be used in a wide variety of fields, including telecommunications devices and medicine. They are expected to be a basic technology in the next generation of industrial products.



Three-dimensional accelerator sensor chip of about 0.9 mm square

Coating Technologies

Solar Battery Modules Play a New Role in the Energy Field

DNP has already applied its coating technologies to the development of products like lithium-ion rechargeable batteries. Now, DNP has succeeded in developing a new type of filling sheet for solar battery modules used in solar power generation systems, which are expected to be adopted increasingly widely in the future.

Solar power generation modules consist of various elements, such as surface glass, filling sheets, power generation cells, and back cover film. In theory, the surface glass can be used for a hundred years, but during the module manufacturing process, conventional filling sheets emit a gas that speeds up deterioration of the module as a whole, so in practice it is difficult to reuse the glasses and the cells.

DNP succeeded in developing a filling sheet that makes it possible to recycle the module materials, thereby reducing the burden on the environment. The coating technologies that DNP cultivated through the manufacture of packaging materials and other products are being put to use in a new area of the energy sector.


 Detached solar battery
(from left) cell, glass, filling sheet



Segment Information



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Information Communication

Business Strategies

Along with the development of an emerging society and rapid changes in the information infrastructure, information distribution has become more important than ever. As media formats become increasingly diverse, dealing with paper media alone is no longer enough. We must also be able to handle electronic media, including Internet-based media. We see this trend as a huge opportunity. We can make the most of DNP's corporate strengths by fusing Printing Technology with the Information Technology that DNP has always cultivated. By redefining the scope of our business to include the entire framework of information distribution, we can expand it into a new, solutions-based business that benefits consumers and corporate clients.

Fusion of Printing Technology and Information Technology

We will combine the printing technologies that DNP has cultivated since our founding with information technology that we have acquired since the 1970s, to offer unique solutions to corporate customers and consumers. When necessary, we will use M&As or corporate alliances to obtain the resources we need to provide such solutions, or to speed up the commercialization of new businesses.

Production Solutions and Business Design Solutions

On the Production Solutions side, we will enhance our ability to process and distribute information in formats that are optimized for each type of media, and solve our customers' problems by combining auxiliary services with the production of diverse media.

On the Business Design Solutions side, we will use DNP's IT and project planning skills to create essential systems for running clients' businesses and operate those systems on the clients' behalf.

Our goal is to make DNP an irreplaceable partner from our clients' perspective.

Developing New IT Technology and Ensuring the Security of Information

Through our printing business, we acquired expertise in handling massive amounts of data and a strong awareness of the importance of maintaining tight security when handling sensitive information. We plan to use these capabilities as a springboard for developing a new business domain in which we offer information management solutions that include developing new IT technologies, streamlining customers' information-related operations, assisting sales promotions, and maintaining data security.

Major Policies

Expanding our business through P&I solutions

Until recent years, production was our main business. Now we are developing that business one step further and expanding our solutions-based business by combining our core technologies – Printing and Information – so that we can offer unique solutions that no other company can provide.

In this segment, we have come up with a variety of solutions that increase the added-value of our products, including project planning, design, and marketing strategies. In the future, we will boost our capacities for system development as well as for sales, planning and proposing. We will do this by actively investing management resources in our planning department, where most of this activity takes place, not just in the form of additional personnel, but also funds and equipment. This will enable us to better respond to our customers' problems with comprehensive solutions centered on DNP products and services like IC tags, on-demand publishing, and personalized direct mail, and to actively offer solutions that create new frameworks for our customers' enterprises.

Going forward, we aim to expand the proportion of our revenues that comes from solutions-based businesses.

By strengthening ties between product sectors, we can target each customer's entire value chain

From now on, we will focus on strengthening ties among our various business sectors, so that we can offer operations and solutions tailored to each customer's particular industry, and so we can develop systems that will allow us to offer comprehensive services. By providing products like IC tags, information processing services (IPS), and smart cards, we aim to expand businesses that target each customer's entire value chain, from production through distribution to account settlements.

In addition, we will actively offer solutions for

problems that transcend industry boundaries, such as issues related to operational control or management streamlining.

Total sales promotion solutions

We will expand our participation in the sales promotion (SP) and direct marketing markets by supporting our customers' promotions and customer relationship management (CRM) through a combination of such services as data processing and on-demand functions using digital printers.

We will also actively engage in new areas of business outsourcing based on support for back office operations.

In addition, we will work on developing next-generation communication methods that use tools like IC tags and electronic paper.

Security solutions

Backed by our long history of cultivating security-related technology, we will offer more security solutions that involve the use of TranC'ert and other smart-card technologies in the construction of security systems for computer networks or for entering/exiting rooms. We can also work through affiliates like CP Design Consulting Co., Ltd., which builds privacy protection system for personal data and helps companies get Privacy Mark certification, to provide total solutions for our customers' security needs.

Developing new markets through new products and global expansion

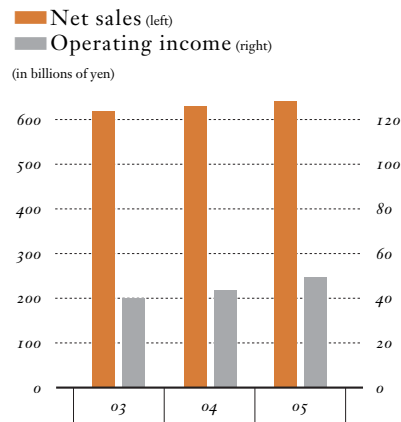
In this segment, as in others, DNP takes a global view of markets and is working to develop new markets. For example, we started new solutions-based businesses like our Total Sign Business (sign service). In Johor Bahru, Malaysia, our affiliate Tien Wah Press (Pte.) Ltd. completed construction of a second plant, and we have been using our global production network, which we call GMM (global metamedia), to optimize overseas production.



Financial Results

Financial Highlights

	(in billions of yen, %)		
	March 2005	March 2004	March 2003
Net sales	¥640.7	¥629.8	¥619.9
Operating income	49.4	43.7	40.1
Operating income margin	7.7%	6.9%	6.5%



Business Environment

Japanese domestic publishing sales rose 0.7% year-on-year in calendar 2004, marking the first such increase in eight years, and advertising expenditures have remained on the rise since September 2003. However, material costs have been increasing while intensified competition has put pressure on unit prices, causing a very tough printing industry environment.

Summary of Financial Results

The business environment affecting this division remained harsh, with competition for orders leading to lower unit prices while higher paper prices pushed up costs. We responded by working aggressively to increase sales. In books and periodicals, magazines continued the slump, and sales for the whole year fell below the previous-year level. In commercial printing, sales were good as orders for flyers, pamphlets, and point-of-purchase (POP) materials increased with the recovery in demand for advertising. The business forms sector fared well due to big increases in sales of IC cards and information processing services (IPS). Overall, the segment's net sales grew 1.7% over the previous year, to 640.7 billion yen.

Operating income was affected by higher material costs, but as a result of aggressive cost-cutting measures and the contribution of high added-value items like smart cards and IPS, operating income increased 13.0% from the year before to 49.4 billion yen, and the operating income margin rose 0.8 point to 7.7%.

The division contributed 44.5% of DNP's total net sales, and 39.0% of operating income.

Books and Periodicals

The monetary value of publishing sales from January to December 2004 increased 0.7% from the previous year, to 2,242.8 billion yen, marking the first year-on-year rise in eight years. Book sales grew for the first time in two years, by 4.1% to 924.9

billion yen, partly due to the emergence of seven titles that sold more than a million copies each. However, sales were adversely affected by the diversification of information media, including Internet-based media, and by the shrinking population of young people, who are an important customer base.

Magazine sales fell 1.7% to 1,299.8 billion yen, marking the eighth consecutive year-on-year decline. During the year from April 2004 to March 2005, 224 magazines were published in Japan, an increase of 11 from a year earlier. DNP received orders to print 21% of these, or 48, compared to 45 the previous year. On the other hand, 203 magazines discontinued publication during the year, an increase of 65. DNP had been printing 40 of these, or 20%.

Periodicals, which account for about 60% of Japanese publishing sales, have been experiencing a long-term slump that shows no sign of abating. Therefore, we have been working on securing profits by boosting in-house production capacity, by improving productivity and by expanding the proportion of our in-house production.

Commercial Printing

While actively soliciting sales aimed at solving our customers' problems and supporting their sales promotion activities, we cut costs by boosting the productivity of our own facilities. This entailed shortening lead times and conducting systematic equipment maintenance as well as strengthening our cooperative framework by offering technical guidance and consulting to outsourcing providers. As a result, net sales increased from the previous year, and profits rose even after absorbing an increase of some 400 million yen in papers costs.

We enjoyed particularly large growth in the printing of flyers for specialized mass retailers and pamphlets for the non-life insurance industry. Also, orders increased for mail-order catalogs and POP materials for cosmetics retailers and convenience stores.

In addition to taking printing orders, we also actively proposed sales promotion support solutions that make effective use of digital data.

At the end of the term, net sales of commercial

printing amounted to 328.4 billion yen, 4% more than the previous term.

Business Forms

This term, sales of ledgers continued their shrinking trend due to corporate cost-cutting and ledger consolidation, but we still achieved increased sales and profits in the Business Forms sub-segment. There were big gains in sales of smart cards and IPS. The Personal Information Protection Act led to a demand for insurance companies to revise their ledgers. Also, sales were boosted by orders related to the mergers of major non-life insurance companies, automobile recycling certificates, and stock certificates whose issuance were increased by the steady stock market.

Last year, new competitors entered the market for IPS, which entails handling large amounts of personal information as well as processing, printing and sending information. DNP fought back in two ways. First, we promoted new applications for IPS, using our ability to propose solutions that make the most of our Information Communication division's comprehensive strengths. Also, we boosted production efficiency by implementing our original grid computing system for production processes.

DNP holds a roughly 40% share of the Japanese smart card market. This market grew, mainly because of the increased use of credit cards and other financial applications, and increased telecommunications applications, such as SIM cards.

DNP's superior, comprehensive technological ability to make smart cash cards has been duly recognized. We came out ahead in the competition to receive orders and we succeeded in winning orders from every major Japanese bank. We came close to monopolizing order receipts from all banks planning to issue cash cards this fiscal year.

There were 70 million smart cards issued in Japan in fiscal 2004 (through March 2005), and we estimate there will be 99 million issued in fiscal 2005, 159 million in fiscal 2006, and 175 million in fiscal 2007. The estimated volume of smart cash card issuance is 3.6 million in fiscal 2005, 5 million in fiscal 2006, and 7 million in fiscal 2007.



Topics

Developing New Businesses Using IC Tags

Starting experimentation with food traceability systems

Lately, the average citizens' faith in the safety of their food supply has been shaken by diseases like BSE and avian flu. There have been many big changes in the environment surrounding the restaurant industry: for example, the beef traceability law began to be applied to domestic beef as of December 2004.

In response, DNP together with Mos Food Services, Inc. operated an experimental traceability system for foreign beef (used in hamburger patties).

The general outline of this experimental traceability system worked as follows. First, as beef arrived in containers shipped from overseas, each case was labeled with an IC tag at the plant in Japan where it was processed into patties. After that, the data on the tag was read whenever the beef was moved in or out of a warehouse, and when it was shipped to or received by a retail outlet. All data concerning movements of the beef was stored in the head office's data control server, making it possible to accurately record the production history of beef used at each outlet.

We plan to actively engage in research and development aimed at eventually using IC tags to track not just beef, but all food ingredients in the future.

Boosting our food traceability business

DNP created an R&D center dedicated to research into IC tags. There we consolidated food traceability operations that we have already proven through testing or launched as commercial businesses, and we started full-scale business development.

In the future, we aim to combine IC tags with IC cards and various other types of certification technologies, including biometrics, in order to build more reliable tracing mechanisms. Also, we intend to develop traceability systems that are tailored to the environments in which individual items are used, such as agricultural or marine products, and to promote the development of traceability systems that we previously offered separately into ASP-based businesses.

Food traceability businesses are expected to grow greatly due to an increased demand for trust and safety regarding food, and dramatic growth is also expected in the IC tag business. By linking these two fields, we intend to develop high added-value, comprehensive food tracing services that we anticipate will bring in 20 billion yen in sales in 2010.

Further Evolution in Smart Cards

Development of new smart cards that have two interfaces: contactless and contact

DNP has developed a dual-interface card that uses both contactless FeliCa technology and a contact interface.

In the past, it was necessary to install two IC chips in order to get a single card that could function as both FeliCa and JavaCard. With our new card, we succeeded in installing both functions on a single chip. The card can be used for FeliCa applications through a contact interface, and for JavaCard applications through a contactless FeliCa interface.

A standard feature in the ROM of this new

Delivery case labeled with IC tag, and reader



dual-interface card is a smart cash card application that meets the specifications of the Japanese Bankers Association (JBA) and is compatible with VSDC, the credit application used by VISA International. In addition, we developed a dedicated application for biometric identification technology, which is very likely to be favored by financial institutions in the future.

Shortening the lead time for smart cash card issuance, and cutting start-up costs in half

DNP manufactures and issues almost all of the smart cash cards currently issued in the name of Japanese megabanks. Based on the technology, expertise and card-issuance systems that we have already built, we have optimized the processes used in issuing cash cards and have created standard packages.

Now, financial institutions that issue smart cash cards will be able to use this kind of a standard package to reduce the standard lead time for card issuance to seven months, and to cut start-up costs for new card issuance to about half of what they were before.

The standard package offers a choice of JavaCard or MULTOS for about the same price as what it now costs for a cash-card-only smart card. In addition to the features required in a smart cash card – compatibility with the JBA's cash card application and biometric identification technology – new applications can be added after the card has been issued, such as fund transfer and passbook functions. Clients can choose a biometric identification method that uses vein patterns in the palm or in a finger. Issuing a MULTOS card requires a financial institution to perform certain burdensome operations, but DNP can also provide issuance agency services designed to reduce this burden. In other words, DNP can offer comprehensive support to card-issuing institutions.

Aiming to Improve Information Security Systems

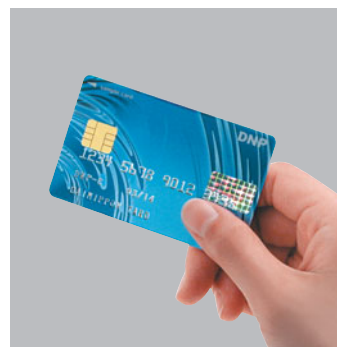
Establishment of a SSFC corporate alliance that realizes a high-security office environment

In both the public and private sectors, establishment of information security systems that prevent the leakage of personal data has become an urgent task since Japan's new Personal Information Protection Act and e-Document Law took effect this April. In response, DNP and 21 other companies have begun to take action after agreeing to form a corporate alliance called Shared Security Formats Cooperation (SSFC), aimed at realizing high-security office environments.

SSFC's main activity will be to draw up a common format for smart cards used for such applications as employee identity cards. This format will only be disclosed to manufacturers that belong to SSFC. At first, the format will be geared toward FeliCa. In the future, the group plans to gradually apply it to other card standards. Starting with the second version, the group also intends to incorporate biometrics.

SSFC member companies will develop a variety of products that are compatible with the format, including various security-related devices (such as gate systems), office equipment (printers and copy machines, etc.), office furniture (such as lockers), and smart cards. The group expects to launch these products within one year.

Smart cash card



The market for information system construction for government agencies, municipalities, private companies and SOHOs that handle sensitive information is estimated at over 100 billion yen. SSFC member companies plan to develop products jointly and create a unified system environment.

DNP's Starting Point: the Shueitai Font

Publication of "Shueitai Research" in honor of our anniversary

DNP will celebrate its 130th anniversary in 2006. As part of the celebrations, in December 2004, we published "Shueitai Research," a compilation of the history of Shueitai, DNP's original font.

Shueisha, the predecessor of Dai Nippon Printing, began to develop Shueitai in 1882 for use in letterpress printing. Throughout its long history, it has been recognized as an elegant, beautiful, and easy-to-read font, and it is still used today in many publications. Professor Jiro Katashio, the foremost authority on the history of Japanese typography and printing, helped edit the book.

Archiving Business Growing Steadily

Making the most of the latest printing technology, we reproduced the sliding-door paintings of Maruyama Okyo

DNP and DNP Media Create Kansai Co. have jointly developed printing technology for reproducing art works that use gold foil, including sliding doors, hanging scrolls and door paintings. This type of printing reproduction was always considered to be very difficult in the past.

This new technology was used in the process of transferring important artworks owned by Daijōji Temple*¹ (in the town of Kasumi, Kinokawa City, Hyogo Prefecture) to new storage facilities in order to preserve them for future generations. The artworks were created by

Maruyama Okyo*² and his clan, and have been designated as important cultural properties by the national government. Daijōji Temple owns 165 wall and door paintings done by Maruyama Okyo and 12 of his students. DNP and DNP Media Create helped to restore a total of 46 of these, under the supervision of Yoshimoto Hiroshi, honorary professor at Aichi Prefectural University Of Fine Arts and Music.

**1 A temple that belongs to the Koyasan Shingon Mission, established by Gyōki in 745*

**2 A popular painter in Kyoto in the Edo Era*

More New In-House Ventures

DNP started two new ventures, our third and fourth in-house ventures

At Table Co., Ltd. supports supermarkets in their sales promotion activities through services like sales promotion planning and sales promotion tool design based on marketing data analysis.

Mobile Impulse Co., Ltd. manages online shopping websites designed for access from mobile phones.

DNP had already started mobile shopping malls called "Westgate" and "Oshare Life," for which it created the necessary web pages and provided services like mail distribution and various kinds of account settlements. This time, the leader of the Mobile Impulse project suggested a new type of business model based on DNP's in-house venture system. DNP recognized the project's potential, and it was established as DNP's fourth in-house venture.

Publication of books related to the new Personal Information Protection Act

Since April, a DNP subsidiary, CP Design Consulting Co., Ltd., has published three books

Reproduction of a hanging scroll by Maruyama Okyo



related to the Personal Information Protection Act. They are called “All About Personal Data Protective Measures and Leak Prevention,” “It’s Not Too Late! Emergency Measures for Compliance With the Personal Information Protection Act,” and “The Personal Information Protection Act Handbook.”

CP Design Consulting was DNP’s first in-house venture. Its consulting services include the diagnosis of corporate measures for personal data protection.

New Services for Cellular Phones

A new service adds credit card function to cellular phones

Since November 2004, we have been serving credit card companies, banks, retailers, and other businesses that issue credit cards by helping them to add a credit card function to their customers’ mobile phones. All the card issuer has to do is provide DNP with the necessary customer information, and DNP can register members’ mobile phones, at the same time as their credit cards are issued.

New “Mobile Modern Terminology” service allows i-mode users to search and browse reference materials like “Basic Knowledge of Modern Terminology” online

DNP and Jiyukokuminsha have jointly started a website called “Mobile Modern Terminology,” which allows users to search reference materials like Jiyukokuminsha’s “Basic Knowledge of Modern Terminology” (an annual compilation of new words and basic terms) through i-mode,

NTT DoCoMo Inc.’s Internet connection service for mobile phones.

The contents offered on this site were already available on CD-ROM and through a normal website since 1987. For the new site, which is specifically designed for access by mobile phones, Jiyukokuminsha handled the overall planning and editing while DNP developed the computer systems, formatted the data, and handles information distribution and site operation.

Digitizing Dictionaries and Catalogs

Selling contents for use with Babylon “one-click” dictionary software

DNP collaborated with Babylon Ltd. and Altech ADS Co., Ltd to start using Babylon’s “one-click” dictionary software as a platform for selling contents. Babylon is a resident application for Windows-based PCs. When a user clicks a word or phrase on a computer screen, Babylon activates a pop-up window that allows the user to choose a translation between English and Japanese, or definition of the selected words in English or Japanese. We have already introduced “Babylon-Pro 5.0 2004,” “Japan Company Handbook 2004 for Babylon,” “Mypedia for Babylon,” and “Nanzando Medical Dictionary (18th Edition) for Babylon.”

Virtual catalogs for Spick and Span and JOURNAL STANDARD

Mail-order marketer Baycrew’s Co., Ltd. asked DNP to digitize 11 catalogs, covering all of its 15 brands (including “Spick and Span” and “Journal Standard”). DNP used new “plug-in free” technology to reproduce the catalogs electronically so that users can view them online, no matter what their computing environment, using only standard Web-browser functions – i.e. without having to install any special plug-in. The catalogs appear with the same formats and page layouts as the print versions. When a user moves to the next page of the catalog, an animated image of page-turning makes it look as if the user is actually leafing through a paper catalog.

Virtual catalog created using DNP’s “plug-in free” for Baycrew’s Co., Ltd.



Lifestyle & Industrial Supplies

Business Strategies

In DNP's Lifestyle & Industrial Supplies segment, we keep in mind three main concepts as we develop businesses aimed at realizing the more comfortable society of the future: functionality, environmental responsiveness, and greater added value. We are working on boosting sales with this segment both in Japan and overseas. For the packaging and decorative materials sectors, our aim is to secure stable growth by developing products that focus on functionality and environmental concerns. In the recording media and industrial supplies sectors, DNP aims to actively develop new categories of products and products with high added value, in order to develop new markets.

Functionality and Environmental Responsiveness

Guided by the concepts of universal design and environmental responsiveness, we will continue to develop functional, environmentally friendly products that meet consumers' desires for more safety and comfort, better health, and greater convenience.

