

# Flash Report for the First-Half Period Ended September 30, 2006 (Consolidated basis)

November 8, 2006

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

Code No.: 7864 Stock exchange: TSE (1<sup>st</sup> section)

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

Representative: President and COO Ken Takeda

Contact: Director and CFO Hiroo Okazaki

Date of the Board of Directors' meeting for approval of the term settlement: November 8, 2006

US GAAP: not adopted

## 1. Business Results (April 1 to September 30, 2006)

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

### (1) Operating results (¥ million)

	Net sales		Operating income		Ordinary income	
	¥	%	¥	%	¥	%
First-half period under review	¥46,407	1.4%	¥4,631	5.1%	¥4,973	10.0%
Previous first half	45,752	6.3	4,405	(6.0)	4,520	(8.2)
Previous full term (Apr. 1, 2005 to Mar. 31, 2006)	86,939	5.0	7,180	(6.2)	7,288	(5.8)

  

	Net income		Earnings per share (¥)	Diluted EPS (¥)
	¥	%	¥	¥
First-half period under review	¥2,992	15.6%	¥ 99.57	¥ 99.54
Previous first half	2,589	(14.0)	86.28	86.19
Previous full term	3,720	(21.7)	123.90	123.78

- Notes:
- Earnings from investments in equity-method affiliates  
First-half period: ¥140 million; Previous first half: ¥104 million; Previous full term: ¥190 million
  - Average number of shares outstanding  
First-half period: 30,058,049 shares; Previous first half: 30,013,096 shares; Previous full term: 30,026,076 shares
  - Change in accounting policy: None
  - Percentage figures for net 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 (¥)
First-half period under review	¥80,645	¥45,659	56.6%	¥1,519.04
Previous first half	71,588	41,185	57.5	1,371.98
Previous full term	72,719	43,153	59.3	1,435.67

- Notes:
- Number of shares issued and outstanding at the end of the period  
First-half period: 30,057,866 shares; Previous first half: 30,019,226 shares; Previous full term: 30,058,206 shares
  - Amounts are calculated using the accounting standards stipulated by the new Corporation Law. However, the figures for net assets, equity ratio, and net assets per share for the first half 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
First-half period under review	¥1,988	¥(5,253)	¥3,259	¥5,445
Previous first half	4,542	(3,169)	(1,101)	6,720
Previous full term	7,076	(7,161)	(989)	5,451

### (4) Scope of consolidation and application of equity-method accounting

Number of consolidated subsidiaries:	16
Number of equity-method non-consolidated subsidiaries:	None
Number of equity-method affiliated companies:	1

### (5) Change in scope of consolidation and equity-method affiliates

New consolidated subsidiaries:	None
Exclusion of consolidated subsidiaries:	None
New equity-method affiliates:	None
Exclusion of equity-method affiliates:	None

## 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 Sept. 30, 2006, i.e. 30,057,866 shares.

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)

	September 30, 2005		September 30, 2006		March 31, 2006
	Amount	Ratio to total assets	Amount	Ratio to total assets	Amount
<b>Assets</b>					
Current assets:					
Cash and deposits	¥ 7,008		¥ 5,594		¥ 5,648
Notes and accounts receivable	24,406		26,767		22,593
Marketable securities					
Inventories	6,632		6,979		6,971
Deferred tax assets	641		701		637
Advance payments	13		—		252
Prepaid expenses	329		349		228
Other current assets	733		1,534		1,433
Allowance for doubtful accounts	(62)		(62)		(106)
Total current assets	39,703	55.5%	41,865	51.9%	37,658
Noncurrent assets:					
Tangible fixed assets:					
Buildings and structures	5,575		6,143		5,946
Machinery, equipment and vehicles	14,264		16,949		15,990
Land	3,742		4,686		3,834
Construction in progress	3,146		4,817		3,185
Other	570		560		586
Total tangible fixed assets	27,298		33,158		29,543
Intangible assets:					
Consolidation adjustment	615		416		516
Other	510		710		663
Total intangible assets	1,126		1,127		1,179
Investments and other assets:					
Investment securities	2,250		2,783		2,600
Long-term loans	60		83		52
Deferred tax assets	284		413		394
Other	1,043		1,393		1,469
Allowance for doubtful accounts	(179)		(179)		(179)
Total investments and other assets	3,460		4,494		4,337
Total noncurrent assets	31,885	44.5	38,780	48.1	35,061
Total assets	¥71,588	100.0%	¥80,645	100.0%	¥72,719

