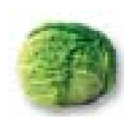
# Growing from Within



A Total Package Solutions Provider

Annual Report 2001

Fuji Seal

▶▶▶ Since our founding in 1897, the Fuji Seal Group has built a reputation as the leading international packaging solutions company. Central to our product line is the shrink label, which can be fitted to the contours of containers of any shape. Our bases in the United States, Europe and Asia enable us to provide customers worldwide with the latest global packaging trends and market information. We offer a comprehensive system that integrates all processes from developing materials to design, printing, production and installation machinery. Under the system, we create new packaging together with our customers. At the same time, we deliver solutions to customers' needs, even as far as helping them increase manufacturing efficiency and reduce costs. We are indeed a comprehensive global packaging solutions company.

# Growing from Within

On the cover ▶ Our competitive advantage rests on the same technological strength that has driven global expansion in the market for shrink labels, our core product. Our competitive advantage rests on the same technological strength that has driven global expansion in the market for shrink labels, our core product.

## Contents



## Consolidated Financial Highlights

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | **2001** |
| Net sales | ¥45,073 | ¥50,169 | ¥51,497 | ¥51,326 | **¥53,896** |
| Operating income | 3,101 | 4,033 | 4,875 | 5,442 | **4,422** |
| Net income | 798 | 1,590 | 2,182 | 2,862 | **2,197** |
| Total assets | 31,439 | 33,695 | 35,675 | 38,650 | **48,116** |
| Shareholders' equity | 6,925 | 10,412 | 14,057 | 17,127 | **18,368** |

# To Our Shareholders

Ken Takeda, President and Chief Operating Officer (left) Masaaki Fujio, Chairman and Chief Executive Officer

## Overview of Operating Results for the Fiscal Year Ended March 31, 2001

*Drawing on our core product shrink labels, Fuji Seal has continued to support our customers' needs around the world. Packaging plays a crucial role in distinguishing products from those of competitors, enhancing safety, and addressing environmental issues. Under our new medium-term management plan, we will take a new leap to expansion, linking our operations globally by strengthening R&D efforts and conducting M&As to bolster our operating base.*

### Efforts to Adapt to a Changing Society Pay Off With Strong Sales Growth

Fiscal 2001, the year ended March 31, 2001, was shaped by global-scale corporate mergers and restructuring. During the year, we continued to offer proposals and solutions tailored to changing markets and more diverse customer needs. For example, we responded quickly to an increase in domestic demand for small container PET bottles, and the shift from colored containers to more environmentally conscious transparent containers. We continued to support new product development as the industry moved toward fully encasing their containers in shrink labels to enhance sales promotion worldwide. Our four bases in Japan, the United States, Europe and Asia provide a base of corporate clients operating under a collective global brand. They allow us to share the same leading-edge infrastructure for information, technology, manufacturing and sales. In the year under review, this framework again melded the Fuji Seal Group into an organic whole.

As a result of our efforts, consolidated net sales rose 5.0% year on year to ¥53,895 million. However, we faced domestic calls to lower product prices, and an increase in R&D expenses in film operations. Penetration of our labels in the North American market therefore did not progress according to our plans. In Europe, we were unable to fill a portion of increased orders in UK label operations after March 31, 2000. Accordingly, consolidated ordinary income fell 13.1% to ¥4,672 million, and net income declined 23.3% to ¥2,196 million.

## Capturing New Synergies from the Purchase of Owens-Illinois

The most significant development in our overseas business in the year under review was the acquisition of U.S. manufacturer Owens-Illinois, Inc., one of the world's leading producers of glass and plastics packaging products. The company develops cushioned labels for glass bottles and heat-resistant labels for microwave ovens. Owens-Illinois boasts an illustrious client portfolio in the beverage, food and toiletries industries. We expect to capture positive synergies with Owens-Illinois in areas such as marketing and technological development. The acquisition will not only serve as a springboard for the growth of our shrink labels in the U.S. market, but will also enable us to deliver to Europe and Japan innovative new products incorporating Owens-Illinois' leading technology.

## Further Advances in Environmental Measures and R&D

In March 2001, we acquired ISO14001 certification, the international standard for environmental management. In the same month, we established an R&D center in Tsurumi Ward, Osaka. These two events reflect our concerted focus on environment protection and technological development. The R&D center, which fuses development and marketing operations, the center will actively pursue the timely development and commercialization of the technologies demanded by customers.

## The New Five-year Medium-term Management Plan: Attaining Net Sales of ¥100 Billion

Our efforts are focused intently on the global expansion of our business. Commencing April 1, 2001, we have formulated a five-year medium-term management plan. The plan, which runs to the end of fiscal 2005, targets net sales of ¥100 billion, and ordinary income of ¥10 billion. Specific policies have been formulated to achieve these goals, and we are currently in the process of implementing them.