Adding Greater Value; Shifting into Growth Fields

Coating technologies have already transformed and expanded DNP's business. Using these as core technologies, we will further explore potential uses for printing technologies and actively develop products and services that have high added value. At the same time, we will also shift our emphasis toward fields with future growth potential.

Developing New Businesses in Industrial Supplies and Related Fields

We will take a broader view of the market and create new businesses by developing unique, advanced technologies and products in growing fields like electronics, energy, and recording media. At the same time, we will continue to create new business models that make use of corporate alliances.

Major Policies

DNP's industrial supplies business will actively invest in display-related fields

Our industrial supplies business will greatly increase its capacity for producing high-function optical film used in displays, as we expect to see rapid growth in this market in the future. DNP is already the world's largest producer of this type of film. By May 2005, we intend to invest 5 billion yen to add a fourth production line at DNP's main production base in Okayama. This new line, together with the third line that we started operating in February 2004, will give us four times the production capacity that we had in 2003. Through this investment, we will further solidify our prospects for securing about 80% share of the world market for this type of film.

As part of our expansion of dye-sublimation transfer film products, we will start a worldwide BtoC digital photo business.

Reinforcing our lineup of functional, environment-friendly packaging products

There is little chance of an increase in the Japanese population, so we don't foresee any significant growth in demand for our packaging products, which consist mainly of food packaging. However, increasing concern over environmental conservation and food safety are spurring demand for new types of functionality in packages, which in turn creates new business opportunities for us. We have enjoyed steady growth in demand for products designed to use less plastic, and for systems that allow our client companies to save money or reduce environmental burdens in their manufacturing processes. And in response to consumer concerns about food safety, we offer tracing services, whereby we build databases to manage information about ingredients, processing and distribution.

In the future, we aim to continue to respond flexibly to market needs like these, and to shift

toward higher value-added products in order to boost our competitiveness.

Another area of technical strength for DNP is aseptic container-filling systems. We plan to increase our facilities for producing plastic bottle pre-forms* to expand our business.

**Tube-shaped molds used as intermediate material in PET bottle production*

Decorative materials business to focus on eco-friendly, high value-added products

Because we are unlikely to see a sharp increase in demand for residential construction in Japan, our decorative materials business will seek to secure profits by adding more value. We will expand our Super Egos line of highly scratch-resistant, soil-resistant, environmentally friendly decorative sheets, and our Ecostandard WS Safmare line of non-PVC decorative sheets for residential interiors. Also, we will work hard to boost sales in overseas markets where there is strong demand for decorative sheets used for covering furniture, etc. We intend to further enhance our product lineup while keeping the focus on environmentally friendly, high value-added products, and to actively market our products in the United States, Europe and the rest of the world.

In addition, we opened a living space analysis center in our Okayama plant, where we have begun offering measurement and assessment of the quality of living environments as part of our plan to increase solutions-based businesses in the field of residential environments.

Developing new markets through global expansion

Starting with the establishment of a joint venture for the post-processing of ink ribbons in France, we have been expanding our overseas presence and building optimal production networks aimed at worldwide markets.

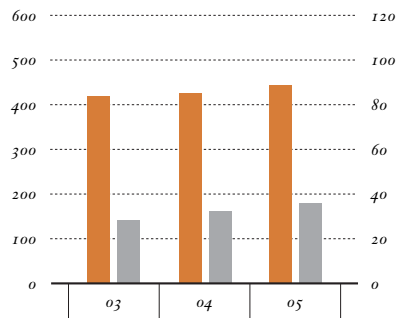


Financial Results

Financial Highlights

	(in billions of yen, %)		
	March 2005	March 2004	March 2003
Net sales	¥450.0	¥426.1	¥420.2
Operating income	36.0	32.4	28.6
Operating income margin	8.0%	7.6%	6.8%

■ Net sales (left)
■ Operating income (right)
 (in billions of yen)



Business Environment

In 2004, although convenience store sales increased 2.3% over the previous year, department store and supermarket sales declined by 1.6%. While overall commercial sales increased 2.5%, overall retail sales declined 0.1% and individual consumption remained stagnant.

Housing starts rose for the second consecutive year by 2.5% from a year earlier, but because the future remains unpredictable, improvements in the employment and income pictures were minor.

Summary of Financial Results

Overall, the business environment remained tough as personal consumption lagged and higher petroleum prices increased materials costs in general. Sales of packaging and decorative materials were strong while sales of industrial supplies also rose nicely. Overall, net sales for the division increased by 23.9 billion yen, or 5.6%, to 450.0 billion yen.

Operating income was affected by the increase in materials costs, but the segment's operating income increased 11.0%, or 3.6 billion yen, from a year earlier to 36.0 billion yen thanks to increased sales of high-function, added-value environmentally friendly products and industrial supplies, and to the success of cost-cutting measures. The operating income margin rose 0.4 point to 8.0%.

The division contributed 31.5% of DNP's total net sales and 28.4% of operating income.

Packaging

Sales of paper containers remained flat from the previous year, but sales of flexible packaging materials, paper cups and pre-formed PET bottles increased. The increase in the latter was particularly big, because beverage makers introduced five new, large-scale aseptic bottle-filling systems,

adding to the demand for pre-formed bottles.

DNP's aseptic filling systems have won high acclaim. They eliminate the need for sterilization using high heat that detracts from the flavor of beverages, and they reduce distribution costs and the need for storage space since the beverage plants fill pre-forms rather than finished bottles. We have already received orders for three more such filling lines to be installed in the next fiscal year. As of the end of fiscal year 2004, we had sold a total of 18 aseptic filling lines.

Decorative Materials

Sales of decorative materials grew nicely due to the popularity of eco-friendly materials and increased exports to North America, Europe and elsewhere.

Profits also rose due to aggressive cost-cutting measures and the contribution of environment-friendly products with high added value.

Eco-friendly products use non-PVC materials, which do not emit dioxin. DNP developed its own method of surface processing using electron beams, so we use absolutely no solvents that can cause sick-house syndrome. The market has responded very favorably since our sheeting is also harder and more soil-resistant than normal coating resins. This makes it especially popular for use as flooring. For most of our products, demand is greater for use in single-family homes than in condominiums. The breakdown of demand by application is 39% for fittings, 11% for residential equipment, 7% for wall coverings, 5% each for furniture and flooring, and 4% for storage facilities.

Industrial Supplies

This term we enjoyed significant growth in both sales and profits in our industrial supplies sub-segment, where the main products are ink ribbons, optical film, and electromagnetic wave shield-film for PDPs.

Sales of ink ribbons for facsimile machines declined, but sales of ribbons for color printers

increased sharply due to the expanded demand for printing photos taken with digital cameras and cellular phones.

DNP also supplies ink ribbons for home-use, dye-sublimation photo printers on an OEM basis, as well as for high-speed self printers.

Among optical films, sales of anti-reflective film used in LCDs grew sharply, and demand is also continuing to grow for electromagnetic wave shield-film for PDPs.

We transferred our lithium-ion rechargeable battery operations to Panasonic Battery Electrode Inc., the joint venture company that we established in January 2005 with Matsushita Battery Industrial Co., Ltd.

We have been working on developing large lithium batteries and fuel components for fuel cells, using microprocessing and technology for uniformly coating a pattern of catalyst material that causes hydrogen and oxygen to react. Eight companies are working together with Keio University to develop large-scale lithium batteries. Within two years, the group aims to reduce production costs and produce a low-cost standard battery that can be used in a wide range of applications including electric automobiles and power for homes and buildings. For fuel cells, we have already used our printing/coating and metal-processing technologies to develop related components. In the future, we intend to engage in joint developments with automakers and electrical equipment manufacturers to establish cost reductions and mass production technology so that we can begin commercial operations in 2007.



Topics

Further Refining Packaging Materials and Developing Solutions that Meet Consumers' Needs

The development of highly functional transparent film

DNP developed a transparent vacuum-coated food-wrapping film (IB-PET-PUB) with cutting-edge oxygen-barrier and moisture-barrier functions. The ability to protect contents by shutting out moisture and oxygen is an important feature in food wrapping materials. Demand is increasing for transparent films that allow consumers to see package contents and heat them in a microwave oven. DNP developed its IB film in 1998. Today, we hold a roughly 50% share of the market for small packets used for sauces and soups sold with noodles. With the development of our newest film, we intend to expand our share of the market for packaging materials used for other foods and snacks.

Package usability studies and analysis service

DNP has started a consulting service called Package Usability Research which supports product and packaging designers by incorporating the idea of usability from the consumer's point of view. This service combines DNP's unique theories with the principles underlying general usability engineering, and applies this blend of ideas to packaging. It entails observation and analysis of the conditions under which consumers actually use products, and the identification of problems by experts in the field. DNP set up its own usability test laboratory and has established the various systems required for providing this service.

Developing Businesses in the Energy Field

Lithium-ion rechargeable batteries and fuel cells

In January 2005, DNP and Matsushita Battery Industrial Co., Ltd. established a new company that deals in plates for lithium-ion rechargeable batteries. Lithium-ion rechargeable batteries are widely used to power mobile phones, notebook computers, digital cameras and other electronic devices. The demand for them has been increasing. By combining DNP's coating and inking technologies with Matsushita Battery Industrial's battery and battery plate design technologies, we intend to lead the market.

In the field of fuel cells, DNP has used its coating, metal processing and other technologies to develop related components. Fuel cells have attracted a great deal of attention as a next-generation power source. DNP plans to start full-scale joint development with automakers and electric equipment manufacturers with the goal of commercialization by 2007.

Gearing Up for the Spread of Digital Cameras

Investing in Pixel Magic Imaging

DNP and Altech ADS Co., Ltd. have jointly acquired a controlling share in Pixel Magic Imaging (PMI), a major US digital photo printing system and print materials marketing company.

PMI is a rapidly growing venture company that places photo print terminals in major drugstore chains throughout North America. By bringing on board DNP, the world's top player in print materials, and Altech ADS, which has a proven track record in photo-printer marketing, the group aims to expand PMI's market share.

Reinforcing Production Facilities in Response to Expanded Demand for Plasma Televisions

The start-up of new production line for electromagnetic wave-shielding film

Responding to the expansion of the market for plasma televisions, we added new production equipment at our plant in Saitama Prefecture, allowing us to make electromagnetic wave-shielding film for displays of up to 80 inches. We started operating the new line in October, allowing us to supply film for every size of plasma television.

Electromagnetic wave-shielding film is used on the frontal filter of plasma televisions to shut out electromagnetic waves emitted by the actual panel.

More Field Tests of IC Tag Technology

Use of IC tags led to recognition of more than 99.9% of containers

DNP, in collaboration with NTT Comware Corp. and Sun Microsystems K.K., conducted logistics management field trials using IC tag technology and EPC, the next-generation product code, to track containers loaded with beverage-use PET bottles. The trials produced very favorable results: a container recognition rate of over 99.9%. It is possible to achieve 100% recognition by having workers manually enter data for IC tags that could not be read automatically.

The testing of logistics management container by container

DNP's Kashiwa Plant (in Kashiwa City, Chiba Prefecture) manufactures pre-formed bottles used to make PET beverage bottles. The pre-forms are delivered to beverage bottlers in specially designed collapsible containers. In these field trials, an IC tag was attached to each container

delivered to the Kirin Beverage Shonan Plant via an intermediate warehouse operated by the TOYO Warehouse CO., LTD. Each container was assigned an individual ID, using the EPC global next-generation product code. The group tested logistics management on an individual container basis. Data pertaining to each container was stored on an online server.

Universal Design: Book with Tactile Illustrations Helps the Visually Impaired Learn about Health Care

Publication of "The Touch and Learn Book of Tooth Brushing"

DNP and Lion Corp. together published "The Touch and Learn Book of Tooth Brushing." Based on universal design, the book has "tactile illustrations" to help the visually impaired learn about health care. In addition to distributing the book to schools for the blind, Braille libraries, and rehabilitation facilities throughout Japan. The Lion Foundation for Dental Health uses it in the "Tooth Care Seminars For the Visually Impaired" that it has been conducting since 1994.

We aimed to make the book useful for people with visual impairments by augmenting the text portions with Braille letters and using "tactile illustrations" to show things like "how dental caries and gum disease progress" and "how to brush your teeth." We used large letters for the normal text, and chose a color scheme that makes it easy to find the most important sections.

We used a special type of silkscreen technology to raise the ink to form Braille letters. The ink is a transparent resin that hardens under ultraviolet light, so it doesn't interfere with the regular text.

Kuki Plant



Electromagnetic wave-shielding film for plasma display televisions



E l e c t r o n i c s

Business Strategies

By continually refining our advanced technology, DNP always stays ahead of the competition. Despite the rapid pace of change in this market, DNP has secured its position as a top vendor. We strive to maintain a good balance between a defensive portfolio that covers a wide range of product areas where demand is likely to grow, and an aggressive business strategy entailing technological development and active expansion of manufacturing equipment.

Emphasis on Technological Development

Supported by world class advanced technology, DNP electronics products in many fields have been acclaimed as No.1 in the world. In order to maintain and further strengthen our reputation, we will concentrate even more on research and development, and search out new technological possibilities in the realms of both quality control and micro-fabrication.

Rapid Response to Change

We aim to keep our eyes on every step from materials supply to modularization, and to respond appropriately to drastic changes in the market and in customers' needs as we expand our business.

Concentrated Allocation of Management Resources

While giving ample consideration to potential changes in product life cycles and other business risks, we aim to concentrate our management resources in order to achieve high profitability.

Faster Business Startups

In order to speed the development of new ventures, we will always consider possibilities for M&As or other alliances, and expand our businesses efficiently.

Major Policies

Adjustment to product life cycles and readiness to supply a wide variety of products at the right time

As technological competition rapidly intensifies, various new types of products appear in the electronic display market, and product life spans have grown shorter. Manufacturers need to accurately predict which product will dominate the next generation and when the change will occur. They must quickly gear up to produce the new products on time. Our basic strategy avoids the risk of depending excessively on a single product by maintaining a full product lineup. In this way, we can respond to the need for various types of displays, in every size from small to large.

Meanwhile, our sales strategy focuses on securing revenues by maintaining a steady stream of orders, which we achieve by watching the global market and engaging in wide-ranging trade with customers all over the world, in order to disperse risk.

We work as fast as possible to research and develop new technologies and products related to next-generation displays like the organic EL, inorganic EL, and field emission display, in order to develop the world's most advanced technologies and secure our dominant position in the marketplace.

Flexible business models focused on profitability

As liquid crystal panel substrates grow larger with the advent of 5th, 6th, and 7th-generation products, we will need to construct business models for our color filter production that enable us to respond flexibly to our customers' needs and concerns.

In order to cope with growing product board size, we strengthened the production capacity of

the 5th-generation production line at our Mihara Plant, and added a 6th-generation line at our new plant in Kitakyushu. We are also taking more flexible measures, including the construction of byplant facilities adjacent to a customer's manufacturing facility, an inplant facility built right into a customer's production line, as well as the establishing of joint ventures with our customers. We aim to steadily solidify our operating base by selecting appropriate business models from profitability perspectives.

Using strong US projection screen sales as a springboard for meeting the MD challenge

There has been increasing demand for large, thin projection screen displays of 40 - 60 inches, particularly in the North American market. This is a niche market, with an annual demand estimated at 6 million units per year. DNP has three production bases — in Japan, Denmark, and the US — and has won a 55% share of the world market.

In the past, CRT-type screens dominated the market, but recent years have seen the emergence of LCD, DLP, and LC OS-type displays, and there has been increasing demand for micro-display (MD) screens. DNP is responding to the change in demand structure by reinforcing production of MD-type screens in addition to existing CRT production.

Aiming to improve profitability through cost-cutting in the stable shadowmask market

We expect demand for shadowmasks used in PCs to keep falling as the market shifts toward using LCDs. However, demand for use in home televisions, currently estimated at 160 million units per year, is expected to remain strong. We have already finished consolidating and reorganizing shadowmask production facilities, so by cutting costs and taking advantage of our overwhelming market dominance, we intend to bring in stable revenues.

Remaining No. 1 in the world in photomasks, thanks to superior technology

DNP's photomasks have a longstanding reputation for outstanding quality. We have remained the world's largest supplier. Our selling point is a degree of technological superiority that no competitor can touch. More than half of DNP's photomask sales consist of cutting-edge products with line widths of under 130 nm. In the ultra-advanced class with line widths of 90 nm, DNP has captured more than half the market. Going forward, we plan to use the results of development conducted jointly with one of our customers to accelerate the development of 65 nm and 45 nm products ahead of the conventional technological roadmap. By being the first to put these products on the market, we intend to lock in our top share of the world market.

Cultivating new core businesses for our Electronic Device Operations, and building a stronger operational constitution

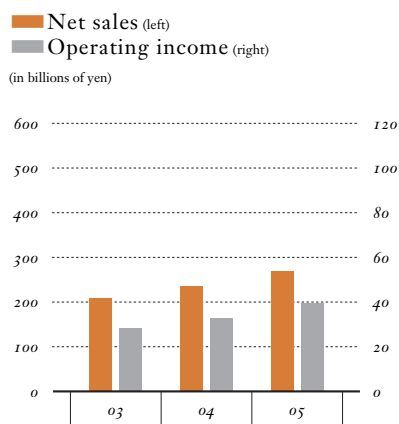
We will work hard to expand sales not only of photomasks, but of other products that use micro-fabrication technology, such as semiconductor

packages, on-chip color filters, and build-up substrates, with the aim of cultivating new core businesses. In addition, by strengthening solutions-based businesses like turnkey deliveries involving circuit design or IC tag businesses connected to the development of application software, we will build a flexible and strong operational constitution that can be largely unaffected by the ups and downs of the semiconductor market.

Financial Results

Financial Highlights

	(in billions of yen, %)		
	March 2005	March 2004	March 2003
Net sales	¥269.6	¥236.4	¥208.4
Operating income	39.7	33.0	28.3
Operating income margin	14.7%	14.0%	13.6%



Business Environment

In 2004, production of information-communication equipment which is closely linked to this division, fell for the first time in two years, by 14.3% compared to the previous year. Sluggish demand for new mobile phones was a factor in this decline. This reflects the sharp rise in demand the previous year as users replaced existing phones with models equipped with a camera, so that the ownership rate is already very high. On the other hand, production of electrical equipment for private-sector use rose 8.3% year-on-year, the third consecutive yearly increase. This is because corporate and individual domestic computer sales have grown, causing production to grow for the first time in four years, by 2.9%. Also domestic demand increased for digital cameras, car navigation systems and LCD televisions, and strong exports bolstered overall results.

Summary of Financial Results

The division enjoyed strong sales of LCD color filters for use in both computer monitors and home-use televisions. Shadow mask sales grew significantly, mainly for use in televisions.

Our overseas production of photo masks increased, and sales were good both in Japan and overseas.

As a result of these favorable factors, net sales grew 14.0% from the previous year to 269.6 billion yen, and operating income increased 20.2% to 39.7 billion yen. The operating income margin rose to 14.7%, an increase of 0.7 point.

The division contributed 18.9% of DNP's total net sales, and 31.3% its of operating income.

We faced heavy pressure from our main client industries to lower the prices of LCD color filters, which are display-panel components, because the

display panel prices dropped sharply. In October 2004 we cut unit prices by about 10%. Although we were largely able to maintain existing price levels after that, the price cut had a serious effect on income when combined with the increased depreciation burden related to our new 5th-generation production line. At the same time, demand recovered nicely, and the new line that started up in the second half of the term went into full production, so net sales grew sharply.

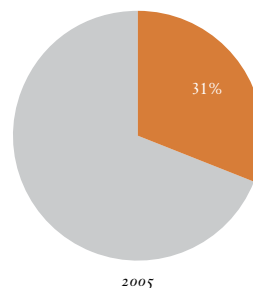
Projection screens did well in the first half, but the second half was very difficult as special demand related to the Olympic Games came to a halt and plasma display prices fell. Micro-display (MD)-type rear-projection TVs' share of the projection television (PTV) market grew to 30%, but demand for CRT-type PTVs fell as they were replaced by MDs. Overall, PTV-related demand fell below the previous-year level.

Shadowmask sales surged as a competitor's withdrawal from the market left us with a bigger share and we won new orders for consumer-use televisions.

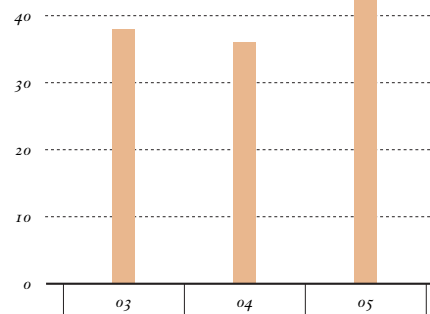
In the photomask market, we received more orders for the most advanced products with 90 nm or other very small line widths from both domestic and overseas customers, and the average order's unit price increased. Sales by DNP Photomask Europe S.p.A., which started production in Italy in October 2003, grew and remained strong.

Sales of lead frames became sluggish after the third quarter due to adjustments of semiconductor inventories, and fell below the previous-year level.