Amounts are rounded down to the nearest million yen.

(¥ million)

	September 30, 2005		September 30, 2006		March 31, 2006
	Amount	Ratio to total assets	Amount	Ratio to total assets	Amount
<b>Liabilities</b>					
Current liabilities:					
Notes and accounts payable	¥17,485		¥16,775		¥15,453
Short-term borrowings	1,664		5,448		2,405
Current portion of long-term debt	825		1,147		831
Income taxes payable	1,854		1,939		1,480
Accrued bonuses	759		837		772
Other current liabilities	4,919		6,031		5,941
Total current liabilities	27,509	38.5%	32,179	39.9%	26,885
Long-term liabilities:					
Long-term loans	1,837		1,647		1,470
Reserve for employees' retirement benefits	934		980		1,035
Other	120		179		174
Total long-term liabilities	2,892	4.0	2,807	3.5	2,680
Total liabilities	30,402	42.5	34,986	43.4	29,565
<b>Shareholders' equity</b>					
Common stock	5,929	8.2	—	—	5,990
Capital surplus	6,172	8.6	—	—	6,233
Retained earnings	30,563	42.7	—	—	31,280
Unrealized gain on available-for-sale securities	187	0.2	—	—	276
Adjustment to minimum pension liability	(467)	(0.6)	—	—	(408)
Foreign currency translation adjustment	(1,129)	(1.5)	—	—	(140)
Treasury stock	(70)	(0.1)	—	—	(77)
Total shareholders' equity	41,185	57.5	—	—	43,153
Total liabilities and shareholders' equity	¥71,588	100.0%	—	—	¥72,719
<b>Net assets</b>					
Shareholders' equity:					
Common stock	—	—	5,990	7.4	—
Capital surplus	—	—	6,233	7.7	—
Retained earnings	—	—	33,972	42.2	—
Treasury stock	—	—	(78)	(0.1)	—
Total shareholders' equity	—	—	46,117	57.2	—
Valuation and translation differences:					
Unrealized gain on available-for-sale securities	—	—	275	0.3	—
Adjustment to minimum pension liability	—	—	(397)	(0.5)	—
Foreign currency translation adjustment	—	—	(336)	(0.4)	—
Total valuation and translation differences	—	—	(458)	(0.6)	—
Total net assets	—	—	45,659	56.6	—
Total liabilities and net assets	—	—	¥80,645	100.0%	—

## Consolidated Statements of Income

(¥ million)