In the current fiscal year, we have seconded top management executives well versed in Fuji Seal policy to both North America and Europe. The move is designed to rebuild our business foundations and reverse the current trend of substantial losses in both these regions. We also expect our new acquisition, Owens-Illinois, to make an important contribution to earnings. Our projections for Owen-Illinois, which are based on an 11-month period, are for net sales of ¥6 billion and ordinary income of ¥0.2 billion. As we move forward with this management plan, we will continue to globalize our packaging products and work aggressively to expand business, including through M&As. In doing so, we will make every effort to maximize shareholder value.

Masaaki Fujio, Chairman and Chief Executive Officer

Ken Takeda, President and Chief Operating Officer

Listen

**Using heat contraction with a film covering the container, our shrink labels fit the contours, and configuration, of containers of varied shape and size. Our shrink labels are utilized in a wide variety of food, beverage, pharmaceutical, toiletry and other products. The purpose of packaging has always been to transport and protect its contents. Equally important today are generating appeal in the product and conveying information to customers.**

# Our Goals and Core Strengths

Companies' demands for more diverse packaging are more advanced than ever before. Shrink labels meet these needs. Our shrink labels offer use of the full container for both design, and to convey information. This allows for a higher level of customer satisfaction.

We focused on shrink labels from a particularly early stage, putting together a comprehensive, integrated packaging system. This system covers a broad range of areas, from the development of film and ink materials to manufacturing processes for packaging production, including design, typesetting and printing, and the development and manufacture of packaging machinery. For example, with our shrink labels, we were able to meet the shift from can to bottle, and from paper to plastic without any discernable time lag. Even our label materials, including films that block ultraviolet radiation, boast value-added functions. From materials to products, we have dedicated ourselves to delivering consistently high quality.

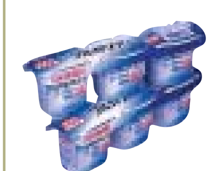
Deliver

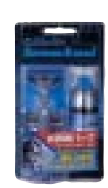
Analyze

Through our 4 bases in Japan, the United States, Europe and Asia, we do business directly with leading companies around the world. This brings us closer to customers, from whom we can obtain information about the latest design and market trends. We incorporate this information into our comprehensive packaging system, and provide feedback to customers throughout the world. As our production and sales centers implement all process from design to typesetting, printing, production and shipment, they must overcome various hurdles to meet the exacting demands of our corporate clients. In this process, we have accumulated a wealth of information, experience, know-how and technology.

Because of how the information system functions, we have been able to build an organization characterized by flexibility and strength, and capable of staying ahead of changing trends and social currents.

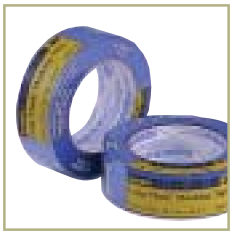
Fuji Seal has captured more than 40% of the global shrink label market. Boosting our presence in the global market and increasing our share are key goals. We are also deeply committed to improving services for global clients through our information system, and developing new packaging that caters to emerging needs in the new era.





Innovate

America



**We first began exporting to Southeast Asia in 1961. Currently, we maintain operations in the United States, Europe and Asia. Our clients are composed of international companies with renowned brand names, and our business activities encompass the entire spectrum of the packaging process. Containers, design trends, technology and market information varies from country to country. Consumerism is also highly diverse. We collect and analyze information on customers' packaging needs at each operation. This information is a global asset that we feed back to all our business locations worldwide.**

# Our Approach

Global information is a powerful tool for delivering solutions to customers across all packaging processes. Our international locations quickly resolve issues that arise among customers or in the countries themselves, and respond flexibly to change. This all-round capability makes Fuji Seal a total packaging solutions company with a truly global presence.

In 1982, the United States was rocked by the Tylenol incident, in which bottles of Tylenol cold remedy were found laced with cyanide. Our local U.S. subsidiary supplied pharmaceutical manufacturers with complete tamperproof shrink packaging that covered the entire container and protected the product inside. The success of this product led to a surge in demand from leading pharmaceutical and food companies. Furthermore, when we initially designed packaging machinery facilities for the U.S. market, even our fastest machines were unable to keep up with production line demands on the U.S. side. To meet this demand, we developed custom-made designs for labeling machinery that boosted speed and performance.

Fuji Seal

Europe

Fifteen years ago, as part of a growing environment protection movement, the German market began to refrain from using polyvinyl chloride containers. Perceiving this a global trend, we were the first company in Japan to take the same initiative. European nations in particular use containers of unique shape compared with other countries. We have earned the trust of customers by developing new technologies that meet their exacting demands for high-quality packaging.

In Southeast Asia, the prevalence of imitation products continues to rise. While it is possible to duplicate a container, mastering the technology of packaging is quite a different matter. Imitations of products in which our labels are used are few and far between. As such, we are playing a key role in reducing this risk for our customers. The above examples testify to our ability to stay ahead of market and social changes by responding astutely to the latest demands from customers.