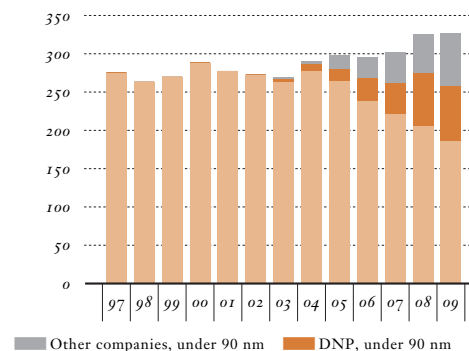
DNP's Share in the Color Filter Market (monetary base)
(%)



DNP's Share in Shadowmasks
(monetary base, excluding internal productions)
(%)



Forecasted Size of the Photomask Market
(in billions of yen)



Topics

Spread of Electronic Devices

Lead Frames

Tie-up on lead frames that are both environmentally friendly and standardizable

DNP and Renesas Technology Corp have begun collaborating in the manufacture and sale of lead-free solder^{*1}-compatible lead frames, which are ideal for use in environmentally friendly semiconductor packages. The alliance allows DNP to manufacture and sell SDP lead frames^{*2} and HQFP lead frames^{*3} developed and patented by Renesas Technology.

The special features of these lead frames are that they can be mounted with lead-free solder and that they can support chips of various sizes. Lead-free soldering is desirable because lead used in conventional soldering is toxic to humans. DNP and Renesas plan to actively promote these lead frames as an environmentally friendly industry standard.

^{*1} Includes tin-bismuth alloys; alloys of tin, silver, and gold; and tin with the addition of palladium.

^{*2} A type of lead frame in which the die pad (on which the IC chip rests) is smaller than the IC chip itself.

^{*3} A type of lead frame in which the die pad also functions as a heat sink.

Doubling production capacity for high precision, plated lead frames for use in small packages

DNP added a new line of manufacturing equipment for the production of high-precision plated lead-frames for use in small semiconductor packages, in order to be able to respond in a steady and timely manner to the strong demand for such packages. The new equipment doubled monthly production capacity to 300 million units.

Modules

Development of a compact camera board

DNP developed and began selling a compact camera board (CB4100B) equipped with an MPEG-4 module. The new board is 65 mm long and 73 mm wide. It has everything it needs, including an MPEG-4 data compression and decompression module, an SD card socket, and a LAN connector, to allow incorporation in a network camera system or virtually any other kind of imaging device.

Success in making a more compact, fingerprint identification module

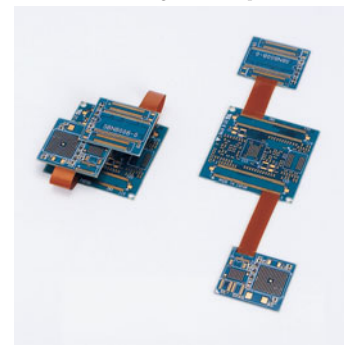
We succeeded in creating a compact fingerprint identification module using embedded circuit-board technology. The module has a microprocessor, flash memory, and SDRAM mounted on a printed circuit board (PCB), with fingerprint identification software embedded in the flash memory. We made this module 20% smaller than previous versions by densely concentrating the 59 passive components that were formerly arranged on the surface of the PCB, moving them inside an 8-layer random-build-up B²it PCB.

Printed Circuit Boards

Development of bendable printed circuit boards (PCBs)

DNP developed a rigid flex printed circuit board, I-B²it, that boasts greater packaging density and a more flexible circuit design than its predecessors. Rigid flex printed circuit boards do

Bendable printed circuit boards
(left) when bended (right) when expanded



not require separate connectors for each connection, so they can be used with thin or bendable packaging. Demand for them is increasing, mainly for use in cell phones. However, these PCBs are relatively expensive, and previously it was not possible to make connections between their densely packed layers. DNP's new board reduces the cost by more than 20%, doubles the circuit density, and greatly increases the flexibility of circuit design.

Development of metal pin material that enables the manufacture of ultra-thin semiconductor packages, only 0.3 mm thick

DNP has developed a new metal pin material that reduces the cost of assembling a semiconductor package by 15-30%, and makes it possible to produce semiconductor packages with a thickness of only 0.3mm. In the past, it was considered to be impossible to make a package thinner than 0.7mm.

The newly developed material is formed into a pin pattern by laminating a copper base with metallic film made of metals like copper, nickel, palladium, and gold, etc.

■ **IC Tags**

Development of active multi-sensor tags with heat, humidity, and light sensors

DNP has added high added-value multi-sensor tags to its ACCUWAVE® series of original IC tags. For the first time, a single IC tag can detect three types of data: heat, humidity, and light. In addition to bolstering the company's IC tag product lineup, in October 2004, we commenced marketing our ACCUWAVE® Starter Kit, which can be put to use immediately. Besides the conventional IC tag functions of tracing the production, processing, and distribution of foods, the multi-sensor tags make it possible to monitor the products' storage conditions. The new tags can also be used in a variety of other applications that demand quality control, such as shipping or the storage of art works or other precious objects.

■ **Photomasks**

Alliance with ProMOS Technologies Inc. of Taiwan, in the field of advanced photomasks

Under DNP's alliance with ProMOS Technologies Inc., (ProMOS), the world's number five dedicated DRAM foundry, we will provide a stable supply of leading-edge photomasks below 180 nm, and the two companies will jointly develop optimal specifications for leading edge photomasks required by ProMOS in wafer processing below 90 nm.

More alliances for our photomask division

Since DNP's photomask division first made an alliance with Intel in January 1998 for the joint development of next-generation photomasks, we have actively pursued alliances with major semiconductor manufacturers and secured our position as number one in the photomask industry. For example, in October 1999, we acquired Hitachi Ltd.'s photomask division. In March 2000, we established a photomask manufacturing joint venture with Toshiba. In May of that year, we formed a photomask alliance with Fujitsu, and in December, we formed a business partnership with a major Taiwanese semiconductor foundry, United Microelectronics Corporation (UMC). In July 2001, DNP and Xilinx, Inc. of the US, the world leader in terms of FPGA (Field Programmable Gate Arrays), agreed to cooperate. In May 2002, DNP and STMicroelectronics formed a strategic alliance for the development and supply of high-end photomasks. Through our most recent alliance with ProMOS Technologies Inc., we should be able to expand our share of the photomask market more than ever, and increase the market's faith in our technological strength.

Alliance with MIPS Technologies, Inc. to provide SOC design services

DNP and MIPS Technologies formed an alliance for providing System On Chip (SOC)

design services, under which DNP acquired a license to use 32-bit and 64-bit MIPS processors and cores. MIPS is a world leader in industry standard processors, architecture, and cores used in the fields of digital information appliances, telecommunications, and office equipment.

DNP obtained a license to use five types of MIPS processors and cores: MIPS32® 4KEc™ and 4KE™ processors, and MIPS32® 4KEp™, MIPS64® 5Kc™ and 5Kf™ cores. DNP will use these highly marketable MIPS CPU cores as a base for LSI design and prototype services, providing manufacturers of semiconductors, sets, and systems with turnkey SOC solutions that radically reduce development time for things like leading-edge consumer applications and office automation, helping them get to market faster.

Development of Next-Generation Products for the Growing Display Market

■ Color Filters

Construction of a new color filter plant for 6th-generation LCDs

DNP is building a new factory in Kurosaki, Kita-Kyushu, to produce color filters for use in 6th-generation LCD televisions, which are expected to see further increases in demand.

The site of the new plant is adjacent to the location where Advanced Colortech, Inc. (ACTI, a DNP affiliate) is producing color filters for fourth-generation LCDs. The new plant will be able to turn out 1,500mm x 1,850mm sixth-generation glass base-plates. It will have a maximum monthly production capacity of 60,000 sheets of 6th-generation glass size, and is on line from June 2005.

When the new facility starts up, together with a 5th-generation line that began operation at DNP's Mihara Plant in the autumn of 2004, the overall color filter production capacity of the DNP (including Otone, Mihara, the new Kurosaki line, ACTI, SinTek, and South Sintek Photronic) will be 6.9 million units per month (based on a 14 inch

liquid crystal panel equivalency).

■ Projection Screens

Development of three types of screens for MD projection TVs

DNP has developed three types of screens for use in Micro-Display (MD)-type rear-projection TVs (PTVs). DNP already holds a world-leading share of approximately 55% of the global market for PTV screens (CRT and MD types). We decided to start selling a new type of screen for MD-type PTVs, in light of expectations for increased demand, in order to maintain our dominant position in the PTV screen market. The three new screens are a low-priced, high-quality MD-type PTV screen, a one-piece glass screen, and a screen with improved vertical viewing angle. All three are aimed at making MD-type PTVs more competitive by meeting the consumers' demand for even lower prices, better picture quality, and better overall quality.

Successful development of new front projection screens for projectors

DNP has developed a new kind of front projection screen for projectors. We found a way to manufacture two types of front-projection screens (reflective and transparent) by using roll-to-roll coating technology to make cholesteric liquid crystal (CLC) film. CLC film is an optical film that has a polarization beam splitting function that makes it possible for a reflective screen to deliver images with approximately five times the contrast of existing matte screens in a bright room, and with about ten times the contrast of existing matte screens if polarization-controlled light is used in the room. The transparent screen is similar to existing hologram screens used to view transfer imaging, but using the roll-to-roll production method makes it easy to produce the screens in large sizes, which was difficult with traditional hologram screens.



Sustainable Development



Based on our corporate philosophy of contributing to the intellectually active, prosperous, evolving society of the 21st century, we established the DNP Group Corporate Pledge to specify our employees' mission and responsibilities, and the DNP Group Vision for the 21st Century to indicate the kind of company we want to be and the direction we want our businesses to take in the future. We believe that actualizing our corporate philosophy — by acting in good faith in accordance with our Action Charter and by actively creating new values according to our Vision for the 21st Century — will contribute to the sustainable development of DNP and of society as a whole.

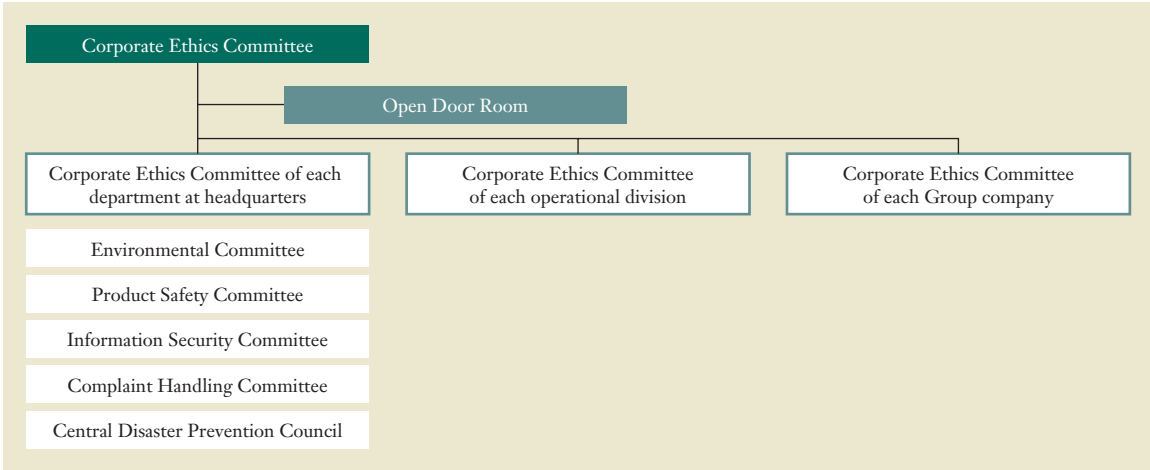
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Please refer to "DNP Group CSR Report 2005" for the details of this section.

Legal Compliance and Corporate Ethics

In 1992, the DNP Group established the Dai Nippon Printing Group Corporate Pledge, which clarifies our commitment to operate in compliance with all laws and social ethics. We also established Corporate Ethics Committees in all of our Group organizations to promote the establishment and spread of corporate ethics. The members of the Corporate Ethics Committee, which is made up of Directors in charge of each department at headquarters, meet at regular monthly meetings to determine policies concerning business ethics. There are also separate committees for dealing with important individual themes, such as the environment and information security.



The practice of corporate ethics requires that every single employee have an adequate understanding of the importance of ethical behavior and links that understanding to action in everyday business. In order to establish corporate ethics more firmly than ever, we believe it is important not only to persistently and continuously explain the importance of ethics, but also to build systems and mechanisms into our management structure that prevent people from reverting to old ways. Below are examples of some of the things we have done to enhance awareness of corporate ethics.

■ Systematization of Corporate Ethics Training

We systematized our corporate ethics training in the following ways, making it possible for employees to receive corporate ethics training many times, in order to continually remind each employee that he or she must actively participate in corporate ethics.

1. Training Tailored to Specific Organizations

If employees are to perceive corporate ethics as an issue that affects them personally, the content of training sessions must address questions that affect the specific division in which they work. Realizing that this was the case, in November 2003 we began having Directors in charge of business units and other top executives hold independent training sessions in corporate ethics, to explain face-to-face the policies and decisions that each division has taken regarding important issues. Every DNP division holds training sessions like these.

2. Regular Training Sessions According to Employee Level

We included corporate ethics in the curriculum for training sessions given to new employees and to employees who have been newly promoted to the management level. In this way, we ensure that every employee receives training in corporate ethics at various stages of his, her career, and will realize the importance of ethical behavior.

3. Training Sessions Given by the Head Office

In order to supplement the training sessions described above, the sections in charge from the head office hold training sessions at various business units to discuss important topics as necessary.

■ Open Door Room

DNP Group employees can take their problems and questions related to corporate ethics to the Corporate Ethics Committee, where a full-time staff member handles such issues promptly. We augmented our consulting framework by establishing the Open Door Room, a place where employees can turn when it is difficult to consult with a supervisor or with coworkers. We take great care to protect the anonymity of employees who use the Open Door Room and preserve the secrecy of their consultations, so that they will not suffer any negative consequences in their workplace.

■ Management by Objective System

The DNP Group has incorporated elements of corporate ethics in its management-by-objective system. Through meetings between supervisors and their subordinates, during which each employee sets action targets and reviews the results of those actions a half-year later, we confirm that each and every employee is acting in an ethical way.

■ Voluntary Review of Laws and Regulations

In order to establish a corporate culture of legal and regulatory compliance, we expect every unit of our organization to have the courage to voluntarily check its business operations relative to existing laws and regulations in order to be sure it is not guilty of any infringements, and to take swift corrective measures if necessary.

DNP's Corporate Ethics Committee has encouraged every business unit to perform this kind of voluntary check twice a year, based on a checklist prepared by the sections in charge, and to make improvements as necessary. Each section in charge compiles the results of these reviews relative to various themes, and the Headquarters Corporate Ethics Committee ties these together and promptly reflects the results in companywide policies.

In addition, we have adopted a system that we call a priority execution plan. Rather than having all business divisions address a single set of issues with the same degree of urgency, we get better results by having each division assign priority levels to issues according to the division's particular circumstances.

One of the DNP's management policies is to act with integrity. What we mean by integrity here is not simply honesty or conscientiousness, but high-quality management that includes elements such as self-monitoring, a sense of accountability, sound morals, faithfulness to principles, and a solid awareness of goals. Our objective is to create an organization that is thoroughly self-monitoring and has a strong awareness of its purpose and responsibilities. An organization with this kind of solid ethical constitution will be one that supports free communication, is full of life, and wins the trust of society. Because this is the kind of organization that the DNP Group wants to be, we take a positive attitude toward embracing corporate ethics.

Product Safety

Product safety is one of DNP's top priorities, along with environmental protection. We created a unified product liability management system that is shared by the entire DNP Group, so the whole Group can work together to make our products as safe as possible.

■ Basic Policy

It goes without saying that our products must meet all relevant legal and regulatory standards. Our goal is to fulfill our corporate social responsibility by manufacturing products that exceed customers' demands and expectations regarding product safety.

■ Framework

In November 1994, we established a Product Safety Committee in our headquarter, and in each operational division and group affiliate, as the framework through which we promote product safety.

■ Defining Product Safety

The Product Safety Committee of each division and each Group company sets general standards for product safety assurance, as well as individual safety standards for each product, based on guidelines established by the headquarter's Product Safety Committee.

■ PL Management System

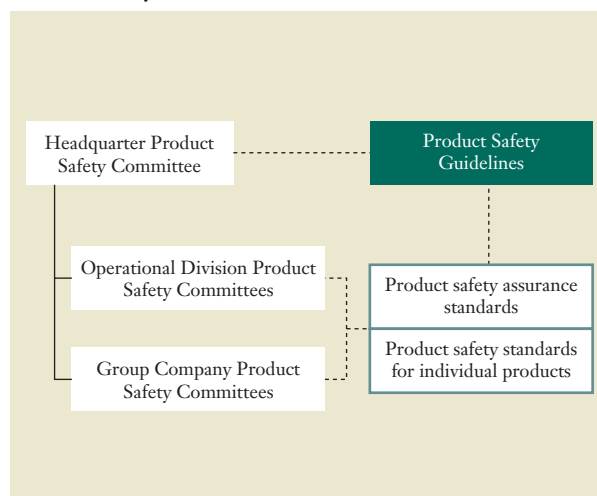
Managing product liability is not a one-time event, but an ongoing effort. We run a PL risk check whenever we develop a new product or receive a complaint, and once a year we check all existing products.

If we find that a product design or production technology might result in the production of defective products, we change the design or improve the technology in order to eliminate the risk, and document these changes in our product safety standards.

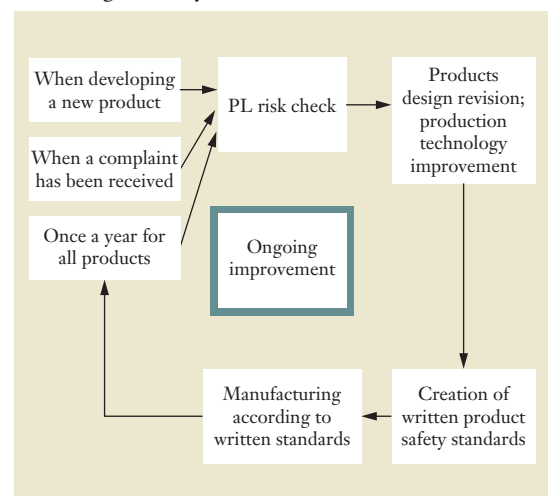
■ PL Training Seminars

We have been conducting PL training seminars since 1994. In 2000, we began using our Intranet system for this training. As of the end of March 2005, 10,670 employees had completed the online seminar.

Product Safety Framework and Guidelines



PL Management System



Information Security

Many companies and organizations entrust DNP with personal information and request us to provide all kinds of services that involve the transmission of information to consumers. We also offer our own services that make effective use of personal information while transmitting information to companies and organizations.

While it goes without saying that we want to offer outstanding products and services, it is also important to us to reinforce our information security measures even further, and ensure thoroughly reliable personal data protection.

■ Personal Information Protection Policies

1. Comply with laws and regulations related to personal information protection; strive to protect personal data.
2. Take reasonable safety precautions to prevent illegitimate access to personal information, and to prevent loss, destruction, falsification or leakage of such personal data. In the event that such a problem should occur, take prompt measures to correct the situation.
3. Specify reasons for using personal information; acquire, use, and provide personal information in fair and appropriate ways.
4. Respond appropriately to anyone whose personal information we hold if that person lodges a complaint, inquiry, or a request regarding their own personal information, such as a request to disclose, correct, or stop using the information.
5. When the performance of services on behalf of a client company involves the handling of personal information, use the information only within the scope of the requested services.
6. Establish in-house regulations concerning the handling of personal information; build, maintain, and continuously improve related systems.

■ Framework for Promoting Information Security

We established the DNP Group Information Security and Privacy Protection Promotion Committee as a companywide organization. We also established information security committees within each operational division and affiliated company. Committee members were given responsibility for specific tasks, such as developing educational plans based on our basic principles, defining security areas, or devising computer security measures.

■ Events Promoting Privacy Protection

In the arena of direct mail and invoice issuance, we have established technical policies based on our own expertise in data printing and envelope stuffing and sealing, which enables us to do thorough quality control. In the e-business arena, we operate a high-security Internet data center (IDC), from which we provide support for web sites and e-commerce sites.

“Network Learning” Online Employee Education Programs

- By May 2004, some 10,500 employees participated Privacy Protection Training (Part 1).
- By Feb 2004, about 10,000 employees participated Privacy Protection Training (Part 2).
- By Sept 2004, about 18,000 employees participated Information Security Training.

E-Business Emergency Response Training (Lectures and Practice)

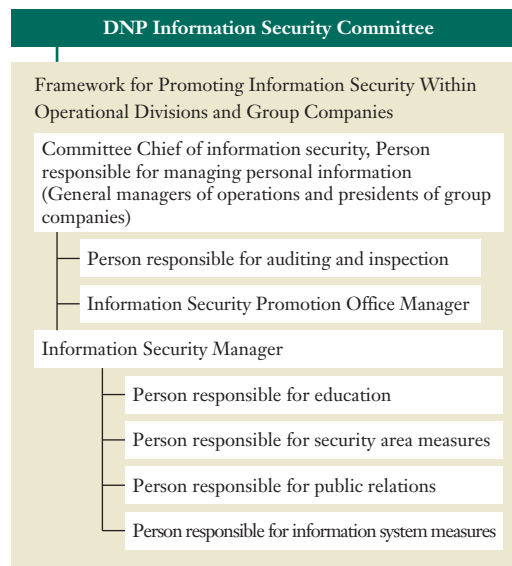
- Begun in March 2003, attended by about 2,000 employees from the Marketing Planning Division

Information Security Training for Technicians

- Feb 2004 Privacy Protection Training; about 20 local pre-press technicians participate

Privacy Protection Training for Nationwide Sales and Planning Staff (Lectures and Practice)

- Begun in Feb 2005, attended by about 1,400 employees from the Marketing Planning Division



Production of In-house Education Tools

- In March 2005, we distributed handbooks on personal data protection to about 10,000 employees.