	6 months ended September 30, 2005		6 months ended September 30, 2006		Year ended March 31, 2006
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount
Net sales	¥45,752	100.0%	¥46,407	100.0%	¥ 86,939
Cost of sales	36,047	78.8	36,150	77.9	68,989
Gross profit	9,705	21.2	10,256	22.1	17,950
Selling, general and administrative expenses	5,299	11.6	5,624	12.1	10,770
Operating income	4,405	9.6	4,631	10.0	7,180
Non-operating income:					
Interest income	1		6		13
Dividend income	12		10		15
Foreign exchange gain	21		286		47
Equity in earnings of affiliates	104		140		190
Other	73		76		158
Total non-operating income	213	0.5	520	1.1	426
Non-operating expenses:					
Interest expenses	92		119		190
Loss on disposal of materials	—		—		52
Amortization of preoperating cost	—		36		—
Other	6		23		75
Total non-operating expenses	99	0.2	178	0.4	318
Ordinary income	4,520	9.9	4,973	10.7	7,288
Extraordinary gains:					
Gain on sale of tangible fixed assets	29		4		77
Gain on transfer of goodwill	—		—		23
Gain on sale of investment securities	5		46		6
Reversal of allowance for doubtful accounts	1		54		1
Government subsidies	—		12		—
Total extraordinary gains	36	0.1	118	0.3	108
Extraordinary losses:					
Loss on sale and disposal of tangible fixed assets	17		13		142
Impairment loss	18		—		18
Surcharge levied by U.S. authorities	—		59		—
Additional early retirement benefits	55		—		58
Amounts paid in out-of-court settlement lawsuits	—		—		784
Total extraordinary losses	91	0.2	72	0.2	1,003
Income before income taxes	4,466	9.8	5,019	10.8	6,392
Income taxes:					
Current	1,914		2,111		2,744
Deferred	(37)		(84)		(72)
Total income taxes	1,877	4.1	2,026	4.4	2,672
Net income	¥ 2,589	5.7%	¥ 2,992	6.4%	¥ 3,720

Amounts are rounded down to the nearest million yen.

## Consolidated Interim Statement of Change in Shareholders' Equity

(¥ million)

	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance at March 31, 2006	¥5,990	¥6,233	¥31,280	¥(77)	¥43,426
Changes during term:					
Cash dividends			(300)		(300)
Net income			2,992		2,992
Purchase of own shares				(1)	(1)
Changes in items outside the scope of shareholders' equity, net					
Total changes during term	—	—	2,692	(1)	2,691
Balance at September 30, 2006	¥5,990	¥6,233	¥33,972	¥(78)	¥46,117

	Valuation and translation differences				Total net assets
	Unrealized gain on available-for-sale securities	Adjustment to minimum pension liability	Foreign currency translation adjustments	Total valuation and translation differences	
Balance at March 31, 2006	¥276	¥(408)	¥(140)	¥(272)	¥43,153
Changes during term:					
Cash dividends					(300)
Net income					2,992
Purchase of own shares					(1)
Changes in items outside the scope of shareholders' equity, net	(0)	11	(196)	(185)	(185)
Total changes during term	(0)	11	(196)	(185)	2,505
Balance at September 30, 2006	¥275	¥(397)	¥(336)	¥(458)	¥45,659

Amounts are rounded down to the nearest million yen.

## Consolidated Statements of Cash Flows

(¥ million)