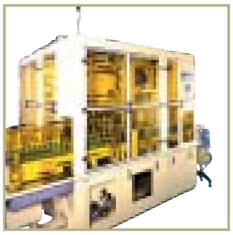
The addition of Owens-Illinois to the Fuji Seal Group presents new and exciting opportunities. This combination of the leading shrink label manufacturer and leading plastics packaging company will strengthen our response to developing products for new needs, and bolster our ability to deliver innovative proposals to customers. Setting ourselves the task of conducting new M&As, we will turn our attention to creating a third business model to take our shrink label operations to the next level.



R&D

◀ Fuji Astec

◀ American Fuji Seal (West)



▲ Shrink Sleeve Applicator Model LSA-9244

▲ Cartoning Machine Model ATC-1000

**Traditionally, the purpose of a container was to protect its contents. As times changed, additional needs arose. New packaging materials were sought to prevent tampering, and to enhance package design techniques to promote sales. As design techniques are further upgraded with refinements to container materials and shape, customers are looking for ways to stimulate more appeal for their products among consumers by distinguishing them from similar brands on the market.**

# Our Background

The Fuji Seal Group has always stayed ahead of market developments by viewing the ever diversifying, more sophisticated needs of customers for materials, design and manufacturing as an ideal opportunity to promote our business. We are responding swiftly and precisely to more advanced tamperproof and display packaging features, while also meeting society's desire for products that are environmentally sound, safe and economical.

Environmental concerns in Japan have prompted calls for easily removable labels on PET bottles and other containers, which can then by recycled. Our shrink and stretch labels adequately cover container contents when in use, and with a perforated tearline, can be easily removed when returned for recycling. On the safety side, we have increased our range of full shrink labels that cover the bottle right up to the capseal, thus protecting contents from foreign substances. Our customers are constantly seeking ways to enlarge the container display as part of their sales promotion efforts. However, new demands are being placed on product labeling. For example, as Japanese society ages,

◀ Tokyo Office

◀ Nabari Plant

Fuji Seal Europe (UK) ▶

Fuji Seal Europe (NL) ▶

there is a growing need to produce bigger labels with enlarged lettering. We must also satisfy calls for more detailed lists of ingredients and for including the name of the label manufacturer on the container. Irrespective of the shape of the container and the demand of the customer, our labels cover the maximum area possible. That's why our products are the de facto industry standard.

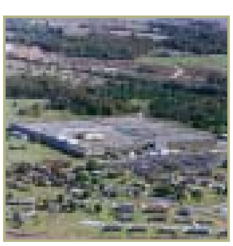
The lifecycles of food products at convenience stores and other outlets are shortening, while manufacturers are increasing their product inventories. Using standardized containers and labeling as demand for individual products arises allows for optimal product and container inventories. Moreover, compared with glass and other containers, plastic containers such as PET bottles require lower capital expenditures. This is advantageous, because they can be rolled out quickly to meet demand wherever it arises. PET bottles also have the benefits of being shatterproof and lightweight, which accounts for their increased use. Overseas, we are seeing a transition from paper to plastic containers, particularly for dairy beverages. Changes such as these are stimulating higher demand for our shrink labels, which fit the shape of any plastic bottle.

With increasing concern for environmental preservation comes a heightened need for containers that are recyclable and biodegradable. This in turn creates new demand for refined packaging materials and technologies. We have always stayed ahead of social change and the needs of our clients. Our insight and experience provide us with the wisdom and R&D capabilities to meet these requirements. We are dedicated to being a company that can contribute to society by resolving environmental issues with such skills.

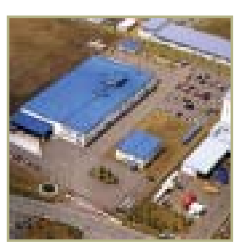
Fuji Ace ▼

American Fuji Seal (East) ▼

Osaka Office ▼



◀ American Fuji Seal (Kentucky)



◀ Tsukuba Plant

## FINANCIAL SUMMARY

In the fiscal year ended March 31, 2001, the packaging materials industry experienced a period of considerable transition. Global-scale corporate mergers, restructuring and more borderless business operations shaped the industry.

The Fuji Seal Group's operating environment was characterized by growing customer demand for packaging from all parts of the globe, including Japan, the U.S., Europe and Asia. Worldwide, customers particularly called for environmentally sound packaging, higher label content, and more label visibility to differentiate products from others on store shelves. In this way, expectations toward shrink labels, Fuji Seal's core product, continued to heighten.

## RESULTS OF OPERATIONS

**Net Sales**

Consolidated net sales rose 5.0% year on year to ¥53,895 million.

**Japan**

Domestic net sales increased 6.1% over the previous year to ¥47,969 million. The growth reflected higher demand for full shrink labels in line with an increase in small container PET bottles. Full shrink labels respond to customers' shift from colored containers to more environmentally conscious transparent containers, and demands for higher label content and visibility. In addition, steady growth was also seen in functional packaging for processed foods, childproof seals primarily for pharmaceutical and cosmetic products, and sales promotional campaign systems.