National Conferences Related to Information Security

- May, June 2004 Explanation of Policies on Reinforcing Privacy Protection; for relevant staff and presidents of affiliated companies
- Sept-Dec 2004 (monthly) Explanation of Specific Measures for Reinforcing Privacy Protection; for relevant staff
- Feb 2005 Explanation of Revised Personal Information Protection Regulations and Japan Federation of Printing Industries' Guidelines on Personal Information Protection; for relevant staff

Using Smart Cards to Identify Employees

- October 2004 to April 2005 Hybrid dual cards with both contact-type and contactless-type functions including personal ID, gate access, and account settlement functions

Establishment of a Security Management System

- As of April 2004, 12 divisions had acquired privacy mark certification; four divisions BS 7799, ISMS

Managing Intellectual Property

■ Basic Policy

In order to make intellectual property (IP) a major source of corporate revenues, each of DNP's operating divisions has formulated an independent IP strategy and has drafted a business strategy that includes the development and use of promising IP.

DNP is providing thorough education and training for all employees to facilitate more efficient development of intellectual property at every stage from idea generation to the acquisition of rights. In this way, we are cultivating a corporate culture of fairness in which we both assert our rights when appropriate and respect the rights of other companies. In order to maximize the value of DNP's intellectual property, we have been identifying inventions, ideas, and designs that we created, and are working on acquiring rights to them and negotiating licenses to make use of those rights as well as conducting research aimed at avoiding violation of the IP rights of other companies. In addition, we are active in the business of IP-related consulting and planning.

■ IP Management Activities

This is what DNP has been doing with regard to IP in order to help make P&I Solutions a reality.

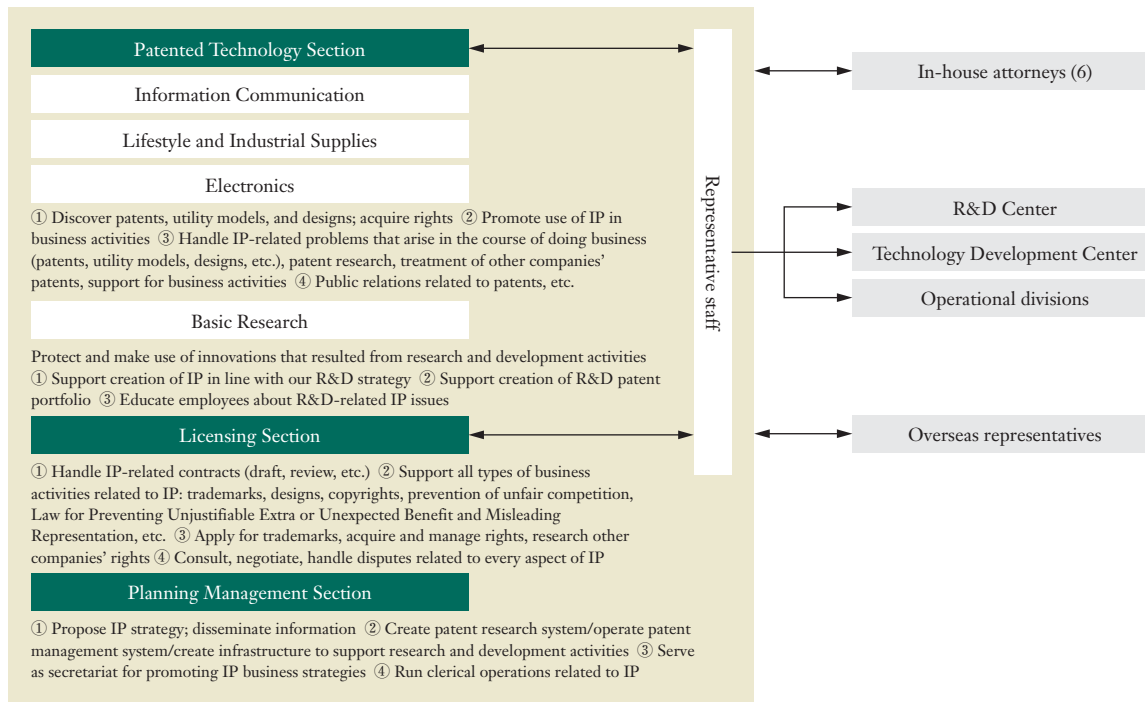
- 1) We have been cultivating a good environment for generating innovative and creative IP — an environment where every employee can participate in creative activities. We encourage creative activities in each division, and are creating appropriate evaluation and reward systems.
- 2) We have been analyzing DNP's IP position within our technological domain, and have been building a network of rights.
- 3) We have been actively working to maximize use of IP, for example through IP-based market controls, licensing, and acquisition of rights through alliances.
- 4) We support the generation and use of IP by concentrating our resources in growing fields, including leading-edge technological development, product development that predicts the needs of consumers and corporate clients, and development of new business models.
- 5) In order to boost R&D efficiency and speed up development, we have enhanced the infrastructure supporting our patent information management system.
- 6) When developing a business or forming an alliance, we provide legal opinions and advice from an IP standpoint. We are establishing systems for promoting legal compliance in this area.
- 7) In order to make the most of DNP's intellectual property, we are keeping an eye on legal revisions and working to get a grasp of how other companies manage intellectual property.

■ Framework for Promoting IP Rights

DNP's IP-protection framework consists of three sections and employs six in-house attorneys. The Patented Technology Section addresses IP related to basic research and DNP's main business divisions: Information Communication, Lifestyle and Industrial Supplies, and Electronics. The Licensing Section handles contracts and legal issues related to IP, and the Planning Management Group publishes information related to IP and operates a system for managing patent information.

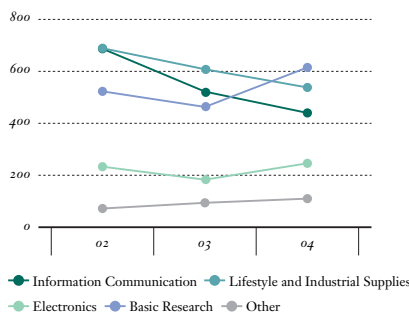
In addition, an IP representative is assigned to each development base in Japan, so that our IP activities can be closely linked to our business operations. So that we may promptly handle IP issues in the US, we have a representative at a Los Angeles law firm who deals with the International Trade Commission (ITC), researches patents and contracts with US companies, and gathers information about IP-related matters in the US.

IP Framework

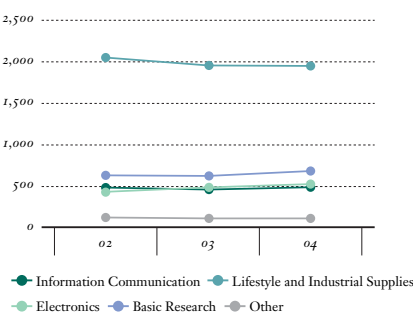


Number of Patent Disclosure and Trademark Applications and Number of Patents, Utility Models, Design Rights and Trademarks Held in Japan during the Past Three Years

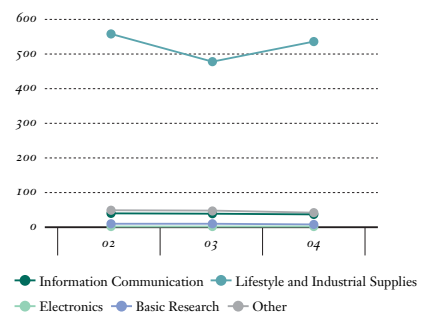
1) Number of patent disclosure applications



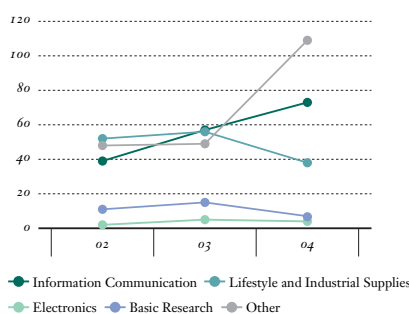
2) Number of patents and utility model rights held



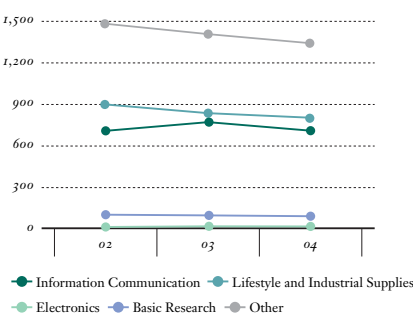
3) Number of design rights held



4) Number of trademark applications



5) Number of trademarks held



Approach to Research & Development

DNP's corporate philosophy is to contribute to an evolving society through P&I solutions that combine printing technologies (P) with information technologies (I). In today's evolving society, information exchange is active at various levels. The role of Research and Development is to use printing technologies as a core from which to develop innovative new technologies and materials that facilitate every process involved in information exchange, from data input to storage and output. The goal is to achieve this quickly — before other companies do. By quickly responding to market changes and always staking out positions in new business developments, we can continue to offer new solutions to consumers and businesses alike.

■ Research & Development Framework

DNP's research and development framework consists of four basic research laboratories, with our Research & Development Center at the core, and six specialized laboratories that focus on each business sector. These research facilities constitute the driving force behind actualizing the concept of DNP as a P&I Solutions provider, and it is through their organic synthesis that we can create new products, technologies, and systems.

The research facilities are also linked with the technical departments of the various DNP production facilities, so that they can help resolve issues on the front line of production. We take advantage of the technology and expertise that we have accumulated in this way, by using it to develop original DNP production equipment that allows us to offer increasingly effective manufacturing technologies.

		Controlled by Head Office					Controlled by Operations	
		Development support	Production technologies; equipment development	R&D for new products and technologies			Improvement of existing products and technologies Development of products and technologies for the division	
Information Communication	Books and magazines	Advanced Technology & Business Development Division	Technology Development Center	Research & Development Center	Nano Science Research Center	Media Technology Research Center	Technical section of each operations	
	Commercial printing							
	Business forms							
	Information Processing Services							
	Communication and Information							
Lifestyle and Industrial Supplies	Packaging							
	Decorative materials							
	Industrial supplies							
	Information media supplies							
Electronics	Display products							
	Electronic components							
New Business Fields		Commercialization projects						

Functions and Time Frames of R&D Facilities

	R&D facility	Function	Development term
Headquarter Research Centers	Research & Development Center	Does Basic R&D and development of new technologies related to new business creation	Medium to long term (less than five years)
	Nano Science Research Center	Conducts basic, applied, and commercial-level research and development related to materials and processes; analyzes products	
	Media Technology Research Center	Develops core technologies for the information communication field; develops and refines technologies, products, and services	
	Technology Development Center	Develops production technologies	Medium term (less than three years)
Division Laboratories	Packaging Laboratory	Packaging materials and technologies, freshness preservation technologies	New Product Development Short term (less than one year)
	Decorative Interiors Laboratory	Develops surface materials for interior and exterior building décor	
	Advanced Industrial Supplies Laboratory	Develops new products and technologies to support all kinds of industrial supplies	
	Information Media Supplies Laboratory	Develops all kinds of information media	
	Display Components Laboratory	Develops all kinds of displays and components	
	Electronic Devices Laboratory	Advanced photomasks, mounting components, LSI circuit design	

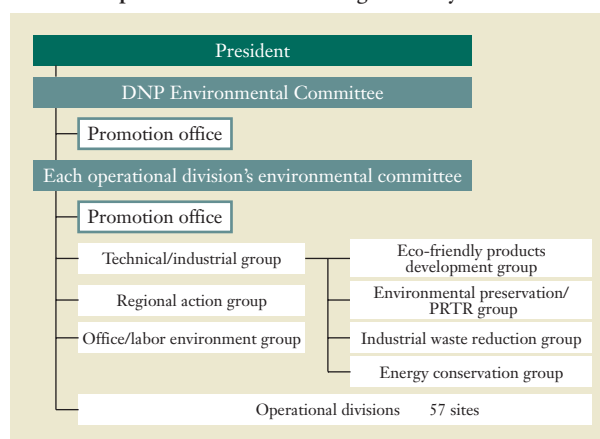
Environmental Protection

By working to develop products that put the least possible strain on the environment, and by working to generate demand for such products, every DNP employee contributes to making a sustainable, recycling-oriented society a reality. In 1972, the DNP became the first Japanese printing company to establish an environment department, and in 1993 we built our unique Eco-Report System for our environmental management. In 2000, we created the DNP Environmental Committee, which has worked proactively to promote sales of eco-friendly products, reduce industrial waste, prevent global warming, and reduce generation of harmful substances.

■ Development and Sales of Eco-friendly Products

DNP adopted guidelines for developing environmentally conscious products, based on principles (revised June 12, 2001) propounded by Japan's Green Purchasing Network, which advises consumers to purchase products and services that are designed to damage the environment as little as possible over the entire product life cycle. We used these guidelines to develop and sell eco-friendly products. In fiscal 2004, our sales of such products amounted to 164.0 billion yen, up 16.8% from the previous year, and far above our target.

DNP Group's Environmental Management System



■ Assessment of Past Performance and Future Goals Related to Environmental Protection

Based on our environmental policies, DNP has established environment-related goals that are appropriate for our business activities, and we have been steadily improving our environmental performance. Below are the goals that our Environmental Committee adopted in March 2004 for fiscal year ending March 2005, along with actual results.

Target	Results for fiscal 2004 (year ending March 31, 2005)
Prevent global warming	Reduce carbon dioxide emissions ratio (CO ₂ emissions volume divided by production value) by 20% from fiscal 1990 level (by fiscal 2010) Compared to fiscal 1990: down 7.8%
Reduce environmental impact from transport	Reduce carbon dioxide emissions ratio (CO ₂ emissions volume divided by production value) by 5% from fiscal 2000 level (by fiscal 2010) Compared to fiscal 2000: down 34% Reduce the amount of fuel consumed for transport (amount of fuel consumed / sales) by 20% from the fiscal 2000 level (by fiscal 2010) Compared to fiscal 2000: down 6%
Volatile organic compounds	Reduce Group-wide total emissions of toluene into the atmosphere, to 500 tons/year (by fiscal 2004) Compared to fiscal 2000: down 86% Reduce release and transport volumes of chemical substances (other than toluene) designated as Class 1 under the PRTR Law to 50% of fiscal 2000 levels (by fiscal 2004) Compared to fiscal 2000: down 55%
Office environment	Maintain separated collection of used paper above 65% of general wastes (every year) Fiscal 2004 collection rate: 73.8%
Reduce industrial waste	Reduce industrial waste output ratio (volume of industrial waste / production value) by 40% compared to fiscal 2000 level (by fiscal 2005) Compared to fiscal 2000: down 35.3% Reduce overall waste generation by 25% compared to fiscal 2000 level (by fiscal 2005) Compared to fiscal 2000: down 18.3% Achieve zero emissions at 20 sites (by fiscal 2005) Achieved at 10 sites Reduce waste generation ratio (total volume of waste / total volume of materials used) by 20% compared to fiscal 2000 level (by fiscal 2005) Compared to fiscal 2000: down 22.0%

Target	Results for fiscal 2004 (year ending March 31, 2005)
	Achieve a recycling rate (amount of waste recycled / amount of waste generated) of 80% (by fiscal 2005) Fiscal 2004 recycling rate: 79.5%
Development and sale of eco-friendly products	Increase the ratio of eco-friendly product sales relative to total sales by 10% year on year (every year) Compared to fiscal 2003: up 16.8%
Green purchasing	When purchasing general supplies (office supplies and equipment, etc.) increase the ratio of products that are officially recognized as being environmentally friendly (Eco-mark products, etc.) relative to overall purchases, by 3.0% year on year (every year) Compared to fiscal 2002: up 4.5% Increase the ratio of "green" (per standards set by DNP purchasing headquarters) raw materials costs relative to the cost of all raw materials purchased, by 2.5% year on year (every year) Compared to fiscal 2003: up 0.7%
Environmental preservation	Keep the maximum concentration of gases subject to emissions regulations within 70% of legal limit (from fiscal 2005) Fiscal 2004 achievement rate (of our own standard): 96% Keep the maximum concentration of substances subject to wastewater regulations within 70% of legal limit (from fiscal 2005) Fiscal 2004 achievement rate (of our own standard): 96% At production site boundaries, keep maximum noise levels within 95% of the legal limit (from fiscal 2005) Fiscal 2004 achievement rate (of our own standard): 56% Keep maximum vibration levels at production site boundaries within 95% of the legal limit (from fiscal 2005) Fiscal 2004 achievement rate (of our own standard): 100% At production site boundaries, keep maximum odor levels within 70% of the legal limit (from fiscal 2005) Fiscal 2004 achievement rate (of our own standard): 92%

Creating Lively Workplaces

Our aim is for each of our employees to feel accountable and confident as an independent professional, to work at growing and realizing his or her own potential, and to meet challenges proactively and courageously.

The company shall provide environments and mechanisms that support each employee's growth and self-development, and cultivate an emergent evolutionary corporate culture that allows each employee to use his or her abilities as a professional.

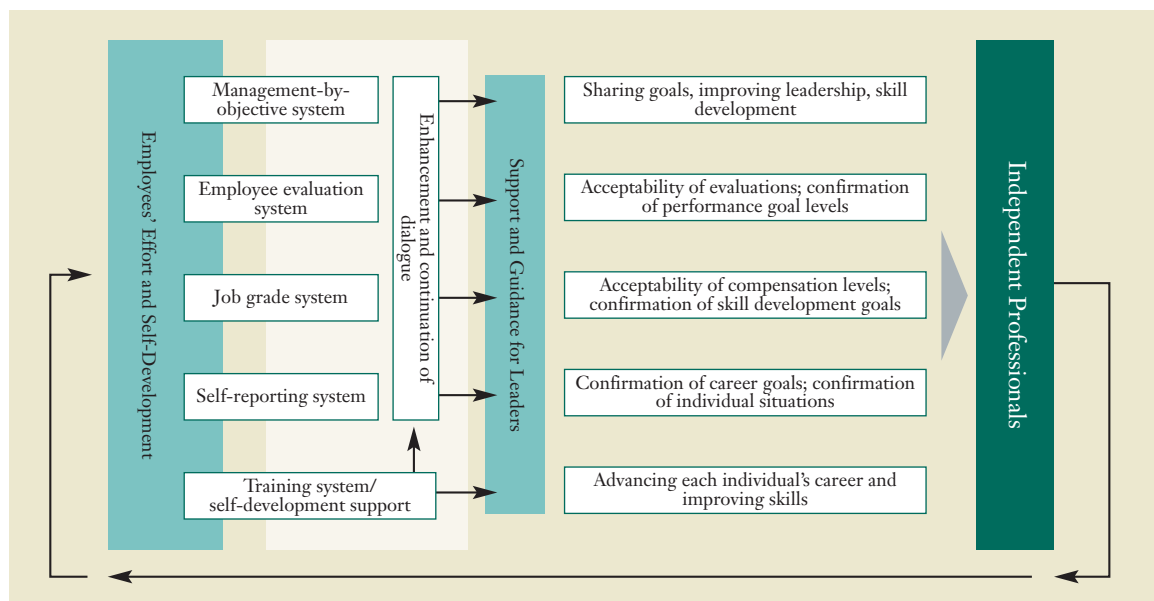
■ Transparent and Fair Hiring Practices

We provide opportunities equally to anyone who shares our corporate vision and wants to work with us to realize his or her potential. We use evenhanded methods to select and hire employees. We also actively participate in internship programs.

Type of Hiring	Explanation	Results
New hiring	We inform candidates of the type of person we are looking for, the steps in our hiring process, the timing of each step, and what we are looking for in each interview. In order to avoid mismatches, we assign young employees as recruiting partners to give candidates a real-life picture of our company.	Fiscal 2004 new hires Regular employees: 100 (70 men, 30 women) Technical staff: 155 (110 men, 45 women)
Mid-career hiring	We advertise broadly via the Internet, with no age restrictions. We explain clearly and specifically the job duties of the positions we seek to fill.	Fiscal 2004 mid-career hires: 48
Internships (arranged jointly with affiliated companies)	In response to requests from schools and students seeking experience in the working world, we provide students with opportunities to gain work experience. These opportunities do not necessarily lead to regular employment.	Fiscal 2004: 73 interns accepted August-September, in 44 categories

■ Cultivating Independent Professionals

We believe it is important for each employee to work at self-development, consider his or her own career path, decide what kind of work he or she wants to do, and expand his or her own field of work. In order to support these efforts by individual employees, we have established personnel systems that allow them to choose the kind of work they want to do, as well as education, evaluation, and compensation systems that encourage employees to acquire specialized knowledge and skills.



