

Flash Report for the First Three Quarters Ended December 31, 2006 (Consolidated basis)

February 6, 2007

Name of the listed company: **Fuji Seal International, Inc.**

Code No.: 7864 Stock exchange: TSE (1st section)

URL: <http://www.fujiseal.com/>

Representative: President and COO Ken Takeda

Contact: Director and CFO Hiroo Okazaki

1. Matter Concerning Preparation of Financial Statements

- (1) The standard, non-simplified accounting method is used.
- (2) No changes have been made in accounting standards.
- (3) No changes in the scope of consolidation or application of equity method accounting.

2. Business Results (April 1 to December 31, 2006)

* All amounts are rounded down to the nearest million yen.

(1) Operating results (¥ million)

	Net sales		Operating income		Ordinary income	
1st three quarters ended December 31, 2006	¥66,072	1.3%	¥5,192	(8.4)%	¥5,598	(4.9)%
1st three quarters ended December 31, 2005	65,221	4.6	5,669	(4.1)	5,884	(1.6)
Previous year ended March 31, 2006	86,939	5.0	7,180	(6.2)	7,288	(5.8)

	Net income		Earnings per share (¥)		Diluted EPS (¥)	
1st three quarters ended December 31, 2006	¥3,187	(6.5)%	¥106.05		¥106.02	
1st three quarters ended December 31, 2005	3,409	(7.3)	113.58		113.47	
Previous year ended March 31, 2006	3,720	(21.7)	123.90		123.78	

Note: Percentage figures for sales, operating income, ordinary income and net income are year-on-year changes (minus figures are shown in parentheses)

(2) Financial position (¥ million)

	Total assets	Net assets	Equity ratio	Net assets per share (¥)
As of December 31, 2006	¥77,583	¥46,234	59.6%	¥1,538.20
As of December 31, 2005	70,449	42,120	59.8	1,401.76
As of March 31, 2006	72,719	43,153	59.3	1,435.67

Note: Amounts are calculated using the accounting standards stipulated by the Corporation Law. However, the figures for net assets, equity ratio, and net assets per share for the first three quarters and the full term of fiscal 2005 (the fiscal year ended March 2006) are the figures previously recorded under the headings of shareholders' equity, shareholders' equity ratio, and shareholders' equity per share, respectively.

(3) Cash flows (¥ million)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of term
1st three quarters ended December 31, 2006	¥4,242	¥(7,843)	¥2,690	¥4,629
1st three quarters ended December 31, 2005	3,701	(4,251)	(1,119)	4,818
Previous year ended March 31, 2006	7,076	(7,161)	(989)	5,451

2. Business Forecast for the Year Ending March 31, 2007 (April 1, 2006 to March 31, 2007)

(¥ million)

	Net sales	Ordinary income	Net income
Full term	¥89,100	¥7,540	¥4,250

(Reference) Estimated earnings per share (for the full term): ¥141.39

The full-term forecast of earnings per share is based on the number of shares issued and outstanding as of December 31, 2006.

The above forecasts are based on data available as of the date of release of this document as well as assumptions based on uncertain factors, which might have a material effect on the Company's performance in the future. Readers are advised that actual results may differ substantially from the above forecasts due to various unforeseeable factors.

Consolidated Balance Sheets

(¥ million)