**United States**

In 1999, Fuji Seal restructured its North American operations and discontinued large-scale orders from the beverage industry—an area outside its target market. In August 2000, the company implemented a change in management and began preparations for capturing new target customers. In the year under review, however, sales of Fuji Seal labels did not progress according to plans. Consequently, net sales in the United States were held to a nominal 0.6% year-on-year increase to ¥3,088 million.

**Europe**

Sales in Europe increased 1.9% to ¥3,623 million. Fuji Seal's machinery operations in the Netherlands staged a recovery supported by orders primarily for the U.S. market. However, UK label operations presented major challenges, with senior management issues triggering the departure of key middle management. As a result, the company was unable to fill a portion of increased orders from April 2000 onward. Following a change in management, Fuji Seal worked to restructure and bolster its organization while disposing of dead stock inventories and dealing with customer complaints.

**Cost of Sales**

Cost of sales increased 7.9% to ¥41,871 million. Cost of sales as a percentage of net sales rose slightly from 75.6% in the previous year to 77.7%. Major contributing factors were a fall in product prices in Japan and below-par performance in the European and U.S. markets.

**Selling, General and Administrative (SG&A) Expenses**

SG&A expenses climbed 7.2% to ¥7,602 million, reflecting an increase in selling expenses in line with the higher net sales, an increase in the allowance for doubtful accounts, and higher operating costs associated following the introduction of an integrated enterprise resource planning (ERP) packaging system. As a percentage of net sales, SG&A expenses were 14.1%, a slight increase over the previous fiscal year.

**Operating Income**

Consolidated operating income fell 18.7% from the previous fiscal year to ¥4,422 million.

In Japan, operating income decreased 5.8% to ¥4,928 million. The major factors contributing to this decline were a lower profit margin due to cost-cutting measures for shrink labels and other products and higher R&D expenditures in film operations, and an unexpected increase in SG&A expenses following the introduction of an integrated ERP packaging system. In North America, Fuji Seal recorded an operating loss of ¥181 million, a 368.1% decline on the previous year. This was primarily attributable to an increase in materials expenses and the sudden depreciation of the yen. In Europe, management issues prevented the company from filling a portion of orders. Consequently, an operating loss of ¥371 million was recorded for this region.

**Other Income**

Other income was ¥709 million, up 131.7%, reflecting a net foreign exchange profit of ¥310 million.

**Other Expenses**

Other expenses rose 23.8% to ¥458 million, reflecting the acquisition of stock in Owens-Illinois Labels, Inc. This company was included in the scope of consolidation for the Fuji Seal Group effective the year ended March 31, 2001. As part of the overall costs of acquisition, Fuji Seal recorded a non-operating loss of ¥183 million.

**Consolidated Net Income**
As a result of the aforementioned, consolidated net income was ¥2,196 million, down 23.2% from the previous fiscal year. Non-consolidated net income per share was ¥142.75.

## FINANCIAL POSITION

**Assets**
As of March 31, 2001, total assets stood at ¥48,116 million, 24.5% higher than a year earlier.

Current assets increased 11.2% to ¥26,152 million. The main factors were the fact that the fiscal year-end fell on a Saturday, and an increase in trade notes and accounts receivable following the purchase of Owens-Illinois. Notes and accounts receivable rose 16.2% to ¥17,791 million.

Fixed assets rose 53.7% to ¥21,963 million, As a result of the acquisition of Owens-Illinois, property, plant and equipment increased 50.5% to ¥17,986 million, comprising a 22.2% increase in buildings and structures to ¥4,270 million and a 100.2% increase to ¥9,798 million in machinery, equipment and vehicles. Fuji Seal also recorded consolidation adjustments of ¥1,313 million in investments and other assets in line with the acquisition of Owens-Illinois. This amount will be amortized over a five-year period.
Investments and other assets climbed 16.5% to ¥2,286 million.

**Liabilities**
As of March 31, 2001, total liabilities were ¥29,748 million, up 38.4% from a year earlier mainly reflecting an increase in debt. Notes and accounts payable rose ¥1,146 million to ¥12,069 million.

The acquisition of Owens-Illinois was the principal factor behind the debt increase. Short-term bank loans rose ¥5,685 million to ¥6,363 million and long-term debt was ¥5,198 million, up ¥2,591 million from a year ago. Corporate bonds were fully redeemed as of March 28, 2001.

**Shareholders' Equity**
Shareholders' equity increased 7.2% to ¥18,368 million.

**CASH FLOWS**
As of March 31, 2001, consolidated cash and cash equivalents were down ¥701 million from a year earlier at ¥3,117 million.

**Cash Flows from Operating Activities**
Net cash provided by operating activities decreased 66.0% to ¥1,936 million. The main reasons were a decrease in income before income taxes and minority interests, an increase in notes and accounts receivable due to the fiscal year-end falling on a holiday, causing collection to flow over into April 2001, and a lower increase in notes and accounts payable than in the previous fiscal year.