1. Personnel System

System	Description	Results
In-house recruiting system	We advertise positions requiring specialized knowledge and positions in new businesses or new product development. Anyone with ability, experience, and the desire to be challenged is free to apply. Discovery of talented employees and realization of their potential	As of March 2005, 244 employees have been transferred
In-house venture system	We provide training, financing, and other types of support for employees who have entrepreneurial aspirations and want to start an independent new business. Generally, we appoint the person who proposed the idea for a new company to be its president.	April 2002: CP Design Consulting Co., Ltd. Sept 2003: M's Communicate Co., Ltd. July 2004: At Table Co., Ltd. Jan 2005: Mobile Impulse Co., Ltd.
In-house apprentice-ship system	In order to improve skills related to their position, employees may work as an apprentice in a different section for a limited term, and then return to their original job.	This system was adopted as a result of a suggestion that emerged from employee training Each participant's job skills were improved
Certification support program	This program pays incentives to employees who acquire specialized knowledge, skills, or certifications needed for their job (covers about 90 types of certification, up to 100,000 yen).	Increased the number of employees who are certified for specialized knowledge or skills related to IT or other areas pertinent to their work
Mastership recognition program	Employees with valuable production skills are designated as "Meisters" and are encouraged to acquire additional specialized skills and cultivate successors by passing on their talents. Meisters receive a certificate of recognition from the president, and are paid a special allowance.	A total of 44 employees recognized as of March 2005
Special skills recognition program	Employees with advanced specialties, whose talents are recognized particularly widely both inside the company and outside, receive special compensation.	As of March 2005, 12 employees had been recognized
Evaluation / compensation systems (management-by-objective system, etc.)	At regular intervals, employees sit down with their supervisors to set future performance targets and evaluate past performance. Employees and supervisors increase mutual understanding through discussion and counseling. Evaluation results are directly reflected in salaries and bonuses.	Expanded the scope of application to almost all employees
Self-reporting system	We ask employees whether they want to change positions or workplaces in order to further their careers, and any other requests they may have related to their life plans. When the company and the employee agree, steps are taken to realize the employee's wishes.	2004: 334 employees participated in self-report interviews; 24 of them changed positions

2. Training for Employees Who Want to Advance Their Career

Employees design their own careers, with each one aiming to become an accountable, self-confident autonomous professional in a particular field, with the ability to collaborate smoothly with others inside and outside the company.

The company supports employees' career designs by arranging practical and diverse training programs that offer basic or specialized knowledge required in various fields, as well as development of people skills and conceptual skills, etc.

■ Free, Open, and Pleasant Working Environments

1. Respecting Diversity

We believe that in order to contribute to society by realizing a free, open, and dynamic corporate culture, it is important that all employees respect each other and help create a pleasant working environment. Toward this end, we think it is important for everyone to realize their potential and to their best without worrying about gender, age, or disabilities.

System	Description	Results
Hiring people with disabilities	We achieved the legally mandated ratio of disability employment, based on the premise that people with disabilities should be able to function normally in society. We educate workplace leaders so they can understand employees' special needs.	Fiscal 2004: disabled employee rate 1.87%
Hiring seniors	Employees who want to continue working as seasoned professionals after reaching mandatory retirement age may be hired as "senior staff."	Fiscal 2004: about 60% of eligible employees chose to work as senior staff
Eliminating gender bias from the workplace	<ul style="list-style-type: none"> • We conducted training seminars for managers about supporting women's careers • We expanded career opportunities for women • We sent female managers to outside training seminars 	From June 2003 to March 2005: 1,572 managers participated in training about supporting women's careers

2. Flexible Work Styles

If every employee is to reach their full potential as a professional, it is important that consideration be given to individual career plans and life plans, and that working time be balanced with ample time for self-development and private life. It is equally important that coworkers respect each other's precious time.

We are building systems to assist self-efforts of employees in order to promote their physical and mental health and their families'.

System	Description	Results
Childcare leave	• until April 30 of the child's second year, or until a child is 18 months old Revised April 2005	Fiscal 2004: 71 employees took leave under this system
Family nursing care leave	• up to 366 days per eligible family member; no limit on the number of times Revised April 2005	Fiscal 2004: two employees took leave under this system
Life Plan Consulting Center	Provides information about pensions, employment insurance, motivation for living, lifelong education, etc. to assist individuals with planning for life after retirement	Fiscal 2004: 1,330 consultations
Career Consulting Center	Provides counseling and guidance regarding career development	Fiscal 2004: 138 employees used the center

3. Creating Safe and Pleasant Workplaces

All of our employees want to work in a safe and pleasant environment, so we conduct our own safety and hygiene activities. Our basic policy is to support the creation of comfortable and pleasant working environments and working styles that make room for family life. Accordingly, we created a system of safety and hygiene activities for all employees to participate in, and we attach great importance to this system.

System	Description	Results
Creation of guidelines	Management and employees together established a Central Safety and Hygiene Committee within the head office. Each operational division and group company has a similar system for discussing and promoting safety and hygiene-related activities. We have also created company-wide standards and guidelines related to these topics.	<Major standards and guidelines> 1) Workplace environment improvement Workplace environment standards, guidelines for preventing noise in the workplace, guidelines for tobacco smoking 2) Preventing work-related accidents Guidelines for preventing industrial accidents caused by machinery, etc.
Improving skills	The safety and hygiene committees play the leading role in promoting activities that are tailored to each workplace, and in improving employees' skills when necessary to allow the committees to function effectively.	Promoted certification of hygiene managers, work supervisors, chemical substance handlers, etc. • Increased the number of psychological counselors to 71 as of March 2004 • Increased the number of special training seminars for restricted work operations; Jan - Dec 2004: 261 employees received training • Conducted safety and hygiene training for line managers and new employees; Jan - Dec 2004: 1,407 employees received training
Accident prevention	We analyze potential hazards and take steps to prevent accidents involving revolving machinery, which is a major cause of industrial accidents. Concerning non-stationary and other high-risk operations, we review our operating standards, practice safe operating procedures, and strive to ensure that mishaps are never repeated.	DNP's accident rate is low compared to the all-industry average and even compared to the average for all types of printing industries Jan - Dec 2004: Industrial accident rate (the number of employees who missed work due to a work-related accident divided by the total number of hours worked in units of 1 million hours): 0.49%

4. Secure Working Environments (Disaster Prevention Framework)

DNP has created an earthquake response outline and a central disaster prevention basic plan, in order to secure employees' safety, restore functioning to workplaces, and support employees' families and local residents in the event of a disaster. We established "Disaster Prevention Councils" in operating divisions at our headquarters and in outlying areas, and at affiliated companies. In the event of an earthquake, these councils are prepared to automatically begin functioning as response headquarters. Six action teams are to take specific disaster prevention measures and earthquake response measures, with each team taking responsibility for human rescue, care of buildings, asset protection, business operations, PR, or community aid.

Contributing to Art & Culture

Printing is based on the art of making reproductions, which DNP views as a new kind of creative technology that can contribute to the development of art and culture. That's why DNP's unique brand of corporate philanthropy centers on supporting graphic arts.

Ginza Graphic Gallery (ggg) Opened in 1986

ggg exhibits creative works by individuals and groups, from Japan and abroad, with a focus on graphic design and printing. The gallery also holds lectures and presentations by artists. Ten years after the gallery's founding, in 1996, it was recognized with a Mainichi Design Awards Special Prize. That same year, ggg celebrated its 10th anniversary with a special exhibit on the history of Japanese graphic arts. The exhibit was very well received, and earned the gallery the Mecenat Award for Outstanding Popularization of the Arts. To date, the gallery has held 226 exhibits, which were visited by 680,000 people.



Location: 7-7-2 Ginza, Chuo Ward, Tokyo, Japan 104-0061
Telephone: 03-3571-5206
Open 11:00 – 19:00 (till 18:00 on Saturdays); closed Sundays and holidays
Admission free of charge

ddd Gallery Opened in 1991

Located in the Kansai district, ddd Gallery specializes in graphic design. It mainly hosts exhibits of spirited graphic designers from overseas. To date, the gallery has held 138 exhibits, attended by 196,000 visitors.



Location: Dojima Axis Bldg., 2-2-28 Dojimahama, Kita Ward, Osaka, Japan 530-8208
Telephone: 06-6347-8780
Open 10:00 – 18:00; closed Saturdays, Sundays and holidays
Admission free of charge

The Center for Contemporary Graphic Art Opened in 1995

The Center for Contemporary Graphic Art is the home of the Tyler Graphics Archive Collection, produced at the renowned U.S. contemporary block print studio, Tyler Graphics Ltd. In addition to holding regular showings of its permanent collection, the Center also introduces a wide variety of modern art. It has hosted 35 special exhibits and received 50,000 visitors.



Location: 1 Miyata, Shiota, Sukagawa-shi, Fukushima, Japan 962-0711
Telephone: 0248-79-4811
Open 10:00 to 17:00 (Admission until 16:45); closed Mondays (unless Monday is a public holiday), the day after public holidays, (except when this falls on Saturday or Sunday), and exhibit changes, between late December and the end of February
Admission: ¥300; ¥200 for students (free for children 12 and under, seniors over 65, and handicapped-certificate holders)
There may be an extra admission charge for special exhibits.

The Ginza School

This is an event that DNP organizes around the theme, "Let's Enjoy Thinking about Communication." Guest speakers from various circles address an audience of male and female participants of all ages, in an entertaining format. Admission is 500 yen. Located in DNP's Ginza Annex, the event has been held 48 times since 1995, with a total of 4,000 people attending.

Movies for Everyone - in Ginza

At DNP's Ginza Annex, we show movies (digital images), mainly from the 1950s and 60s, for older visitors to the Ginza district. Admission is 1,500 yen. We began in 2003, with two screenings per year, for a total of four screenings so far, attended by about 1,000 people.

Musées de France Conference

Maison des Musées de France (MMF) is a wholly-owned subsidiary of DNP that provides information about French art galleries, museums, and fine arts, and sells related items such as CD-ROMs, videos, and printed material. The conference was first held in 2002, and has been held 11 times since, at irregular intervals, at DNP's Ginza Annex. Each time, conference organizers invite speakers to address different themes of interest to art museum curators, critics, and researchers. So far, about 900 people have participated.



Information Communication

Lifestyle and Industrial Supplies

Electronics

Financial Section



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Management's Discussion and Analysis

OPERATING RESULTS

Business Environment

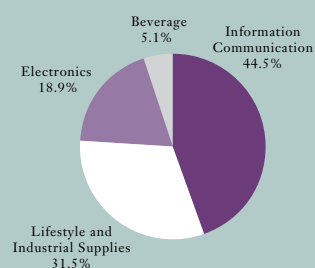
This fiscal year, the Japanese economy as a whole continued its steady recovery, as corporate earnings improved and private-sector capital investment and exports showed strength.

Nonetheless, business conditions for the printing industry remained very challenging this fiscal year, due to such factors as sluggish demand for printing, higher materials costs, and a lower average order as a result of intensified competition. Sales of books expanded after a decline in the last year, but sales of magazines fell for the eighth straight year owing to competition from the Internet and a decline in the population of young people. The value of sales of publications industrywide rose 0.7% from the previous year. As a result of an improvement in corporate earnings, corporate advertising and promotional activity grew at a 5% year-on-year pace since December 2004. The rapidly growing markets for information processing services and smart cards fueled demand in the business forms business.

In the Lifestyle & Industrial Supplies segment, sales of packaging were disappointing amid sluggish personal consumption. However, in the construction market, demand was solid for environmental products and from overseas markets. In industrial supplies, sales of ink ribbons for fax machines contracted, but overall sales rose sharply, thanks to the growing demand for color ink ribbons, which was fueled by the popularity of digital cameras and the associated surge in digital printing, and the burgeoning demand for reflective film and EMI shielding film, which was boosted by the booming sales of LCDs and PDPs.

In the Electronics segment, the display market as a whole grew, thanks to the popularity of consumer electronics and office automation equipment. While increased competition drove down unit prices, sales increased substantially overall. Semiconductor-related sales were strong, owing to the high reliability of the company's advanced photomasks and the expansion of production at its overseas plants.

Consolidated Segments
(%)



Overview

The business environment remains challenging, with the value of orders declining as a result of general deflation and costs for raw materials, especially petrochemical products, rising. Nonetheless, DNP managed to increase its sales and profits for the fourth straight year, with net sales, operating income, and net income all reaching record levels.

We achieved sales and profit growth in all of our business segments on a consolidated basis, and total net sales increased 5.2% over the previous fiscal year. Growth at two key income levels exceeded 10%: Operating income rose 17.7%, and net income was up 13.1%. Also particularly noteworthy was the significant improvement in profit margins.

The DNP has set about expanding a solutions-based business that combines printing technology (P) with information technology (I) and promoting the growth of high-added-value businesses. This concept, which we call P&I Solutions DNP, is based on the Vision for the 21st Century that DNP drew up in 2001. This fiscal year, we began to see results from this effort in a number of businesses.

Thanks to our Action for Production 21 campaign, which we initiated in April 2002, we made good progress in improving our cost structure and strengthening our financial condition. This also contributed substantially to the boost in margins.

		2005.3	2004.3	2003.3
Net sales (in millions of yen)		¥ 1,424,943	¥ 1,354,101	¥ 1,309,002
Gross profit margin (%)		21.3%	20.8%	20.3%
Operating income margin (%)		8.5%	7.6%	6.9%
Net income margin (%)		4.2%	3.9%	2.2%
Net income	Primary (in yen)	¥ 82.56	¥ 71.49	¥ 37.80
per share	Fully diluted (in yen)	—	—	¥ 37.67

(in millions of yen, yen, percent)

Net Sales

Net sales rose 70.8 billion yen, or 5.2%, over the previous fiscal year to 1,424.9 billion yen, marking a second straight year of record high sales. In addition, net sales were higher in all business divisions. Net sales rose 1.7% in Information Communication, 5.6% in Lifestyle and Industrial Supplies, 14.0% in Electronics, and 4.7% in Beverages.

With deflation easing somewhat but still persisting, the average order value continued to decline and net sales slipped by roughly 2%, or 24 billion yen.

A breakdown of net sales by division shows that the sales of books and

Gross Profit Margin
(%)



periodicals in the Information Communication segment were lackluster. In the commercial printing business, sales promotion efforts directed at customers paid off, and orders of leaflets, pamphlets and point-of-purchase materials rose. In the business forms business, ledgers were weak, but sales of smart cards and IPS (information processing services) were sharply higher.

In Lifestyle and Industrial Supplies, sales of flexible packaging, primary molded preforms for PET bottles, and large-scale sterile filling systems were buoyant. In decorative materials, sales of environmental products were strong and exports were higher. In industrial supplies, sales of ink ribbons for color printers and optical films for displays rose dramatically.

In the Electronics segment, sales of color filters, photomasks, and shadowmasks were higher.

Cost of Sales

The cost of sales increased 48.3 billion, or 4.5%, over the previous fiscal year to 1,121.4 billion yen. The gross margin improved by 0.5 points, from 20.8% to 21.3%.

This fiscal year, costs increased by roughly 4.3 billion yen because of rising prices of films, resins, paper and other raw materials.

With fuel costs rising, paper makers demanded price hikes and took a hardline stance, going as far as refusing to ship paper if their demands were not met. As a result, in December 2004, we were forced to accept price hikes of roughly 5%, which increased our costs by 400 million yen in the four months since December.

In response to these rising costs, we aggressively promoted our Action for Production 21 campaign, which we launched in April 2002. We worked to cut costs by improving process efficiency, improving yields, eliminating material losses, and reducing lead times. We also strove to raise standards for the manufacturing division as a whole.

Furthermore, we installed in our factories a grid computing system, which we developed ourselves. This system was applied to the massive data processing tasks entailed by IPS and catalog production. It is used as a control system to monitor the operational status of equipment and progress in production, with the goal of improving efficiency.

Thanks to these activities, this fiscal year we were able to reduce manufacturing costs by 26.2 billion yen, far in excess of the initial target of 24.5 billion yen.

Selling, General and Administrative Expenses

Selling, general and administrative expenses this fiscal year increased 4.5 billion yen, or 2.5%, to 183.0 billion yen. Thanks to the increase in net sales, the percentage of SG&A relative to sales fell from 13.2% to 12.8%. Factors behind this change included a reduction in retirement benefit costs due to the return of the substitution portion of the employee pension fund and improved

investment results over the previous fiscal year, as well as other cost savings.

To reduce costs, DNP focused on cutting personnel costs by trimming overtime hours and taking other measures to boost operating efficiency, and also focusing on indirect expense reductions by promoting the use of information technology and strengthening budget management. We succeeded in cutting personnel expenses by 2.0 billion yen, more than the initial target of 1.9 billion yen, and indirect expenses by 2.8 billion yen, more than the initial target of 2.2 billion yen, for a total of 4.8 billion yen in cost cuts.

Operating Income

This fiscal year, DNP's operating income rose 18.1 billion yen, or 17.7%, to 120.5 billion yen. We were able to offset the decline in the average order value and the rise in raw materials costs by reducing manufacturing and SG&A expenses. Accordingly, the operating income margin improved from 7.6% in the previous fiscal year to 8.5%.

The breakdown by segment is as follows. Operating income rose 5.7 billion yen, or 13.0%, to 49.4 billion yen in Information Communication. It was up 3.6 billion yen, or 11.0%, to 36.0 billion yen in Lifestyle and Industrial Supplies and up 6.7 billion yen, or 20.2%, to 39.7 billion yen in Electronics. In Beverages, which incurred a loss in the previous fiscal year, operating income rose 2.0 billion yen to 1.6 billion yen.

Other Income (Expenses)

This fiscal year, net other expenses totaled 12.8 billion yen, up 3.5 billion yen, or 38.1%, from the previous fiscal year. The main factors behind the increase in net other expenses were the absence of gains on an exemption from the future pension obligation of the governmental program, which totaled 6.1 billion yen in the previous fiscal year; a decline of 4.0 billion yen, or 95.5%, in the amount of net gains from the sale of marketable securities and investment securities; an increase of 2.0 billion yen, in payments of special retirement benefits related to the reorganization of a subsidiary of Hokkaido Coca-Cola Bottling Co., Ltd.; the absence of contribution income from the restructuring of joint venture businesses, which amounted to 1.7 billion yen in the previous fiscal year; and 1.0 billion yen in provisions for doubtful receivables, versus none in the previous fiscal year.

Factors that minimized the increase in net other expenses included a reduction of 3.0 billion yen, or 67.5%, in other expenses; a decrease of 2.0 billion yen, or 67.6%, in losses on discontinued businesses; a decline of 1.7 billion yen, or 84.9%, in equity in losses of associated companies thanks to an earnings improvement at DAP Technology, a joint venture with Asahi Glass that produces PDP back plates; and 3.7 billion yen in gains from the reversal of reserves for retirement benefit liabilities, versus none in the previous fiscal year, as a result of Hokkaido Coca-Cola Bottling Co., Ltd.'s termination of its

SGA Expenses to Net Sales
(%)



Operating Income Margin
(%)



ROE
(%)



traditional pension plan in favor of a new one.

As a result of the above, income before income taxes and minority interests was 107.7 billion yen, representing an increase of 15.6% over the previous fiscal year.

Net Income

Net income accordingly totaled 59.9 billion yen, up 13.1%, or 7.0 billion yen, from the previous fiscal year and amounted to 82.56 yen per share, up from 71.49 yen.

Capital Expenditures, Research & Development Expenditures, etc.

Capital expenditures totaled more than 100 billion yen a year from the fiscal year ended March 1997 to the fiscal year ended March 2001. Starting in the fiscal year ended March 2002, however, we reduced capital expenditures, focused investments on strategic areas, and tried to effectively use existing capital equipment.

In this fiscal year, a number of major investments in strategic areas resulted in capital expenditures increasing by 16.2 billion yen from the previous fiscal year to 86.1 billion yen. This figure is 24.0 billion yen less than the initial budget of 110.0 billion yen because of a change in the startup time of capital equipment. The main capital investment project was a new 5th-generation line at the Mihara Plant for producing strategic LCD color filters. A second line, following the first line, which started up in the summer of the previous year, was originally scheduled to start up in December 2004, but started up in April 2005 because of shifts in demand. As a result, capital expenditures in this fiscal year fell short of the originally planned amount.

Research & development expenditures totaled 26.4 billion yen, 0.3 billion yen higher than the 26.1 billion yen in the previous fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

DNP believes that the steady expansion of cash flow generated through vigorous operating activities, along with concentrated investment in strategic areas, are important for the expansion of our business. In addition, we believe that a sound financial constitution is indispensable to stable growth in the medium and long terms, so we have worked hard to enhance our company's financial position.

Cash Flow

Free cash flow is cash flow that DNP can actively invest in fields that have the potential of propelling the company forward. It also is the source of corporate value. This fiscal year, DNP managed to generate a free cash flow of 52.1 billion yen.

	2005.3	2004.3	2003.3
Cash flows from operating activities	¥ 178,342	¥ 161,487	¥ 197,413
Cash flows from investing activities	(126,229)	(94,740)	(87,392)
Free cash flow	¥ 52,113	¥ 66,747	¥ 110,021

(in millions of yen)

This fiscal year, cash flows provided by operating activities increased by 10.4%, or 16.9 billion yen, from the previous fiscal year to 178.3 billion yen. Although trade receivables increased by 11.3 billion yen, and inventories rose by 6.6 billion yen, income before income taxes and minority interests reached 107.7 billion yen. In addition, depreciation totaled 80.4 billion yen and trade payables rose by 28.8 billion yen.