	6 months ended September 30, 2005	6 months ended September 30, 2006	Year ended March 31, 2006
<b>Cash flows from operating activities</b>			
Income before income taxes	¥4,466	¥5,019	¥6,392
Depreciation and amortization	1,579	1,707	3,453
Impairment loss	18	—	18
Amortization of consolidation adjustments	99	99	198
Increase (decrease) in allowance for doubtful accounts	(14)	(44)	23
Increase (decrease) in accrued bonuses	(44)	65	(35)
Increase (decrease) in reserve for employees' retirement benefits	88	(46)	59
Decrease in reserve for directors' retirement allowances	(40)	—	(40)
Equity in earnings of affiliates	(104)	(140)	(190)
Gain on sale of tangible fixed assets	(29)	(4)	(77)
Loss on sale and disposal of tangible fixed assets	17	13	142
Gain on transfer of goodwill	—	—	(23)
Amounts paid in out-of-court settlement lawsuits	—	—	784
Interest and dividend income	(13)	(17)	(28)
Interest expenses	92	119	190
Foreign exchange gain	(55)	(225)	(121)
Decrease (increase) in notes and accounts receivable	(2,011)	(4,107)	19
Decrease (increase) in inventories	165	42	(94)
Increase in notes and accounts payable	2,273	1,305	288
Increase (decrease) in other accounts payable	(437)	(926)	678
Decrease in consumption taxes payable	(73)	(51)	(66)
Other	216	660	(115)
Subtotal	6,192	3,469	11,456
Interest and dividends received	13	17	28
Interest expenses paid	(98)	(116)	(192)
Amount paid in out-of-court settlement of lawsuits	—	—	(784)
Income taxes paid	(1,565)	(1,381)	(3,431)
Net cash provided by operating activities	4,542	1,988	7,076
<b>Cash flows from investing activities</b>			
Proceeds from sale of investment securities	—	67	—
Purchase of investment securities	(9)	(9)	(17)
Purchase of tangible fixed assets	(3,052)	(5,083)	(7,156)
Proceeds from sale of tangible fixed assets	44	—	97
Increase in loans receivable	(11)	(103)	(13)
Proceeds from collection of loans	22	11	34
Proceeds from transfer of goodwill	—	—	454
Purchase of intangible assets	(29)	(112)	(235)
Increase in long-term prepaid expenses	(139)	(90)	(335)
Other	5	67	8
Net cash provided by (used in) investing activities	(3,169)	5,253	(7,161)
<b>Cash flows from financing activities</b>			
Increase in short-term borrowings	69	6,255	840
Repayment of short-term borrowings	(235)	(3,182)	(261)
Increase in long-term loans	—	900	—
Repayment of long-term loans	(479)	(409)	(923)
Repayment of finance lease obligations	(3)	(2)	(6)
Cash dividends paid	(500)	(300)	(800)
Other	45	(1)	160
Net cash provided by (used in) financing activities	(1,101)	3,259	(989)
Effect of exchange rate changes on cash and cash equivalents	7	(0)	85
Net increase (decrease) in cash and cash equivalents	278	(5)	(990)
Cash and cash equivalents at beginning of term	6,441	5,451	6,441
Cash and cash equivalents at end of term	¥6,720	¥5,445	¥5,451

Amounts are rounded down to the nearest million yen.

## Segment Information

### Segmentation by location

(¥ million)

	6 months ended September 30, 2005					
	Japan	North America	Europe	Total	Eliminations/ Corporate	Consolidated amount
Sales:						
Customers	¥34,032	¥6,653	¥5,067	¥45,752	¥ —	¥45,752
Intersegment	586	250	409	1,246	(1,246)	—
Total sales	34,619	6,903	5,476	46,999	(1,246)	45,752
Operating expenses	30,326	7,044	5,255	42,626	(1,279)	41,346
Operating income (loss)	¥ 4,292	¥ (141)	¥ 221	¥ 4,372	¥ 33	¥ 4,405
	6 months ended September 30, 2006					
	Japan	North America	Europe	Total	Eliminations/ Corporate	Consolidated amount
Sales:						
Customers	¥34,180	¥6,974	¥5,252	¥46,407	¥ —	¥46,407
Intersegment	458	143	685	1,287	(1,287)	—
Total sales	34,638	7,118	5,937	47,694	(1,287)	46,407
Operating expenses	30,133	6,761	6,145	43,040	(1,265)	41,775
Operating income (loss)	¥ 4,504	¥ 357	¥ (208)	¥ 4,653	¥ (21)	¥ 4,631
	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)

	6 months ended September 30, 2005		6 months ended September 30, 2006		Year ended March 31, 2006	
	Amount	% of total	Amount	% of total	Amount	% of total
Shrink label	¥28,652	62.6%	¥29,861	64.4%	¥53,254	61.3%
Tack label	4,952	10.9	4,384	9.5	9,217	10.6
Other label	2,937	6.4	2,325	5.0	5,662	6.5
Contract packaging	1,503	3.3	1,639	3.5	2,990	3.4
Machinery	3,578	7.8	3,678	7.9	8,114	9.3
Other	4,128	9.0	4,517	9.7	7,700	8.9
Total	¥45,752	100.0%	¥46,407	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 tack 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.