**Cash Flows from Investing Activities**
Net cash used in investing activities increased 313.5% to ¥9,928 million. This comprised a payment of ¥7,067 million for the purchase of Owens-Illinois (renamed American Fuji Seal, Inc.) and a payment of ¥2,588 million for purchase of property, plant and equipment mainly in Japan, including typesetting facilities.

**Cash Flows from Financing Activities**
Net cash provided by financing activities was ¥7,260 million, an increase over the ¥866 million used in the previous year. This reflected an increase in debt following the acquisition of Owens-Illinois (now American Fuji Seal, Inc.).

## CAPITAL EXPENDITURES

The Fuji Seal Group makes capital expenditures in accordance with annual increases in production volume. Expenditures are made for regular investment projects and strategically phased projects, with the greater majority of expenditures made for the former. In the year ended March 31, 2001, Fuji Seal made capital expenditures totaling ¥3,206 million to enhance production capacity and improve product quality. The company's Nabari and Tsukuba plants were the main targets of expenditures for production facilities and leased machinery.

## R&D ACTIVITIES

The Fuji Seal Group's R&D activities are conducted under a two-pronged approach. Marketing divisions, led by the Sales and Planning Department, identify customers' needs, while the R&D Center—established on March 24, 2001 in Osaka—the Purchasing Department and relevant Group companies work together to develop new products, technologies and materials. R&D expenditures for the year ended March 31, 2001 totaled ¥1,076 million.

# Consolidated Balance Sheets

FUJI SEAL INC. and Subsidiaries
March 31, 2001 and 2000

| ASSETS | Thousands of yen 2001 | Thousands of yen 2000 | Thousands of U.S. dollars (Note 1) 2001 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents | **¥ 3,117,781** | ¥ 3,818,830 | **$ 25,164** |
| Notes and accounts receivable: | | | |
| Trade | **17,791,999** | 15,305,916 | **143,600** |
| Other | **35,862** | 36,807 | **289** |
| Allowance for doubtful accounts | **(231,864)** | (137,674) | **(1,871)** |
| | **17,595,997** | 15,205,049 | **142,018** |
| Inventories (Note 4) | **5,001,872** | 4,072,650 | **40,370** |
| Deferred income taxes (Note 13) | **236,490** | 228,180 | **1,909** |
| Other current assets | **200,199** | 199,616 | **1,615** |
| Total current assets | **26,152,339** | 23,524,325 | **211,076** |
| **Property, plant and equipment** (Note 5)**:** | | | |
| Land | **3,072,733** | 2,994,799 | **24,800** |
| Buildings and structures | **9,866,094** | 6,478,659 | **79,629** |
| Machinery and equipment | **27,402,411** | 16,302,706 | **221,166** |
| Construction in progress | **495,313** | 235,974 | **3,998** |
| | **40,836,551** | 26,012,138 | **329,593** |
| Less—accumulated depreciation | **(22,849,830)** | (14,061,230) | **(184,422)** |
| | **17,986,721** | 11,950,908 | **145,171** |
| **Investments and other assets:** | | | |
| Investments in securities (Note 3) | **654,322** | 460,801 | **5,281** |
| Investments in affiliates | **626,941** | 450,189 | **5,060** |
| Computer software costs, net | **343,039** | 339,117 | **2,769** |
| Consolidation adjustments | **1,313,013** | – | **10,597** |
| Deferred income taxes (Note 13) | **147,151** | 208,425 | **1,188** |
| Other | **1,150,203** | 1,047,595 | **9,283** |
| Allowance for doubtful accounts | **(257,402)** | (170,706) | **(2,077)** |
| | **3,977,267** | 2,335,421 | **32,101** |
| Foreign currency translation adjustments | **–** | 839,131 | **–** |
| | **¥ 48,116,327** | ¥ 38,649,785 | **$ 388,348** |