Cash flows used in investing activities increased by 33.2%, or 31.5 billion yen, to 126.2 billion yen. The main factors included proceeds of 6.7 billion yen from the sale of marketable securities and 5.3 billion yen from the sale of investment securities, a net increase of 29.8 billion yen in time deposits, and expenditures of 73.7 billion yen for purchases of property, plant and equipment as well as 22.4 billion yen for purchases of investment securities.

Finally, cash flows used in financing activities increased 67.3%, or 16.3 billion yen, to 40.6 billion yen. Major uses of cash included expenditures of 18.1 billion yen for purchases of treasury stocks and 16.5 billion yen for dividend payments. Although cash provided by financing activities declined substantially this fiscal year, the decline stemmed from the absence of last year's proceeds from a bond offering.

Because of these activities, DNP's cash and cash equivalents at the end of the fiscal year increased by 5.0%, or 14.0 billion yen, to 293.4 billion yen.

At DNP, we are mindful of consistently maintaining appropriate liquidity so that we can proactively carry out our strategies and flexibly deal with changes in the business environment. Our approximate target is to have liquidity that is equivalent to about two months' worth of sales. We have instituted a cash management system to manage and streamline the use of the Group's funds.

The Balance Sheet

We always try to optimize our capital structure to suit the business environment and to increase our asset efficiency so that we can increase our corporate value.

	2005.3	2004.3	2003.3
Total assets (in millions of yen)	¥ 1,600,129	¥ 1,513,734	¥ 1,450,027
Current ratio (%)	186%	197%	171%
Working capital-to-net sales (%)	27%	28%	23%
Debt/equity ratio (%)	7%	7%	6%
Book value per share (in yen)	¥ 1,409.18	¥ 1,348.40	¥ 1,270.81

(in millions of yen, yen, percent)

DNP's total assets at the end of this fiscal year amounted to 1,600.1 billion yen, up 5.7%.

Among current assets, cash and cash equivalents increased by 5.0%, or 14.0 billion yen over the previous fiscal year, to 293.4 billion yen, while time deposits increased by 30.1 billion yen to 30.1 billion yen. Trade receivables increased by 3.4%, or 13.5 billion yen, to 413.6 billion yen. Marketable securities holdings increased by 1.5%, or 97 million yen, to 6.8 billion yen. Inventories increased by 10.1% to 77.0 billion yen. As a result, total current assets increased by 8.7% over the previous year to 838.7 billion yen.

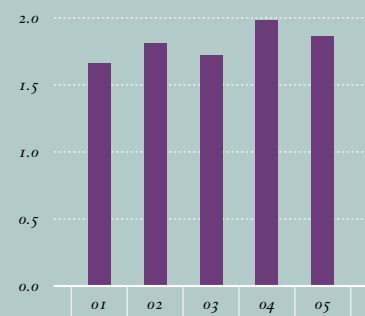
Among long-term assets, property, plant and equipment, net of accumulated depreciation, increased by 2.9%, or 14.8 billion yen, to 528.0 billion yen. The primary reasons for this increase were an increase of 15.9 billion yen, or 149.3%, in construction in progress and an increase of 3.5 billion yen, or 3.0%, in land assets. Other long-term assets declined by 10.9%, or 7.8 billion yen, to 63.2 billion yen.

Also, total investments and advances rose by 7.9%, or 12.5 billion yen, to 170.2 billion yen, as a decline of 2.7 billion yen, or 21.9%, in investments in non-consolidated subsidiaries and associated companies was offset by an increase of 14.3 billion yen, or 9.9%, in investment securities and a rise of 936 million yen, or 124.3%, in other investments and advances.

As a result, long-term assets increased 2.6%, or 19.6 billion yen, from the previous fiscal year to 761.4 billion yen.

On the liabilities side, total current liabilities at the end of this term were up 15.1%, or 59.3 billion yen, from a year earlier to 451.0 billion yen. Underlying factors include an increase in trade payables by 8.7%, or 24.4 billion yen, to 302.7 billion yen as net sales increased, a rise in short-term bank loans by 54.7%, or 4.4 billion yen.

Current Ratio
(times)



Long-term liabilities decreased by 2.9%, or 3.5 billion yen, compared to the end of the previous year, to 115.8 billion yen due to a decline in long-term bank loans by 31.5%, or 2.9 billion yen. The outstanding amount of bonds remained the same from the previous year at 50.0 billion yen.

In all, total liabilities increased by 10.9%, or 55.8 billion yen, to 566.8 billion yen.

This fiscal year, DNP continued to repurchase its shares, as it has been doing since February 2003. We repurchased 10,477,000 shares for 17.8 billion yen. In December 2004, we retired some shares for the first time, 9 million shares valued at 12.8 billion yen. The 9 million shares amounted to 1.19% of total outstanding shares before retirement, and after they were retired, the total number outstanding came to 750,480,693. As a result, the amount of treasury stock increased by 11.4%, or 5.3 billion yen, from 46.4 billion yen at the end of last fiscal year to 51.6 billion yen, a factor behind the decline in stockholders' equity. By contrast, retained earnings increased by 4.2%, or 31.3 billion yen, to 774.6 billion yen, a factor that increased stockholders' equity.

As a result of the above factors, our total stockholders' equity at the end of this fiscal year increased by 3.0%, or 29.2 billion yen, to 1,007.9 billion yen.

Equity Ratio
(%)



RISK MANAGEMENT

The performance and the results of DNP could be significantly affected by a variety of factors and circumstances that might arise in the future. Because DNP is aware of these risk factors, our policy is to strive to minimize their potential effects.

As of the time that we issue this annual report, the following are the major factors that the DNP management views as risks.

The Japanese economy and consumption trends

DNP engages in a wide range of businesses with an extremely large number of customers. We conduct our business so as not to be overly dependent on specific customers. The primary market where we do business is centered on the Japanese domestic market, whereas our overseas sales constitute about 16% of net sales. Therefore, if individual consumption and other aspects of domestic demand should slow down due to fluctuations in the Japanese economy, our corporate performance could be affected by decreased orders, lower unit sale prices, or other effects of such a downturn.

Changes in the electronics market

We expect our electronics segment to be highly profitable and we believe it has good growth potential. We position it as a strategic sector which we aim to expand in the future. We intend to secure steady profits from it by focusing on building business strategies based on a careful compilation of information and the development of highly competitive, high-added-value products. However, the market for displays and semiconductor-related products is subject to sudden changes. It is possible that DNP's performance could be affected by sudden changes affecting products that we handle, such as dramatic fluctuations in demand or a plunge in unit prices.

Fluctuations in raw material procurement

We procure raw materials such as printing paper and film from multiple suppliers in Japan and overseas. We work hard to secure stable supplies and maintain optimal prices. However, there is some potential for temporary imbalances between supply and demand due to factors like spikes in petroleum prices or sudden surges in demand from the Chinese market. We intend to cope with such instances by negotiating with our customers. However, if it should become extremely difficult to secure supplies, or if prices rise markedly, it is possible that our corporate performance could be affected.

Development of new products and technologies

DNP adapts printing technologies in order to develop new products and technologies that meet the needs of our customers and the market. We provide products and services to a wide range of industrial sectors. In recent years, the pace of technological innovation has become faster than ever, and customers'

needs have been rapidly diversifying. We believe that in the future, competition in the area of product development will become more intense than ever before, and it is possible that our performance could fluctuate significantly due to unforeseeable changes in market trends or a shortening of product life cycles.

Currency fluctuations

Particularly in such fields as electronics, we are expanding our dealings in products and services with customers, suppliers, and others overseas. Because we expect the effects of currency rates to gradually become more important, we use such means as foreign exchange forward contracts to hedge the risks of market fluctuations. Nevertheless, it is possible that radical swings in currency values could have a more serious effect on our corporate performance.

Legal regulations, etc.

We conduct our business based on strict compliance with the law. Wherever we operate, in Japan or overseas, we are subject to a wide variety of legal regulations and restrictions, including laws related to product liability, environmental protection and recycling, anti-monopoly prohibitions, patents, taxes, imports and exports, etc. We can imagine that in the future such regulations could become even more restrictive. If that should occur, it is possible that DNP's business performance could be affected by limitations on our business activities or increased costs.

Information system security

Now that the Internet and other computer networks and information systems are playing an increasingly large role in business, the construction of information systems and security measures that protect them have become indispensable to the continuation of business activities. In recent years, DNP has become increasingly vulnerable to computer-related risks, such as the possibility that information systems could be shut down by software or hardware trouble, computer viruses, etc., or that customer information could be leaked outside the company. DNP takes every possible measure to maintain and control computer systems and data through increasingly sophisticated security and employee education. However, in the unlikely event that an accident should occur, it is possible that our business activities could be affected.

Disaster

We take steps to protect our production equipment and other major facilities from being damaged by disasters like fires or earthquakes. In addition, we divide our work among multiple production bases and make every effort to prevent disaster from causing production stoppages or disturbances in our ability to supply products. However, it is possible that our business performance could be seriously affected in the event of unforeseeable situations, such as production stoppage or massive damage to or destruction of our corporate infrastructure resulting from an event such as a huge earthquake or terrorist attack.

Selected Financial Data (unaudited)

	2005		2004		2003		2002	
Income Statement Data (in millions of yen)								
Net Sales	¥	1,424,943	¥	1,354,101	¥	1,309,002	¥	1,311,934
Cost of sales		1,121,374		1,073,118		1,043,456		1,071,163
Gross profit		303,569		280,983		265,546		240,771
Selling and administrative expenses		183,041		178,545		175,665		168,529
Operating income		120,528		102,438		89,881		72,242
Income before income taxes and minority interests		107,686		93,137		42,244		26,150
Net income		59,937		52,971		28,774		15,609
Balance Sheet Data (in millions of yen)								
Total assets	¥	1,600,129	¥	1,513,734	¥	1,450,027	¥	1,432,458
Property, plant and equipment-net		528,009		513,175		540,874		543,962
Long-term liabilities		115,801		119,277		66,821		79,013
Total liabilities		566,796		510,970		484,581		460,691
Stockholders' equity		1,007,944		978,736		942,083		946,998
Other Selected Data (in millions of yen)								
Capital expenditures	¥	86,057	¥	69,834	¥	73,789	¥	85,096
Depreciation expenses		80,440		85,182		89,239		94,870
R&D expenditures		26,386		26,050		24,097		23,367
Common Share Data (in yen, shares)								
Earnings per share - primary	¥	82.56	¥	71.49	¥	37.80	¥	20.55
Earnings per share - fully diluted		-		-		37.67		20.53
Dividends paid per share		24.00		21.00		19.00		18.00
Book value per share		1,409.18		1,348.40		1,270.81		1,246.99
No. of common shares outstanding - primary		750,480,693		759,480,693		759,480,693		759,480,693
Financial Ratios (% , times)								
As a percent of net sales:								
Gross profit		21.30%		20.75%		20.29%		18.35%
Selling, general and administrative expenses		12.85		13.19		13.42		12.85
Operating income		8.46		7.57		6.87		5.51
Income before income taxes and minority interests		7.56		6.88		3.23		1.99
Net income		4.21		3.91		2.20		1.19
Return on equity		6.03		5.52		3.02		1.65
Current ratio		186		197		171		181
Debt-to-equity ratio		7		7		6		7

	2001		2000		1999		1998		1997		1996
¥	1,342,035	¥	1,286,703	¥	1,269,543	¥	1,336,604	¥	1,310,100	¥	1,245,300
	1,091,386		1,039,006		1,033,926		1,056,962		1,028,614		983,301
	250,649		247,697		235,617		279,642		281,486		261,999
	164,708		161,811		166,008		172,824		170,298		161,609
	85,941		85,886		69,609		106,818		111,188		100,390
	69,116		79,199		77,703		100,634		107,394		98,103
	33,409		39,034		30,493		56,539		56,165		52,974
¥	1,489,871	¥	1,451,700	¥	1,445,293	¥	1,450,709	¥	1,410,138	¥	1,336,689
	561,017		561,898		570,860		536,364		501,622		461,158
	86,012		77,637		100,695		100,214		97,340		106,792
	522,105		495,541		518,323		538,113		553,172		532,451
	939,441		925,646		898,646		885,507		831,262		780,484
¥	103,050	¥	113,858	¥	119,372	¥	111,341	¥	113,656	¥	93,654
	94,312		94,588		82,800		73,908		67,583		62,424
	24,664		23,571		n.a.		n.a.		n.a.		n.a.
¥	43.99	¥	51.40	¥	40.15	¥	74.49	¥	74.52	¥	70.63
	43.45		50.47		39.54		72.53		72.15		68.19
	18.00		18.00		18.00		18.00		17.00		16.00
	1,236.96		1,218.79		1,183.24		1,165.94		1,102.56		1,040.49
	759,480,693		759,480,693		759,480,693		759,480,693		753,940,533		750,110,275
18.68%		19.25%		18.56%		20.92%		21.49%		21.04%	
12.27		12.58		13.08		12.93		13.00		12.98	
6.40		6.67		5.48		7.99		8.49		8.06	
5.15		6.16		6.12		7.53		8.20		7.88	
2.49		3.03		2.40		4.23		4.29		4.25	
3.58		4.28		3.42		6.59		6.97		6.98	
165		160		159		165		160		162	
8		9		10		10		12		14	

Financial Statements

Consolidated Balance Sheets

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries March 31, 2005 and 2004	2005	2004	2005
Assets			
Current assets :			
Cash and cash equivalents (Note 4)	¥ 293,356	¥ 279,368	\$ 2,741,645
Time deposits	30,123	29	281,523
Securities (Note 5).....	6,803	6,706	63,579
Trade receivables (Note 10)	413,566	400,112	3,865,103
Allowance for doubtful receivables	(6,935)	(4,846)	(64,813)
Inventories (Note 6)	77,044	69,992	720,038
Prepaid expenses and other current assets (Notes 10 and 13).....	24,778	20,541	231,570
Total current assets.....	838,735	771,902	7,838,645
Investments and advances :			
Non-consolidated subsidiaries and associated companies (Note 10).....	9,685	12,401	90,514
Investment securities (Note 5)	158,841	144,576	1,484,495
Other (Note 10).....	1,689	753	15,785
Total investments and advances	170,215	157,730	1,590,794
Property, plant and equipment, at cost (Note 7) :			
Land	120,526	117,050	1,126,411
Buildings	410,656	408,241	3,837,907
Machinery and equipment	899,281	890,706	8,404,495
Construction in progress.....	26,516	10,636	247,813
Total.....	1,456,979	1,426,633	13,616,626
Accumulated depreciation	(928,970)	(913,458)	(8,681,962)
Net property, plant and equipment	528,009	513,175	4,934,664
Other assets (Note 13).....	63,170	70,927	590,374
Total assets	¥ 1,600,129	¥ 1,513,734	\$ 14,954,477

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries March 31, 2005 and 2004	2005	2004	2005
Liabilities and Stockholders' Equity			
Current liabilities :			
Short-term bank loans (Note 7)	¥ 12,425	¥ 8,034	\$ 116,121
Current portion of long-term debt (Note 7)	4,030	4,033	37,664
Trade payables (Note 10)	302,667	278,315	2,828,664
Accrued expenses (Note 10)	36,371	34,380	339,916
Income taxes payable (Note 13)	31,018	20,964	289,888
Other current liabilities (Notes 10 and 13)	64,484	45,967	602,654
Total current liabilities	450,995	391,693	4,214,907
Long-term liabilities :			
Long-term debt (Note 7)	56,400	59,342	527,103
Liability for retirement benefits (Note 8)	59,060	59,573	551,963
Other long-term liabilities (Note 13)	341	362	3,187
Total long-term liabilities	115,801	119,277	1,082,253
Minority interests	25,389	24,028	237,280
Contingent liabilities (Note 16)			
Stockholders' equity :			
Common stock -			
Authorized : 1,200,000,000 shares;			
Issued : 750,480,693 shares in 2005 and 759,480,693 shares in 2004 (Note 9) ..	114,464	114,464	1,069,757
Capital surplus (Note 9)	144,905	144,901	1,354,252
Retained earnings (Note 9)	774,653	743,393	7,239,748
Unrealized gain on available-for-sale securities	30,441	27,273	284,495
Foreign currency translation adjustments	(4,891)	(4,935)	(45,710)
Treasury stock, at cost 35,403,863 shares in 2005 and 33,803,271 shares in 2004 (Note 9)	(51,628)	(46,360)	(482,505)
Total stockholders' equity	1,007,944	978,736	9,420,037
Total liabilities, minority interests and stockholders' equity	¥ 1,600,129	¥ 1,513,734	\$ 14,954,477

Financial Statements

Consolidated Statements of Income

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2005 and 2004	2005	2004	2005
Net sales (Note 17).....	¥ 1,424,943	¥ 1,354,101	\$ 13,317,224
Cost of sales (Notes 11, 14 and 17).....	1,121,374	1,073,118	10,480,131
Gross profit	303,569	280,983	2,837,093
Selling, general and administrative expenses (Notes 11, 14 and 17)	183,041	178,545	1,710,663
Operating income	120,528	102,438	1,126,430
Other income (expenses) (Note 12) :			
Interest and dividend income	2,368	2,287	22,131
Interest expenses.....	(1,232)	(1,171)	(11,514)
Equity in losses of associated companies	(298)	(1,976)	(2,785)
Net loss on disposal of property, plant and equipment.....	(7,603)	(7,540)	(71,056)
Net gain on sales of marketable securities and investment securities	191	4,239	1,785
Loss on devaluation of investment securities.....	(1,077)	(1,385)	(10,065)
Payments of special retirement benefits	(1,985)	(15)	(18,552)
Loss on discontinued business	(976)	(3,010)	(9,121)
Amortization of transitional obligation for retirement benefits (Note 8)	(3,501)	(3,886)	(32,720)
Issuance cost of debentures	-	(255)	-
Reversal of liability for retirement benefits	3,719	-	34,757
Contribution income from restructuring of joint venture business.....	-	1,684	-
Gain on exemption from future pension obligation of the governmental program (Note 8)	-	6,132	-
Provision for doubtful receivables	(1,016)	-	(9,495)
Other.....	(1,432)	(4,405)	(13,384)
	(12,842)	(9,301)	(120,019)
Income before income taxes and minority interests	107,686	93,137	1,006,411
Income taxes (Note 13):			
Current	43,072	35,086	402,542
Deferred.....	3,194	3,257	29,850
	46,266	38,343	432,392
	61,420	54,794	574,019
Minority interests.....	(1,483)	(1,823)	(13,860)
Net income.....	¥ 59,937	¥ 52,971	\$ 560,159

	<i>yen</i>		<i>U.S. dollars (Note 3)</i>
Net assets per common share	¥ 1,409.18	¥ 1,348.40	\$ 13.17
Net income per common share:			
Primary	82.56	71.49	0.77

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

Consolidated Statements of Stockholders' Equity

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2005 and 2004	2005	2004	2005
Common stock :			
Balance at beginning of year	¥ 114,464	¥ 114,464	\$ 1,069,757
Balance at end of year	¥ 114,464	¥ 114,464	\$ 1,069,757
Capital surplus :			
Balance at beginning of year	¥ 144,901	¥ 144,898	\$ 1,354,215
Gain on sales of treasury stocks	4	3	37
Balance at end of year	¥ 144,905	¥ 144,901	\$ 1,354,252
Retained earnings :			
Balance at beginning of year	¥ 743,393	¥ 705,099	\$ 6,947,598
Net income	59,937	52,971	560,159
Cash dividends (Note 9)	(15,942)	(14,466)	(148,990)
Bonuses to directors	(231)	(211)	(2,159)
Increase resulting from change in consolidation scope	280	-	2,617
Disposal of treasury stocks	(12,784)	-	(119,477)
Balance at end of year	¥ 774,653	¥ 743,393	\$ 7,239,748

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

Financial Statements

Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars (Note 3)
Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2005 and 2004	2005	2004	2005
Cash flows from operating activities :			
Income before income taxes and minority interests	¥ 107,686	¥ 93,137	\$ 1,006,411
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	80,440	85,182	751,776
Provision for doubtful receivables (net)	5,647	2,276	52,776
Provision for retirement benefits (net)	(842)	1,761	(7,869)
Equity in losses of associated companies	298	1,976	2,785
Amortization of consolidation goodwill (net)	1,669	1,133	15,598
Interest and dividend income	(2,368)	(2,287)	(22,131)
Interest expenses	1,232	1,171	11,514
Net gain on sales of marketable securities and investment securities	(191)	(4,239)	(1,785)
Loss on devaluation of investment securities	1,077	1,385	10,065
Net loss on disposal of property, plant and equipment	7,603	7,540	71,056
Increase in trade receivables	(11,342)	(17,519)	(106,000)
(Increase) decrease in inventories	(6,635)	4,085	(62,009)
Increase in trade payables	28,751	12,248	268,701
Other	1,745	12,820	16,308
Sub-total	214,770	200,669	2,007,196
Payments of special retirement benefits	(1,985)	(15)	(18,552)
Payments of income taxes	(34,443)	(39,167)	(321,897)
Net cash provided by operating activities	178,342	161,487	1,666,747
Cash flows from investing activities :			
Net (increase) decrease in time deposits	(29,753)	65	(278,065)
Payments for purchases of marketable securities	(11)	(6,703)	(103)
Proceeds from sales of marketable securities	6,706	50	62,673
Payments for purchases of property, plant and equipment	(73,715)	(66,684)	(688,925)
Proceeds from sales of property, plant and equipment	980	3,307	9,159
Payments for purchases of investment securities	(22,414)	(18,744)	(209,477)
Proceeds from sales of investment securities	5,282	11,563	49,364
Interest and dividend received	2,753	2,453	25,729
Other	(16,057)	(20,047)	(150,065)
Net cash used in investing activities	(126,229)	(94,740)	(1,179,710)
Cash flows from financing activities :			
Net decrease in short-term bank loans	(1,736)	(1,275)	(16,224)
Proceeds from long-term debt	1,033	5,100	9,654
Repayments of long-term debt	(4,130)	(6,731)	(38,598)
Proceeds from issuance of unsecured debentures	-	49,745	-
Redemption of convertible debentures	-	(29,663)	-
Interest paid	(1,233)	(1,156)	(11,523)
Dividend paid	(16,451)	(14,823)	(153,748)
Payments for purchases of treasury stocks	(18,093)	(26,135)	(169,093)
Other	42	694	392
Net cash used in financing activities	(40,568)	(24,244)	(379,140)
Effect of exchange rate changes on cash and cash equivalents	(21)	(2,031)	(196)
Net increase in cash and cash equivalents	11,524	40,472	107,701
Cash and cash equivalents at beginning of year	279,368	238,896	2,610,916
Cash and cash equivalents of newly consolidated subsidiaries	2,464	-	23,028
Cash and cash equivalents at end of year	¥ 293,356	¥ 279,368	\$ 2,741,645

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

Notes to Consolidated Financial Statements

Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries March 31, 2005 and 2004

1. Basis of Presenting the Consolidated Financial Statements

Dai Nippon Printing Co., Ltd. (hereinafter referred to as the “Company”) and its domestic subsidiaries maintain their books of account and prepare their financial statements in conformity with accounting principles and practices generally accepted in Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Financial Services Agency of Japan as required by the Securities and Exchange Law of Japan. Certain reclassifications of accounts and modifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan. Certain reclassifications have also been made in the 2004 financial statements to conform with current classifications. In addition, the notes to the consolidated financial statements include additional information which is also not required for disclosure under accounting principles and practices generally accepted in Japan.