	December 31, 2005		December 31, 2006		March 31, 2006
	Amount	Ratio to total assets	Amount	Ratio to total assets	Amount
Assets					
Current assets:					
Cash and deposits	¥ 5,045		¥ 4,794		¥ 5,648
Notes and accounts receivable	23,217		22,621		22,593
Inventories	7,348		7,288		6,971
Deferred tax assets	415		428		637
Advance payments	248		3		252
Prepaid expenses	256		240		228
Other current assets	1,522		1,703		1,433
Allowance for doubtful accounts	(60)		(67)		(106)
Total current assets	37,993	53.9%	37,014	47.7%	37,658
Noncurrent assets:					
Tangible fixed assets:					
Buildings and structures	5,824		6,278		5,946
Machinery, equipment and vehicles	14,462		16,754		15,990
Land	3,810		4,697		3,834
Construction in progress	3,115		6,433		3,185
Other	542		538		586
Total tangible fixed assets	27,754	39.4	34,702	44.7	29,543
Intangible assets:					
Consolidation adjustment	565		—		516
Goodwill	—		366		—
Other	474		711		663
Total intangible assets	1,040	1.5	1,078	1.4	1,179
Investments and other assets:					
Investment securities	2,398		3,164		2,600
Long-term loans	54		48		52
Deferred tax assets	307		395		394
Other	1,079		1,357		1,469
Allowance for doubtful accounts	(179)		(179)		(179)
Total investments and other assets	3,661	5.2	4,787	6.2	4,337
Total noncurrent assets	32,456	46.1	40,569	52.3	35,061
Total assets	¥70,449	100.0%	¥77,583	100.0%	¥72,719

Amounts are rounded down to the nearest million yen.

(¥ million)

	December 31, 2005		December 31, 2006		March 31, 2006
	Amount	Ratio to total assets	Amount	Ratio to total assets	Amount
Liabilities					
Current liabilities:					
Notes and accounts payable	¥15,790		¥15,532		¥15,453
Short-term borrowings	2,003		5,685		2,405
Current portion of long-term debt	832		1,163		831
Income taxes payable	1,058		848		1,480
Accrued bonuses	414		428		772
Other current liabilities	5,500		5,108		5,941
Total current liabilities	25,600	36.3%	28,767	37.1%	26,885
Long-term liabilities:					
Long-term debt	1,677		1,421		1,470
Reserve for employees' retirement benefits	905		930		1,035
Other	146		229		174
Total long-term liabilities	2,728	3.9	2,581	3.3	2,680
Total liabilities	28,329	40.2	31,348	40.4	29,565
Shareholders' equity					
Common stock	5,973	8.5	—	—	5,990
Capital surplus	6,216	8.8	—	—	6,233
Retained earnings	31,083	44.1	—	—	31,280
Unrealized gain on available-for-sale securities	222	0.3	—	—	276
Adjustment to minimum pension liability	(479)	(0.7)	—	—	(408)
Foreign currency translation adjustment	(823)	(1.1)	—	—	(140)
Treasury stock	(73)	(0.1)	—	—	(77)
Total shareholders' equity	42,120	59.8	—	—	43,153
Total liabilities and shareholders' equity	¥70,449	100.0%	—	—	¥72,719
Net assets					
Shareholders' equity:					
Common stock	—	—	5,990	7.7	—
Capital surplus	—	—	6,233	8.0	—
Retained earnings	—	—	33,716	43.5	—
Treasury stock	—	—	(78)	(0.1)	—
Total shareholders' equity	—	—	45,861	59.1	—
Valuation and translation differences:					
Unrealized gain on available-for-sale securities	—	—	333	0.4	—
Adjustment to minimum pension liability	—	—	(407)	(0.5)	—
Foreign currency translation adjustment	—	—	447	0.6	—
Total valuation and translation differences	—	—	373	0.5	—
Total net assets	—	—	46,234	59.6	—
Total liabilities and net assets	—	—	¥77,583	100.0%	—

Consolidated Statements of Income

(¥ million)