*The accompanying notes are an integral part of these statements.*

| LIABILITIES AND SHAREHOLDERS' EQUITY | Thousands of yen 2001 | 2000 | Thousands of U.S. dollars (Note 1) 2001 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term bank loans (Note 5) | **¥ 6,363,140** | ¥ 677,519 | **$ 51,357** |
| Current portion of long-term debt (Note 5) | **957,912** | 1,665,087 | **7,731** |
| Notes and accounts payable: | | | |
| Trade | **12,069,425** | 10,923,327 | **97,413** |
| Construction | **77,870** | 26,838 | **628** |
| Other | **1,981,749** | 2,050,810 | **15,995** |
| Accrued income taxes (Note 13) | **1,204,789** | 1,425,503 | **9,724** |
| Accrued expenses | **895,970** | 932,332 | **7,231** |
| Other current liabilities | **562,214** | 572,152 | **4,539** |
| Total current liabilities | **24,113,069** | 18,273,568 | **194,618** |
| **Long-term debt** (Note 5) | **5,198,358** | 2,652,688 | **41,956** |
| Accrued severance indemnities (Note 6) | **437,038** | 473,331 | **3,527** |
| Other liabilities | **–** | 93,980 | **–** |
| Total liabilities | **29,748,465** | 21,493,567 | **240,101** |
| **Minority interests** | **–** | 29,650 | **–** |
| **Contingencies** (Note 7) | | | |
| **Shareholders' equity** (Note 10)**:** | | | |
| Common stock, par value ¥50 per share: | | | |
| Authorized 25,000,000 shares | | | |
| Issued: 2001—15,219,000 shares | **2,301,850** | – | **18,578** |
| 2000—15,219,000 shares | **–** | 2,301,850 | **–** |
| Additional paid-in capital | **2,544,000** | 2,544,000 | **20,533** |
| Retained earnings | **14,270,256** | 12,280,777 | **115,176** |
| Net unrealized holding gains on securities | **102,493** | – | **827** |
| Foreign currency translation adjustments | **(850,451)** | – | **(6,865)** |
| | **18,368,148** | 17,126,627 | **148,249** |
| Less—treasury stock, at cost: | | | |
| 2001 | **(286)** | – | **(2)** |
| 2000 | **–** | (59) | **–** |
| | **18,367,862** | 17,126,568 | **148,247** |
| | **¥48,116,327** | ¥38,649,785 | **$388,348** |

# Consolidated Statements of Income

FUJI SEAL INC. and Subsidiaries
Years Ended March 31, 2001 and 2000

| | Thousands of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Net sales | **¥53,895,845** | ¥51,325,957 | **$434,995** |
| Cost of sales | **41,871,185** | 38,789,609 | **337,944** |
| Gross profit | **12,024,660** | 12,536,348 | **97,051** |
| **Selling, general and administrative expenses** (Note 11) | **7,602,435** | 7,094,388 | **61,359** |
| Operating income | **4,422,225** | 5,441,960 | **35,692** |
| **Other income (expenses):** | | | |
| Interest and dividend income | **27,738** | 13,315 | **224** |
| Interest expenses | **(265,254)** | (244,881) | **(2,141)** |
| Foreign exchange profit (loss), net | **310,107** | (112,592) | **2,503** |
| Equity in earnings of affiliates | **165,761** | 95,016 | **1,338** |
| Loss on sales or disposal of property, plant and equipment, net | **(15,193)** | (23,596) | **(123)** |
| Reversal of accrued severance indemnities for directors and corporate auditors | **–** | 205,009 | **–** |
| Past service cost of retirement benefits | **–** | (138,831) | **–** |
| Other, net | **12,059** | 184,769 | **97** |
| Income before income taxes and minority interests | **4,657,443** | 5,420,169 | **37,590** |
| **Income taxes** (Note 13)**:** | | | |
| Current | **2,511,313** | 2,602,266 | **20,269** |
| Deferred | **(21,224)** | (63,064) | **(172)** |
| | **2,490,089** | 2,539,202 | **20,097** |
| Income before minority interests | **2,167,354** | 2,880,967 | **17,493** |
| **Minority interests in subsidiaries** | **29,302** | (19,134) | **236** |
| Net income | **¥ 2,196,656** | ¥ 2,861,833 | **$ 17,729** |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| **Net income per share:** | | | |
| Basic | **¥144.34** | ¥188.04 | **$1.16** |
| Diluted | **–** | – | **–** |
| Cash dividends per share | **12.00** | 12.00 | **0.10** |

*The accompanying notes are an integral part of these statements.*

# Consolidated Statements of Shareholders' Equity

FUJI SEAL INC. and Subsidiaries
Years Ended March 31, 2001 and 2000

| | | Thousands of yen | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares issued (thousands) | Common stock | Additional paid–in capital | Retained earnings | Net unrealized holding gains on securities | Foreign currency translation adjustments | Treasury stock |
| Balance at March 31, 1999 | 7,610 | ¥ 2,301,850 | ¥ 2,544,000 | ¥ 9,211,552 | ¥ – | ¥ – | ¥ (357) |
| Prior years' tax effect | – | – | – | 372,112 | – | – | – |
| Net income for the year | – | – | – | 2,861,833 | – | – | – |
| Cash dividends | – | – | – | (136,970) | – | – | – |
| Bonuses to directors and corporate auditors | – | – | – | (27,750) | – | – | – |
| Increase due to stock split | 7,609 | – | – | – | – | – | – |
| Decrease in treasury stock | – | – | – | – | – | – | 298 |
| Balance at March 31, 2000 | 15,219 | 2,301,850 | 2,544,000 | 12,280,777 | – | – | (59) |
| Net income for the year | – | – | – | 2,196,656 | – | – | – |
| Cash dividends | – | – | – | (182,628) | – | – | – |
| Bonuses to directors and corporate auditors | – | – | – | (24,549) | – | – | – |
| Decrease in treasury stock | – | – | – | – | – | – | (227) |
| Net unrealized holding gains on securities | – | – | – | – | 102,493 | – | – |
| Foreign currency translation adjustments | – | – | – | – | – | (850,451) | – |
| **Balance at March 31, 2001** | **15,219** | **¥2,301,850** | **¥2,544,000** | **¥14,270,256** | **¥102,493** | **¥(850,451)** | **¥(286)** |