2. Significant Accounting Policies

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant majority-owned subsidiaries. All significant intercompany accounts and intercompany transactions have been eliminated in consolidation.

The fiscal year-end of the consolidated subsidiaries is the same as that of the Company except for twenty four subsidiaries whose fiscal years end December 31. Significant transactions between December 31 and March 31 are reflected in the consolidated financial statements.

Investments in non-consolidated subsidiaries are stated at cost and, for valuation of such investments, the equity method has not been applied since these investments are considered immaterial in the aggregate. However, investments are devalued if the decline in value is judged to be other than temporary.

Investments in 20% to 50% associated companies are accounted for by the equity method.

The differences between costs and underlying net assets at the date of investment in consolidated subsidiaries are included in other assets or other long-term liabilities and are amortized over a period not exceeding five years.

Translation of foreign currency accounts

Monetary assets and liabilities denominated in foreign currencies of the Company and its domestic subsidiaries are translated into Japanese yen at the exchange rates at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the exchange rates prevailing during the year. The resulting translation gains (or losses) are included in other income (or expenses).

The translation of foreign currency financial statements of foreign consolidated subsidiaries into Japanese yen has been made for consolidation purposes in accordance with the translation method prescribed in the accounting standard for foreign currency transactions. The balance sheet accounts of the foreign consolidated subsidiaries are translated at the exchange rates in effect at the balance sheet date, except for common stock and capital surplus, which are translated at historical rates. Revenue and expense accounts are translated at the average exchange rates during the year. The resulting translation adjustments are presented as “foreign currency translation adjustments” which is shown as a separate component of stockholders’ equity in the consolidated balance sheets.

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 are so near maturities that they present insignificant risk of changes in value because of changes in interest rates.

Inventories

Inventories are stated at cost which is determined substantially by the average method.

Marketable securities and investment securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and ii) available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of stockholders' equity.

Non-marketable securities are stated at cost determined by the average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost. Major renewals and additions are capitalized, while minor renewals, maintenance and repairs are charged to income when incurred. Interest expenses on capital expenditures during the construction stage are not capitalized.

Depreciation of property, plant and equipment is principally computed by the declining-balance method at rates based on estimated useful lives. However, depreciation of buildings acquired on or after April 1, 1998 is computed by the straight-line method.

The estimated useful lives for depreciation purposes range as follows:

Buildings	3 to 50 years
Machinery and equipment	2 to 13 years

Assets with an acquisition cost of ¥100,000 (\$935) or more per unit and less than ¥200,000 (\$1,869) per unit, acquired on or after April 1, 1998, are depreciated over three years on a straight-line basis, whereby one-third of such acquisition cost may be taken as depreciation expense each year.

Intangible assets

Intangible assets included in other assets are carried at cost less accumulated amortization calculated by the straight-line method over their estimated useful lives. Software development costs for internal use included in intangible assets are amortized by the straight-line method over five years.

Liability for retirement benefits

Effective April 1, 2000, the Company and several domestic significant consolidated subsidiaries applied a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

The transitional obligation determined as of April 1, 2000 is being amortized over five years. The transitional obligation was a net amount after deducting the contributed securities to the employees' retirement benefits trust from the gross amount of transitional projected benefits obligation determined as of April 1, 2000.

Research and development expenses

Research and development expenses are charged to income as incurred.

Accounting for leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for in the same manner as operating leases under generally accepted accounting principles in Japan.

Income taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

Income taxes on undistributed earnings have been provided for foreign subsidiaries, but not for domestic companies, as such earnings, if distributed in the form of dividends, are not taxable under the current Japanese tax laws.

Derivatives and hedging activities

The Company and certain consolidated subsidiaries use derivative financial instruments ("derivatives") for foreign currency forward contracts to manage their exposures to fluctuations in foreign exchange associated with certain accounts receivable and payable, including forecasted transactions, denominated in foreign currencies. The Company and its subsidiaries do not enter into derivatives contracts for speculative purposes.

While the trade accounts receivable and payable denominated in foreign currencies of the Company and domestic subsidiaries which are comprehensively covered by foreign currency forward contracts are translated at the exchange rate at the balance sheet date, such forward contracts are recognized as assets or liabilities and measured at fair value, and the related gains or losses are currently recorded in the statement of income.

The trade accounts receivable and payable denominated in foreign currencies of the Company and domestic subsidiaries which are individually covered by foreign currency forward contracts are translated at the contracted rates because such treatment is also allowed to be elected under the accounting standard if the forward contracts qualify for hedge accounting.

The forward contracts for forecasted transactions such as export sales and import purchases are measured at the fair value, but the unrealized gains/losses are deferred until the underlying transactions are completed.

Net assets and income per common share

Net assets per common share were computed based on the number of shares outstanding after deducting treasury stock at March 31, 2005 and 2004, respectively.

Primary amounts of net income per share were computed on the average number of shares of common stock outstanding after deducting treasury stocks during each year. Fully diluted net income per share is not disclosed because the Company has not issued any dilutive securities.

3. Basis of Translating Financial Statements

The consolidated financial statements are expressed in Japanese yen in accordance with accounting principles and practices generally accepted in Japan. The Japanese yen amounts have been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥107=U.S. \$1, the approximate exchange rate on the Tokyo Foreign Exchange Market at March 31, 2005. Such translations should not be construed as representations that the Japanese yen at that or any other rate could be converted into U.S. dollars.

4. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2005 and 2004 were comprised of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	<i>2005</i>	<i>2004</i>	<i>2005</i>
Cash and cash equivalents (excluding time deposits with a maturity over three months)	<u>¥ 293,356</u>	<u>¥ 279,368</u>	<u>\$ 2,741,645</u>

5. Marketable Securities and Investment Securities

The acquisition cost and aggregate fair value of marketable and investment securities classified as available-for-sale securities as of March 31, 2005 and 2004 were as follows:

	<i>Millions of yen</i>			
	<i>Acquisition cost</i>	<i>Unrealized gains</i>	<i>Unrealized losses</i>	<i>Fair value</i>
March 31, 2005				
Stocks.....	¥ 57,378	¥ 53,491	¥ 2,025	¥ 108,844
Others	27,777	71	20	27,828
Total.....	<u>¥ 85,155</u>	<u>¥ 53,562</u>	<u>¥ 2,045</u>	<u>¥ 136,672</u>

	<i>Thousands of U.S. dollars (Note 3)</i>			
	<i>Acquisition cost</i>	<i>Unrealized gains</i>	<i>Unrealized losses</i>	<i>Fair value</i>
Stocks.....	\$ 536,243	\$ 499,916	\$ 18,925	\$ 1,017,234
Others	259,598	663	187	260,074
Total.....	<u>\$ 795,841</u>	<u>\$ 500,579</u>	<u>\$ 19,112</u>	<u>\$ 1,277,308</u>

	<i>Millions of yen</i>			
	<i>Acquisition cost</i>	<i>Unrealized gains</i>	<i>Unrealized losses</i>	<i>Fair value</i>
March 31, 2004				
Stocks.....	¥ 54,713	¥ 47,763	¥ 1,591	¥ 100,885
Others	20,903	31	-	20,934
Total.....	<u>¥ 75,616</u>	<u>¥ 47,794</u>	<u>¥ 1,591</u>	<u>¥ 121,819</u>

The proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were ¥1,243 million (\$11,617 thousand) and ¥9,433 million, respectively. The gross realized gains on these sales for the years ended March 31, 2005 and 2004 were ¥465 million (\$4,346 thousand) and ¥4,707 million, respectively, and the gross realized losses on these sales for the years ended March 31, 2005 and 2004 were ¥275 million (\$2,570 thousand) and ¥433 million, respectively.

The following summarizes carrying amounts of securities with no fair value as of March 31, 2005 and 2004:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	<i>2005</i>	<i>2004</i>	<i>2005</i>
Held-to-maturity debt securities-			
Non-listed foreign securities.....	¥ 3,000	¥ 3,000	\$ 28,037
Others	11	23	103
Available-for-sale securities-			
Non-listed equity securities	¥ 25,926	¥ 26,361	\$ 242,299
Others	35	16	327

The redemption schedules for securities with maturities classified as held-to-maturity debt securities and other securities at March 31, 2005 and 2004 are as follows:

March 31, 2005	<i>Millions of yen</i>		
	<i>Due in one year or less</i>	<i>Due after one year through five years</i>	<i>Due after five years through ten years</i>
Government bonds	¥ 6,791	¥ 16,976	¥ -
Corporate bonds	11	5	30
Other bonds	-	-	7,000
	<u>¥ 6,802</u>	<u>¥ 16,981</u>	<u>¥ 7,030</u>

	<i>Thousands of U.S. dollars (Note 3)</i>		
	<i>Due in one year or less</i>	<i>Due after one year through five years</i>	<i>Due after five years through ten years</i>
Government bonds	\$ 63,467	\$ 158,654	\$ -
Corporate bonds	103	47	280
Other bonds	-	-	65,421
	<u>\$ 63,570</u>	<u>\$ 158,701</u>	<u>\$ 65,701</u>

March 31, 2004	<i>Millions of yen</i>		
	<i>Due in one year or less</i>	<i>Due after one year through five years</i>	<i>Due after five years through ten years</i>
Government bonds	¥ 6,699	¥ 14,170	¥ -
Corporate bonds	6	16	-
Other bonds	1	-	3,000
	<u>¥ 6,706</u>	<u>¥ 14,186</u>	<u>¥ 3,000</u>

6. Inventories

Inventories at March 31, 2005 and 2004 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2005	2004	2005
Finished products.....	¥ 31,752	¥ 31,171	\$ 296,748
Work in process	29,607	25,630	276,701
Raw materials	15,685	13,191	146,589
	<u>¥ 77,044</u>	<u>¥ 69,992</u>	<u>\$ 720,038</u>

7. Short-term Bank Loans and Long-term Debt

Short-term bank loans at March 31, 2005 and 2004 were represented by bank loans and bank overdrafts, etc. bearing interest at an average rate of 2.11 % per annum for 2005 and 2.18% per annum for 2004.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2005	2004	2005
Unsecured debentures			
1.67% due 2014.....	¥ 50,000	¥ 50,000	\$ 467,290
Mortgage loans, maturing 2005-2010.....	3,983	1,303	37,224
Unsecured loans, maturing 2005-2010	6,447	12,072	60,253
	<u>60,430</u>	<u>63,375</u>	<u>564,767</u>
Current portion of long-term debt	(4,030)	(4,033)	(37,664)
	<u>¥ 56,400</u>	<u>¥ 59,342</u>	<u>\$ 527,103</u>

Mortgage loans were secured by property, plant and equipment amounting to ¥6,390 million (\$59,720 thousand) and ¥1,681 million at March 31, 2005 and 2004, respectively.

With minor exceptions, interest rates on mortgage loans ranged from 0.99% to 4.04% per annum for 2005 and from 0.89% to 2.54% per annum for 2004, while interest rates on unsecured loans ranged from 0.60% to 2.04% per annum for 2005 and from 0.58% to 2.18% per annum for 2004.

The aggregate annual maturities of long-term debt after March 31, 2005 were as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars (Note 3)</i>
Year ending March 31		
2006	¥ 4,030	\$ 37,664
2007	3,319	31,019
2008	1,814	16,953
2009	908	8,486
2010	359	3,355
2011 and thereafter	50,000	467,290
	<u>¥ 60,430</u>	<u>\$ 564,767</u>

8. Retirement Benefits

The Company and its domestic subsidiaries have several defined benefit retirement plans covering all of their employees, i.e. a governmental welfare contributory pension plan, corporate pension plan, tax-qualified non-contributory pension plan and lump-sum retirement plan. Upon retirement or termination of employment for reasons other than the cause of dismissal, employees are entitled to lump-sum payments based on the current rate of pay, length of services and accumulated number of points determined based on the employment services.

During the year ended March 31, 2004, in accordance with the Defined Benefit Pension Plan Law enacted in April 2002, the Company and one of its domestic subsidiaries applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company and the subsidiary obtained approval for exemption from the future obligation by the Ministry of Health, Labor and Welfare on June 1, 2003 and January 30, 2003, respectively and recognized a gain on exemption from the future pension obligation of the governmental program in the amount of ¥6,132 million for the year ended March 31, 2004.

For the year ended March 31, 2005, the Company and the subsidiary applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labor and Welfare on March 1, 2005 and June 1, 2004, respectively. Under the Defined Benefit Pension Plan Law, the Company has established new defined benefit pension plans on March 1, 2005 under which ninety percent of the retirement benefit liability of the Company is covered by the employees' pension fund. The prior service costs of ¥1,922 million (\$17,963 thousand) resulting from application of the revised benefit plan is amortized over six years from the fiscal year ended March 31, 2005.

The subsidiary has also established new defined benefit pension plans on June 1, 2004 under which total of the retirement benefit liability is covered and the projected benefits obligation has substantially decreased. The effect of decrease in the liability for retirement benefit was to increase net income by ¥2,245 million (\$20,981 thousand).

The liability for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Projected benefits obligation.....	¥ 131,792	¥ 132,256	\$ 1,231,701
Fair value of plan assets	(62,197)	(54,565)	(581,280)
Unrecognized transitional obligation.....	-	(3,522)	-
Unrecognized actuarial loss.....	(9,452)	(14,596)	(88,336)
Unrecognized prior service cost.....	(1,637)	-	(15,299)
Prepaid pension cost.....	554	-	5,177
Net liability	¥ 59,060	¥ 59,573	\$ 551,963

The components of net periodic benefits costs were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	<i>2005</i>	<i>2004</i>	<i>2005</i>
Service cost.....	¥ 6,590	¥ 6,659	\$ 61,589
Interest cost.....	2,928	3,134	27,364
Expected return on plan assets	(920)	(803)	(8,598)
Amortization of transitional projected benefits obligation.....	3,501	3,886	32,720
Actuarial loss	2,070	7,026	19,346
Amortization of prior service cost	322	(141)	3,009
Net periodic benefits costs	14,491	19,761	135,430
Reversal of liability for employees' retirement benefits	(3,719)	-	(34,757)
Gain on exemption from future pension obligation of the governmental program ..	-	(6,132)	-
Total	¥ 10,772	¥ 13,629	\$ 100,673

Assumptions used for the years ended March 31, 2005 and 2004 were set forth as follows:

	<i>2005</i>	<i>2004</i>
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	2.1%	2.0%
Recognition period of actuarial gain/loss	11 years	11 years
Amortization period of transitional obligation.....	5 years	5 years
Amortization period of prior service cost	6 years	6 years

9. Stockholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code").

Under the Code, at least 50 % of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing stockholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the stockholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the stockholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general stockholders meeting.

Upon approval by the resolution of the Board of Directors, the Company repurchased 10,477 thousand shares of common

stocks at aggregate cost of ¥17,847 million (\$166,794 thousand) and disposed of 9,000 thousand shares of common stocks at aggregate cost of ¥12,784 million (\$119,477 thousand) during the year ended March 31, 2005.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥546,492 million (\$5,107,402 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the stockholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Cash dividends and appropriations to legal reserve charged to retained earnings during the years ended March 31, 2005 and 2004 represented dividends paid out during those periods and related appropriations to this reserve. The accompanying consolidated financial statements did not include the semi-annual dividend of ¥13.50 (\$0.13) per share, aggregating ¥9,662 million (\$90,299 thousand) and the related appropriation to legal reserve of the Company, which were approved at the general stockholders' meeting held in June 2005 with respect to the year ended March 31, 2005.

10. Accounts with Non-consolidated Subsidiaries and Associated Companies

Account balances with non-consolidated subsidiaries and associated companies as of March 31, 2005 and 2004 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	<i>2005</i>	<i>2004</i>	<i>2005</i>
Trade receivables.....	¥ 10,075	¥ 8,437	\$ 94,159
Other current assets	864	1,391	8,075
Investment securities (stock).....	2,737	3,986	25,579
Long-term loans	5,357	8,433	50,065
Other investments.....	545	457	5,093
Trade payables.....	2,393	2,898	22,364
Accrued expenses	1,291	1,646	12,065
Other current liabilities	1,656	11,517	15,477

11. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Transportation expenses	¥ 17,158	¥ 16,830	\$ 160,355
Provision for doubtful receivables	2,975	381	27,804
Salaries and allowances	51,021	49,588	476,832
Accrued bonuses	6,293	5,464	58,813
Provision for retirement benefits	4,833	7,575	45,168
Depreciation	9,986	10,919	93,327
Research and development expenses	24,141	23,809	225,617
Other	66,634	63,979	622,747
	<u>¥ 183,041</u>	<u>¥ 178,545</u>	<u>\$ 1,710,663</u>

Total research and development expenses (including manufacturing costs) amounted to ¥26,386 million (\$246,598 thousand) and ¥26,050 million for 2005 and 2004, respectively.

12. Other Income

The following types of income from non-consolidated subsidiaries and associated companies were included in other income.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Interest and dividend income	¥ 95	¥ 207	\$ 888
Leasing fees	917	1,048	8,570

13. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of different taxes based on income, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% and 42.0% for the years ended March 31, 2005 and 2004, respectively.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 42.0% to 40.7%, effective for years beginning on or after April 1, 2004.

The actual effective tax rate reflected in the accompanying consolidated statements of income differs from the normal effective statutory tax rate primarily due to the effect of permanently non-deductible expenses, current operating losses of subsidiaries and different tax rates applicable to foreign subsidiaries, etc.

The following is a reconciliation of the difference between the normal effective statutory tax rate and the actual effective

tax rate for the year ended March 31, 2005, although no reconciliation for 2004 was shown because the difference was not more than five percent of the statutory tax rate.

	2005
Normal effective statutory tax rate	40.7%
Expenses not deductible for income tax purposes.....	2.0
Operating losses of subsidiaries-net	(2.1)
Special tax credit	(2.1)
Undistributed earnings of foreign subsidiaries	4.4
Other	0.1
Actual effective tax rate	43.0%

Net deferred tax assets and liabilities at March 31, 2005 and 2004, resulting from temporary differences between the carrying amounts and the tax bases of assets and liabilities, were reflected on the accompanying consolidated balance sheets under the following captions :

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Prepaid expenses and other current assets	¥ 13,158	¥ 12,262	\$ 122,972
Other assets.....	18,509	25,381	172,981
	<u>¥ 31,667</u>	<u>¥ 37,643</u>	<u>\$ 295,953</u>
Other current and long-term liabilities.....	<u>¥ 317</u>	<u>¥ 277</u>	<u>\$ 2,963</u>

Significant components of deferred tax assets at March 31, 2005 and 2004 were as follows :

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Current:			
Excess provision for doubtful receivables	¥ 1,364	¥ 1,293	\$ 12,748
Accrued bonuses	6,296	5,407	58,841
Enterprise tax payable	2,351	1,804	21,972
Other.....	3,147	3,758	29,411
Total.....	<u>¥ 13,158</u>	<u>¥ 12,262</u>	<u>\$ 122,972</u>
Non-current:			
Excess provision for retirement benefits.....	¥ 22,469	¥ 23,998	\$ 209,991
Loss on devaluation of investment securities.....	16,808	21,195	157,084
Other.....	(20,768)	(19,812)	(194,094)
Total.....	<u>¥ 18,509</u>	<u>¥ 25,381</u>	<u>\$ 172,981</u>

14. Leases

Where finance leases do not transfer ownership of the leased property to the lessee during the lease terms, the leased property is not capitalized and the related lease expenses are charged to income in the period incurred, as per the statement issued by the Business Accounting Deliberation Council of Japan.