	1st three quarters ended December 31, 2005		1st three quarters ended December 31, 2006		Year ended March 31, 2006
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount
Net sales	¥65,221	100.0%	¥66,072	100.0%	¥86,939
Cost of sales	51,689	79.3	52,295	79.1	68,989
Gross profit	13,532	20.7	13,776	20.9	17,950
Selling, general and administrative expenses	7,862	12.0	8,584	13.0	10,770
Operating income	5,669	8.7	5,192	7.9	7,180
Non-operating income:					
Interest income	6		17		13
Dividend income	14		14		15
Foreign exchange gain	108		365		47
Equity in earnings of affiliates	141		188		190
Other	101		104		158
Total non-operating income	373	0.6	690	1.0	426
Non-operating expenses:					
Interest expenses	149		176		190
Loss on disposal of materials	—		—		52
Amortization of preoperating cost	—		81		—
Other	8		26		75
Total non-operating expenses	157	0.3	284	0.4	318
Ordinary income	5,884	9.0	5,598	8.5	7,288
Extraordinary gains:					
Gain on sale of tangible fixed assets	59		8		77
Gain on transfer of goodwill	23		—		23
Gain on sale of investment securities	6		46		6
Reversal of allowance for doubtful accounts	1		48		1
Government subsidies	—		78		—
Total extraordinary gains	89	0.1	181	0.3	108
Extraordinary losses:					
Loss on sale and disposal of tangible fixed assets	27		34		142
Impairment loss	18		—		18
Surcharge levied by U.S. authorities	—		60		—
Additional early retirement benefits	56		1		58
Amounts paid in out-of-court settlement lawsuits	—		—		784
Total extraordinary losses	102	0.1	95	0.2	1,003
Income before income taxes	5,872	9.0	5,684	8.6	6,392
Income taxes:					
Current	2,276	3.5	2,286	3.5	2,744
Deferred	186	0.3	210	0.3	(72)
Net income	¥3,409	5.2%	¥ 3,187	4.8%	¥ 3,720

Amounts are rounded down to the nearest million yen.

Consolidated Statements of Cash Flows

(¥ million)

	1st three quarters ended December 31, 2005	1st three quarters ended December 31, 2006	Year ended March 31, 2006
Cash flows from operating activities			
Income before income taxes	¥5,872	¥5,684	¥6,392
Depreciation and amortization	2,459	2,709	3,453
Impairment loss	18	—	18
Amortization of consolidation adjustments	149	—	198
Amortization of goodwill	—	149	—
Increase (decrease) in allowance for doubtful accounts	(18)	(42)	23
Decrease in accrued bonuses	(391)	(344)	(35)
Increase (decrease) in reserve for employees' retirement benefits	43	(116)	59
Decrease in reserve for directors' retirement allowances	(40)	—	(40)
Equity in earnings of affiliates	(141)	(188)	(190)
Gain on sale of tangible fixed assets	(59)	(8)	(77)
Loss on sale and disposal of tangible fixed assets	27	34	142
Gain on transfer of goodwill	(23)	—	(23)
Gain on transfer of goodwill	—	—	784
Amounts paid in out-of-court settlement lawsuits	(21)	(31)	(28)
Interest and dividend income	149	176	190
Interest expenses	(118)	(120)	(121)
Foreign exchange gain	(760)	196	19
Decrease (increase) in notes and accounts receivable	(582)	(204)	(94)
Increase in inventories	617	(530)	288
Increase (decrease) in notes and accounts payable	17	(434)	678
Increase (decrease) in other accounts payable	(68)	(78)	(66)
Decrease in consumption taxes payable	(598)	186	(115)
Other			
Subtotal	6,530	7,035	11,456
Interest and dividends received	21	31	28
Interest expenses paid	(147)	(172)	(192)
Amount paid in out-of-court settlement of lawsuits	—	—	(784)
Income taxes paid	(2,702)	(2,651)	(3,431)
Net cash provided by operating activities	3,701	4,242	7,076
Cash flows from investing activities			
Purchase of investment securities	(13)	(119)	(17)
Proceeds from sale of investment securities	—	67	—
Purchase of tangible fixed assets	(4,554)	(7,565)	(7,156)
Proceeds from sale of tangible fixed assets	83	24	97
Increase in loans receivable	(11)	(104)	(13)
Proceeds from collection of loans	29	18	34
Proceeds from transfer of goodwill	454	—	454
Purchase of intangible assets	(32)	(132)	(235)
Increase in long-term prepaid expenses	(211)	(113)	(335)
Other	5	81	8
Net cash used in investing activities	(4,251)	(7,843)	(7,161)
Cash flows from financing activities			
Increase in short-term borrowings	447	6,919	840
Repayment of short-term borrowings	(240)	(3,700)	(261)
Increase in long-term debt	—	900	—
Repayment of long-term debt	(653)	(668)	(923)
Repayment of finance lease obligations	(4)	(6)	(6)
Cash dividends paid	(800)	(751)	(800)
Other	130	(1)	160
Net cash provided by (used in) financing activities	(1,119)	2,690	(989)
Effect of exchange rate changes on cash and cash equivalents	46	88	85
Net decrease in cash and cash equivalents	(1,623)	(822)	(990)
Cash and cash equivalents at beginning of term	6,441	5,451	6,441
Cash and cash equivalents at end of term	¥4,818	¥4,629	¥5,451