| | Thousands of U.S. dollars (Note 1) | | | | | |
|---|---|---|---|---|---|---|
| | Common stock | Additional paid–in capital | Retained earnings | Net unrealized holding gains on securities | Foreign currency translation adjustments | Treasury stock |
| Balance at March 31, 2000 | $ 18,578 | $ 20,533 | $ 99,118 | $ – | $ – | $ 0 |
| Net income for the year | – | – | 17,729 | – | – | – |
| Cash dividends | – | – | (1,474) | – | – | – |
| Bonuses to directors and corporate auditors | – | – | (197) | – | – | – |
| Decrease in treasury stock | – | – | – | – | – | (2) |
| Net unrealized holding gains on securities | – | – | – | 827 | – | – |
| Foreign currency translation adjustments | – | – | – | – | (6,865) | – |
| **Balance at March 31, 2001** | **$18,578** | **$20,533** | **$115,176** | **$827** | **$(6,865)** | **$(2)** |

*The accompanying notes are an integral part of these statements.*

# Consolidated Statements of Cash Flows

FUJI SEAL INC. and Subsidiaries
Years Ended March 31, 2001 and 2000

| | Thousands of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| **Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests | **¥ 4,657,443** | ¥ 5,420,169 | **$ 37,590** |
| Adjustments for: | | | |
| Depreciation | **1,824,553** | 1,620,134 | **14,726** |
| Provision for doubtful accounts | **36,634** | (65,652) | **296** |
| Provision for accrued severance indemnities | **(36,293)** | (70,500) | **(293)** |
| Interest and dividend income | **(27,738)** | (13,315) | **(224)** |
| Interest expenses | **265,254** | 244,881 | **2,141** |
| Equity in earnings of affiliates | **(165,761)** | (95,016) | **(1,338)** |
| Loss on sales or disposal of property, plant and equipment, net | **15,193** | 23,596 | **123** |
| (Increase) decrease in notes and accounts receivable | **(1,530,702)** | 322,797 | **(12,354)** |
| (Increase) decrease in inventories | **(147,020)** | 58,268 | **(1,187)** |
| Increase in notes and accounts payable | **255,426** | 1,026,276 | **2,062** |
| Other | **(257,429)** | 33,217 | **(2,078)** |
| Sub total | **4,889,560** | 8,504,855 | **39,464** |
| Interest and dividend income received | **25,779** | 13,313 | **208** |
| Interest expenses paid | **(247,184)** | (245,418) | **(1,995)** |
| Income taxes paid | **(2,732,094)** | (2,583,572) | **(22,051)** |
| Net cash provided by operating activities | **1,936,061** | 5,689,178 | **15,626** |
| **Cash flows from investing activities:** | | | |
| Payments for purchase of property, plant and equipment | **(2,588,186)** | (1,608,691) | **(20,889)** |
| Proceeds from sales of property, plant and equipment | **4,643** | 21,290 | **37** |
| Payments for purchase of investments in securities | **(17,188)** | (58,227) | **(139)** |
| Payments for acquisition of shares of new consolidated subsidiaries, net | **(7,067,186)** | – | **(57,039)** |
| Payments for loans receivable | **(9,700)** | (311,600) | **(78)** |
| Collections of loans receivable | **29,083** | 25,231 | **235** |
| Other | **(279,869)** | (469,021) | **(2,259)** |
| Net cash used in investing activities | **(9,928,403)** | (2,401,018) | **(80,132)** |
| **Cash flows from financing activities:** | | | |
| Increase (decrease) in short-term bank loans, net | **5,647,282** | (414,158) | **45,579** |
| Proceeds from issuance of long-term debt | **3,500,000** | 711,470 | **28,249** |
| Repayment of long-term debt | **(1,703,768)** | (988,272) | **(13,751)** |
| Cash dividends paid | **(182,628)** | (136,969) | **(1,474)** |
| Other | **(167)** | (38,121) | **(2)** |
| Net cash provided (used) in financing activities | **7,260,719** | (866,050) | **58,601** |
| **Effect of exchange rate changes on cash and cash equivalents** | **30,574** | (62,212) | **247** |
| **Net increase (decrease) in cash and cash equivalents** | **(701,049)** | 2,359,898 | **(5,658)** |
| **Cash and cash equivalents at beginning of year** | **3,818,830** | 1,458,932 | **30,822** |
| **Cash and cash equivalents at end of year** | **¥ 3,117,781** | ¥ 3,818,830 | **$ 25,164** |

*The accompanying notes are an integral part of these statements.*

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by FUJI SEAL, INC. (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements filed with the Director of Kinki Local Finance Bureau in Japan have been reclassified for the convenience for readers outside Japan.