Pro forma information such as acquisition cost, accumulated depreciation and net book value of the leased properties for such finance lease purposes was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Acquisition cost.....	¥ 34,006	¥ 39,297	\$ 317,813
Accumulated depreciation	(18,807)	(22,002)	(175,766)
Net book value	<u>¥ 15,199</u>	<u>¥ 17,295</u>	<u>\$ 142,047</u>

Lease expenses on finance lease contracts without ownership-transfer amounted to ¥8,610 million (\$80,467 thousand) and ¥10,759 million for the years ended March 31, 2005 and 2004, respectively.

The amounts of outstanding future payments under finance leases due on March 31, 2005 and 2004, including the portion of interest thereon, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Future lease payments:			
One year or less	¥ 6,588	¥ 7,086	\$ 61,570
More than one year	8,611	10,209	80,477
	<u>¥ 15,199</u>	<u>¥ 17,295</u>	<u>\$ 142,047</u>

The amounts of outstanding future payments under operating leases due on March 31, 2005 and 2004 were also summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Future lease payments:			
One year or less	¥ 734	¥ 579	\$ 6,860
More than one year	2,676	1,155	25,009
	<u>¥ 3,410</u>	<u>¥ 1,734</u>	<u>\$ 31,869</u>

15. Derivative Financial Instruments

Nature of Derivative Financial Instruments:

The Company and certain consolidated subsidiaries enter into derivative financial instruments (“derivatives”) for foreign currency forward contracts to hedge foreign exchange risks associated with certain accounts receivable and accounts payable, including forecasted transactions, denominated in foreign currencies. The Company and its subsidiaries do not hold derivatives for speculative purposes.

Derivatives are subject to market risks and credit risks. Because the counterparties to those derivatives are limited to major international financial institutions, the Company and its subsidiaries do not anticipate any losses arising from credit risks. The basic policies for the use of derivatives are established in the Company’s internal regulations and the execution and

control of derivatives are controlled by the Accounting Department.

Fair value of Derivative Financial Instruments:

The contracted amount and fair value of derivatives for foreign currency forward contracts at March 31, 2005 and 2004 were as follows:

	<i>Millions of yen</i>		
	<i>Contracted amount</i>	<i>Fair value</i>	<i>Unrealized loss</i>
2005			
Receivables:			
U.S.dollars	¥ 12,095	¥ 12,499	¥ 404
Euro	486	492	6
	<u>¥ 12,581</u>	<u>¥ 12,991</u>	<u>¥ 410</u>
	<i>Thousands of U.S. dollars (Note 3)</i>		
	<i>Contracted amount</i>	<i>Fair value</i>	<i>Unrealized loss</i>
2005			
Receivables:			
U.S.dollars	\$ 113,037	\$ 116,813	\$ 3,776
Euro	4,542	4,598	56
	<u>\$ 117,579</u>	<u>\$ 121,411</u>	<u>\$ 3,832</u>
	<i>Millions of yen</i>		
	<i>Contracted amount</i>	<i>Fair value</i>	<i>Unrealized loss</i>
2004			
Receivables:			
U.S.dollars	¥ 11,756	¥ 11,587	¥ 169
Euro	463	455	8
	<u>¥ 12,219</u>	<u>¥ 12,042</u>	<u>¥ 177</u>

Fair value was determined based on the foreign currency forward exchange market rates. Foreign currency forward contracts which qualified for hedge accounting for the years ended March 31, 2005 and 2004 and were assigned to the associated assets and liabilities or deferred until completion of the forecasted transactions were excluded from disclosure of the above fair value information.

16. Contingent Liabilities

The Company was guarantor of bank loans of an other company, amounting to approximately ¥92 million (\$860 thousand) and ¥90 million at March 31, 2005 and 2004, respectively. It is common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in settlement of trade accounts receivable and to subsequently discount such notes at banks. At March 31, 2005 and 2004, the Company and its consolidated subsidiaries were contingently liable on trade notes discounted in the amount of ¥1,150 million (\$10,748 thousand) and ¥1,150 million, respectively. Notes discounted were accounted for as sales.

17. Business Segment Information

Industry segments:

The Company's primary business industries principally consist of Printing and Beverage operations. The Printing business includes three segments : Information Communication, Lifestyle and Industrial Supplies, and Electronics.

The following tables present certain financial information, including net sales, costs and expenses, operating income, assets, depreciation and capital expenditures regarding the Company's industry segments at March 31, 2005 and 2004 and for the years then ended.

Millions of yen							
For 2005 :	Printing			Beverages	Total	Elimination and /or corporate	Consolidated
	Information Communication	Lifestyle and Industrial Supplies	Electronics				
Net sales :							
Outside customers....	¥ 633,499	¥ 448,832	¥ 269,626	¥ 72,986	¥ 1,424,943	¥ -	¥ 1,424,943
Inter-segment	7,157	1,134	-	-	8,291	(8,291)	-
Total	640,656	449,966	269,626	72,986	1,433,234	(8,291)	1,424,943
Costs and expenses	591,305	413,947	229,936	71,383	1,306,571	(2,156)	1,304,415
Operating income	¥ 49,351	¥ 36,019	¥ 39,690	¥ 1,603	¥ 126,663	¥ (6,135)	¥ 120,528
Assets, depreciation and capital expenditures :							
Assets	¥ 499,407	¥ 420,395	¥ 313,809	¥ 43,897	¥ 1,277,508	¥ 322,621	¥ 1,600,129
Depreciation	¥ 19,338	¥ 22,914	¥ 33,069	¥ 3,796	¥ 79,117	¥ 1,323	¥ 80,440
Capital expenditures	¥ 18,122	¥ 21,119	¥ 39,007	¥ 2,895	¥ 81,143	¥ 4,914	¥ 86,057

Thousands of U.S. dollars (Note 3)							
For 2005 :	Printing			Beverages	Total	Elimination and /or corporate	Consolidated
	Information Communication	Lifestyle and Industrial Supplies	Electronics				
Net sales :							
Outside customers....	\$ 5,920,551	\$ 4,194,692	\$ 2,519,869	\$ 682,112	\$ 13,317,224	\$ -	\$ 13,317,224
Inter-segment	66,888	10,598	-	-	77,486	(77,486)	-
Total	5,987,439	4,205,290	2,519,869	682,112	13,394,710	(77,486)	13,317,224
Costs and expenses	5,526,215	3,868,664	2,148,934	667,131	12,210,944	(20,150)	12,190,794
Operating income	\$ 461,224	\$ 336,626	\$ 370,935	\$ 14,981	\$ 1,183,766	\$ (57,336)	\$ 1,126,430
Assets, depreciation and capital expenditures :							
Assets	\$ 4,667,355	\$ 3,928,925	\$ 2,932,795	\$ 410,252	\$ 11,939,327	\$ 3,015,150	\$ 14,954,477
Depreciation	\$ 180,729	\$ 214,150	\$ 309,056	\$ 35,477	\$ 739,412	\$ 12,364	\$ 751,776
Capital expenditures	\$ 169,365	\$ 197,374	\$ 364,551	\$ 27,056	\$ 758,346	\$ 45,925	\$ 804,271

Millions of yen							
For 2004 :	Printing			Beverages	Total	Elimination and /or corporate	Consolidated
	Information Communication	Lifestyle and Industrial Supplies	Electronics				
Net sales :							
Outside customers....	¥ 622,466	¥ 425,523	¥ 236,402	¥ 69,710	¥ 1,354,101	¥ -	¥ 1,354,101
Inter-segment	7,350	543	24	-	7,917	(7,917)	-
Total	629,816	426,066	236,426	69,710	1,362,018	(7,917)	1,354,101
Costs and expenses	586,147	393,623	203,399	70,082	1,253,251	(1,588)	1,251,663
Operating income	¥ 43,669	¥ 32,443	¥ 33,027	¥ (372)	¥ 108,767	¥ (6,329)	¥ 102,438
Assets, depreciation and capital expenditures :							
Assets	¥ 489,455	¥ 395,580	¥ 291,353	¥ 46,782	¥ 1,223,170	¥ 290,564	¥ 1,513,734
Depreciation	¥ 22,199	¥ 24,154	¥ 33,056	¥ 4,330	¥ 83,739	¥ 1,443	¥ 85,182
Capital expenditures	¥ 13,726	¥ 19,777	¥ 31,578	¥ 4,176	¥ 69,257	¥ 577	¥ 69,834

Information by geographic area:

Disclosure of information by geographic area was not required as domestic sales and assets exceeded 90% of consolidated sales and assets, respectively, before elimination, for all segments for the years ended March 31, 2005 and 2004.

Overseas sales:

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 are as follows :

	<i>Millions of yen</i>				<i>Thousands of U.S. dollars (Note 3)</i>
	<i>2005</i>		<i>2004</i>		<i>2005</i>
	<i>Amount</i>	<i>Ratio:(a)/(b)</i>	<i>Amount</i>	<i>Ratio:(a)/(b)</i>	
Overseas sales(a)					
Asia	¥ 158,373	11.1%	¥ -	-	\$ 1,480,121
Other	74,665	5.2%	-	-	697,804
Total	<u>¥ 233,038</u>	<u>16.4%</u>	<u>¥ 201,368</u>	<u>14.9%</u>	<u>\$ 2,177,925</u>
Consolidated net sales(b)	<u>¥ 1,424,943</u>		<u>¥ 1,354,101</u>		<u>\$ 13,317,224</u>

Overseas sales for Asia was separately disclosed for the year ended March 31, 2005 because the sales amount exceeded 10% of the consolidated net sales.

Independent Auditors' Report

To the Board of Directors of
Dai Nippon Printing Co., Ltd.

We have audited the accompanying consolidated balance sheets (expressed in Japanese yen) of Dai Nippon Printing Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dai Nippon Printing Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Tokyo, Japan
June 29, 2005

Meiji Audit Corporation
MEIJI AUDIT CORPORATION

Major Subsidiaries and Affiliates

Printing

		Capital (Millions of yen)	Ownership ratio (%)
Printing			
DNP Hokkaido Co., Ltd.	Photoengraving, printing, bookbinding, production and sales of packaging	350	100.0
DNP Tohoku Co., Ltd.	Photoengraving, printing, bookbinding, production and sales of packaging	350	100.0
DNP Tokai Co., Ltd.	Photoengraving, printing, bookbinding and production of packaging	120	100.0
DNP Kyushu Co., Ltd.	Photoengraving, printing, bookbinding and production of packaging	380	100.0
DNP Shikoku Co., Ltd.	Photoengraving, printing, bookbinding and production of packaging	50	97.0
Information Communication			
Books and Periodicals			
DNP Offset Co., Ltd.	Offset printing	200	100.0
DNP Seihon Co., Ltd.	Bookbinding	200	100.0
DNP Total Process Ichigaya Co., Ltd.	Photoengraving	100	100.0
DNP Total Process Maebashi Co., Ltd.	Photoengraving	100	100.0
DNP Art Co., Ltd.	Production of drafts for photoengraving	80	100.0
DNP Techtas Ichigaya Co., Ltd.	Bookbinding	80	100.0
DNP Uniprocess Co., Ltd.	Photoengraving	80	100.0
DNP Total Process Nagaoka Co., Ltd.	Photoengraving	50	100.0
DNP Butsuryu Systems Ichigaya Co., Ltd.	Warehousing and packing of books and magazines	40	100.0
Tien Wah Press (Pte.) Ltd.	Photoengraving, printing and book binding	(\$1,000) 3,892	100.0
Commercial Printing			
DNP Media Create Kansai Co., Ltd.	Planning, production, photoengraving and bookbinding	200	100.0
DNP Graphica Co., Ltd.	Printing and bookbinding	100	100.0
DNP Media Create Co., Ltd.	Planning, designing, photoengraving and printing	100	100.0
Multi Print Co., Ltd.	Photoengraving, printing and bookbinding	100	100.0
DNP Butsuryu Systems Shouin Co., Ltd.	Warehousing and packing of commercial printing	50	100.0
Business Forms			
DNP Data Techno Co., Ltd.	Production and sales of plastic cards with magnetic stripes, IC chips and others	100	100.0
DNP Data Techno Kansai Co., Ltd.	Production of business forms and plastic cards	100	100.0
DNP Total Process BF Co., Ltd.	Photoengraving and machine plate activities	80	100.0
NexantiS Corporation*	Sales of security related software and products	25	100.0
DNP Techtas BF Co., Ltd.	Enclosing, sealing, and logistics for business forms related products	20	100.0
Communication and Information			
MyPoint.com Japan Co., Ltd.	Marketing system planning and operations for Internet advertisements	1,796	83.0
DNP Archives.com Co., Ltd.*	Planning, producing, and sales of art objects and contents	100	100.0
DNP AV Center Co., Ltd.*	Planning, production, editing and sales of movies	100	100.0
DNP Digitalcom Co., Ltd.	Planning and production of digital media contents	100	100.0
DNP Space Design Inc.*	Planning and designing shops, exhibition booths and other commercial spaces	100	100.0
Mobile Impulse Co., Ltd.*	Website management for mobile online shops	90	100.0
Maison de DNP Ginza Co., Ltd.*	Sales of Maison des Musées de France art products	60	100.0
DNP Corporate History Center Co., Ltd.*	Planning and production of corporate history archives	50	100.0
Trans Art Inc.*	Procurement and sales of art objects	50	100.0
CP Design Consulting Co., Ltd.*	Consultation for privacy protection	40	92.5
M's Communicate Co., Ltd.*	Consultation for customer relationship management	30	95.0
At Table Co., Ltd.*	Research, consulting and planning for sales promotions for grocery supermarkets	30	95.0
Lifestyle and Industrial Supplies			
Packaging			
DNP Technopack Tokai Co., Ltd.	Photoengraving and production of packaging	430	100.0
DNP Techno Film Co., Ltd.	Production and processing of composite resins	380	100.0
DNP Technopack Co., Ltd.	Photoengraving and production of packaging	300	100.0
DNP Technopack Kansai Co., Ltd.	Photoengraving and production of packaging	200	100.0
DNP Technopack Yokohama Co., Ltd.	Photoengraving and production of packaging	200	100.0
Sagami Yoki Co., Ltd.	Production of laminated tubes	200	90.0
Aseptic Systems Co., Ltd.	Sales and consultation for aseptic systems for beverages	100	100.0
DNP Techno Polymer Co., Ltd.	Molding, processing and printing of plastic containers	100	100.0
DNP Cup Techno Co., Ltd.	Molding and processing of paper containers	80	100.0
DNP Hoso Co., Ltd.	Filling and processing packages	80	100.0
PT DNP Indonesia	Production and sales of packaging products	(\$1,000) 26,000	51.0
Decorative Materials			
DNP Ellio Co., Ltd.	Printing and processing of steel and other metal plates	300	50.0
DNP Kyushu Co., Ltd.	Photoengraving, printing and processing	200	100.0
Industrial Supplies			
DNP IMS Co., Ltd.	Printing of TTRs and ST materials	100	100.0
DNP Advanced Industrial Supplies Co., Ltd.	Production and sales of optical films for displays	100	100.0

		Capital (Millions of yen)	Ownership ratio (%)
Pixel Magic Imaging, Inc.	Sales of digital photo printing systems	(US\$1,000) 44,852	(51.0) 51.0
DNP IMS America Corporation	Processing of TTR barcode and facsimile ribbons	(US\$1,000) 20,000	(100.0) 100.0
Compagnie de Découpe de l'Ouest - CDO SAS	Small-roll processing of ink-ribbons for facsimiles	(Euro1,000) 3,040	23.4
DNP IMS France SAS*	Sales of TTR barcode and facsimile ribbons	(Euro 1,000) 300	100.0
Electronics			
Display Components			
Advanced Colortech Inc.	Production and sales of color filters for LCDs	5,000	80.0
DAP Technology Co., Ltd.	Production and sales of PDP back plates	3,000	50.0
DNP Precision Devices Co., Ltd.	Production of high-precision components	400	100.0
DNP Denmark A/S	Manufacturing and sales of projection screens	(Dkr1,000) 135,000	100.0
DNP Electronics America, LLC	Manufacturing and sales of projection screens	(US\$1,000) 15,045	(100.0) 100.0
DNP Display Technology Taiwan Co., Ltd.	Sales of display components and technological consultation	(NT\$1,000) 30,000	(99.0) 100.0
Electronic Components			
DNP Fine Electronics Co., Ltd.	Production and sales of semiconductor related components	300	65.0
DNP Fine Electronics Co., Ltd.	Production of high-precision components	300	100.0
DNP LSI Design Co., Ltd.	Logical circuit designs for ICs and LSIs and layout designs	100	100
DNP Micro Technica Co., Ltd.	Inspection and packing of semiconductor components	40	100.0
DNP Photomask Europe S.p.A.	Manufacturing and sales of photomasks	(Euro1,000) 47,200	80.6
Others			
The Inctec Inc.	Development and sales of ink, vanish, pigments and dyes	2,000	83.3
DNP Logistics Co., Ltd.	Packing, shipping operations and warehouse management	626	100.0
D.N.K. Co., Ltd.	Manufacturing and sales of printing equipment and machine tools	100	100.0
DNP Trading Co., Ltd.	Sales of paper and other products	100	94.3
Direc Co., Ltd.	Sales of publishing and educational equipment	96	55.0
DNP SP Tech Co., Ltd.	Planning and production of promotional material	80	100.0
Kyoiku Shuppan Co., Ltd.	Publishing of educational books	60	48.3
Personnel Welfare, Facility Service, and Others			
Dai Nippon Kaihatsu Co., Ltd.	Real estate sales	250	100.0
Shiobara Green Village Co., Ltd.*	Management of leisure facilities	200	99.6
DNP Facility Services Co., Ltd.	Management and operations of buildings and welfare facilities	100	100.0
DNP Information Systems Co., Ltd.*	Planning, designing, development, management and operation of information systems	100	100.0
DNP Human Services Co., Ltd.*	Planning, management and data processing activities related to personnel plans	90	100.0
Uzumine Country Club Co., Ltd.*	Management of golf courses	33	88.8
DNP Accounting Services Co., Ltd.	Accounting and consulting services	30	100.0
DNP Techno Research Co., Ltd.*	Studies related to patents and the preparation of contracts	20	100.0
Overseas Sales			
DNP America, LLC	Sales of printing solutions, electronic components and decorative materials	(US\$1,000) 100	(100.0) 100.0
DNP Corporation USA	Holding company	(US\$1,000) 44,685	(10.0) 100.0
DNP Holding USA Corporation	Holding company	(US\$1,000) 100	(100.0) 100.0
DNP Europa GmbH*	Sales of displays, semiconductor components and decorative materials	(Euro1,000) 92	100.0
DNP UK Co., Ltd.*	Sales of decorative materials	(£1,000) 120	100.0
Dai Nippon Printing Co. (Australia) Pty. Ltd.*	Sales of printing solutions	(A\$1,000) 70	100.0
DNP Singapore Pte. Ltd.*	Sales of displays, semiconductor components and decorative materials	(S\$1,000) 350	100.0
DNP Korea Co., Ltd.*	Sales of displays and semiconductor components	(Krw1,000) 500,000	100.0
DNP Taiwan Co., Ltd.	Sales of displays and semiconductor components	(NT1,000) 10,000	100.0

Beverages

Beverages			
Hokkaido Coca-Cola Bottling Co., Ltd.	Manufacturing and sales of soft drinks	2,935	(3.8) 61.4

Notes: 1. Ownership ratios (in brackets) indicate the percentage of shares owned through DNP's subsidiaries or affiliates.
2. Companies with an asterisk mark are neither consolidated nor accounted for under the equity method.

“Ukiyo-e” Woodblock Prints Used in the DNP 2005 Annual Report



“Actor Otani Oniji 3rd
as the yakko Edobei”

by Toshusai Sharaku

Part of the Tokyo National Museum collection

Image:TNM Image Archives
Source:<http://TnmArchives.jp/>



“Actor Ichikawa Ebizo as
Takemura Sadanoshin”

by Toshusai Sharaku

Part of the Tokyo National Museum collection

Image:TNM Image Archives
Source:<http://TnmArchives.jp/>



“Three Beauties of Edo”

by Kitagawa Utamaro

Part of the Tokyo National Museum collection

Image:TNM Image Archives
Source:<http://TnmArchives.jp/>



“The poet Ki no Tsurayuki
at Aridoshi Shrine”

by Suzuki Harunobu

Part of the Tokyo National Museum collection

Image:TNM Image Archives
Source:<http://TnmArchives.jp/>



“Okazaki” from “The
Fifty-three Stations of
the Tokaido”

by Utagawa Hiroshige

Part of the Tokyo National
Museum collection

Image:TNM Image Archives
Source:<http://TnmArchives.jp/>



“Shop of Santo Kyoden”

by Utagawa Toyokuni

Part of the Tokyo National
Museum collection

Image:TNM Image Archives
Source:<http://TnmArchives.jp/>

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