Amounts are rounded down to the nearest million yen.

Segment Information

Segmentation by location

(¥ million)

	1st three quarters ended December 31, 2005					
	Japan	North America	Europe	Total	Eliminations/ Corporate	Consolidated amount
Sales:						
Customers	¥47,586	¥10,060	¥ 7,575	¥65,221	¥ —	¥65,211
Intersegment	716	406	632	1,755	(1,755)	—
Total sales	48,302	10,466	8,208	66,977	(1,755)	65,221
Operating expenses	42,799	10,536	8,019	61,354	(1,802)	59,552
Operating income (loss)	¥ 5,502	¥ (69)	¥ 188	¥ 5,622	¥ 47	¥ 5,669
	1st three quarters ended December 31, 2006					
	Japan	North America	Europe	Total	Eliminations/ Corporate	Consolidated amount
Sales:						
Customers	¥47,103	¥ 10,821	¥8,147	¥66,072	¥ —	¥66,072
Intersegment	806	197	952	1,956	(1,956)	—
Total sales	47,910	11,018	9,099	68,029	(1,956)	66,072
Operating expenses	42,629	10,515	9,701	62,846	(1,966)	60,879
Operating income (loss)	¥ 5,281	¥ 502	¥ (601)	¥ 5,182	¥ 10	¥ 5,192
	Year ended March 31, 2006					
	Japan	North America	Europe	Total	Eliminations/ Corporate	Consolidated amount
Sales:						
Customers	¥62,616	¥13,984	¥10,338	¥86,939	¥ —	¥86,939
Intersegment	878	487	830	2,196	(2,196)	—
Total sales	63,494	14,472	11,169	89,135	(2,196)	86,939
Operating expenses	56,568	14,429	11,033	82,032	(2,272)	79,759
Operating income	¥ 6,925	¥ 42	¥ 136	¥ 7,103	¥ 76	¥ 7,180

Amounts are rounded down to the nearest million yen.

Sales by segment

(¥ million)

	1st three quarters ended December 31, 2005		1st three quarters ended December 31, 2006		Year ended March 31, 2006	
	Amount	% of total	Amount	% of total	Amount	% of total
Shrink label	¥40,996	62.9%	¥42,641	64.5%	¥53,254	61.3%
Tack label	6,933	10.6	6,417	9.7	9,217	10.6
Other label	4,227	6.5	3,351	5.1	5,662	6.5
Contract packaging	2,307	3.5	2,310	3.5	2,990	3.4
Machinery	5,102	7.8	5,242	7.9	8,114	9.3
Other	5,655	8.7	6,109	9.3	7,700	8.9
Total	¥65,221	100.0%	¥66,072	100.0%	¥86,939	100.0%

Amounts are rounded down to the nearest million yen.

Note:

Description of performance by business segment is omitted as our business activities—ranging from manufacturing and sale of shrink labels and tuck labels, processing and sale of various packaging materials, and manufacturing and sale of packaging machinery—are so closely interconnected that they constitute, in effect, only one segment. We position ourselves as a packaging system provider and assess earnings performance of the total operations as a whole.