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

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥123.9=U.S.$1, the rate of exchange on March 31, 2001, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the rate or any other rate.

## 2. Summary of Significant Accounting Policies

*(a) Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Company and its 11 subsidiaries for the year ended March 31, 2001 and its 10 subsidiaries for the year ended March 31, 2000.

All significant inter-company accounts and transactions are eliminated in consolidation.

The consolidated subsidiaries are listed bellows:

| 2001 | | 2000 | |
|---|---|---|---|
| Name | Year end | Name | Year end |
| Fuji Tack, Inc. | March 31 | Fuji Tack, Inc. | March 31 |
| Pack Fuji, Inc. | March 31 | Pack Fuji, Inc. | March 31 |
| Fuji Logistics, Inc. | March 31 | Fuji Logistics, Inc. | March 31 |
| Fuji Technical Service, Inc. | March 31 | Fuji Technical Service, Inc. | March 31 |
| Fuji Astec, Inc. | March 31 | Fuji Astec, Inc. | March 31 |
| Fuji Alpha, Inc. | March 31 | Fuji Alpha, Inc. | March 31 |
| Suzuki Corporation | March 31 | Suzuki Corporation | March 31 |
| Fuji Seal Europe, Ltd. | December 31 | Fuji Seal Europe, Ltd. | December 31 |
| Fuji Seal Europe B.V. | December 31 | Fuji Seal Europe B.V. | December 31 |
| American Fuji Seal, Inc. (incorporated under the laws of the State of California) | December 31 | American Fuji Seal, Inc. (incorporated under the laws of the State of California) | December 31 |
| American Fuji Seal, Inc. (incorporated under the laws of the State of Kentucky) | December 31 | | |

American Fuji Seal, Inc. incorporated under the laws of the State of Kentucky (former Owens-Illinois Labels, Inc.) has been stated to be consolidated since the year ended March 31, 2001 due to the Company's acquisition of its share on January 31, 2001. Suzuki Corporation has been stated to be consolidated since the year ended March 31, 2000 due to the Company's acquisition of its share on February 31, 2000.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair value.

Investments in the affiliate, Fuji Ace Co., Ltd., are accounted for by the equity method whereby the Company and its subsidiaries include its equity in earnings or losses of this company in net income and record its investments at cost adjusted for such equity in earnings or losses. Since Fuji Ace Co., Ltd. has changed in the date of its fiscal year end from December 31 to March 31, the Company's equity in earnings for 15 months was included in the consolidated financial statements for the year ended March 31, 2001.

The financial statements of consolidated subsidiaries, whose fiscal year-ends are December 31, are included in consolidated financial statements on the basis of their respective fiscal years after making appropriate adjustments for material transactions during the periods from their respective year-ends to the date of the accompanying consolidated financial statements.

Consolidation adjustment account, which is the difference between the cost of investments in a subsidiary and the equity in its net assets at the date of acquisition, is amortized over five years.

*(b) Translation of Foreign Currency*

Revenue and expense items arising from transactions denominated in foreign currencies are translated into Japanese yen at the rates effective in general at the respective transaction dates.

As of March 31, 2000, foreign currencies and short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates prevailing at the balance sheet date, and long-term receivables and payables denominated in foreign currencies were translated at the historical rates prevailing at the transaction dates.

Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries have adopted the Financial Accounting Standards for Foreign Currency Transactions revised by the Business Accounting Deliberation Council, which require that all monetary assets and liabilities denominated in foreign currencies, whether short-term or long-term, are translated into Japanese yen at the current exchange rates prevailing at the balance sheet date. There is no effect of the adoption of the revised standards for the year ended March 31, 2001.

The resulting translation gains or losses are included in determination of net income for the years.

The foreign currency financial statements of overseas subsidiaries are translated into Japanese yen for consolidation purposes under the method prescribed by the Business Accounting Deliberation Council. Balance sheet accounts other than shareholders' equity, which is translated at the historical rates, are translated at current rates. Differences arising from translation stated under the section entitled "Foreign currency translation adjustments" in assets as of March 31, 2000 have been changed to be included in shareholders' equity (¥850,451 thousand ($6,865 thousand)) in accordance with the revised standards as of March 31, 2001.

*(c) Cash and Cash Equivalents*
Cash and cash equivalents compose of cash in hand, deposits held at call with bank and all highly liquid investments with maturities of one year or less when purchased which present insignificant risk of change in value.

*(d) Investments in Securities*
As of March 31, 2000, securities listed on stock exchanges were stated at the lower of cost or market, cost being determined by the moving average method. Securities except for securities described above were stated at cost, cost being determined by the moving average method.

Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries have adopted the new Financial Accounting Standards for Financial Instruments issued by the Business Accounting Deliberation Council. Following the new standards, the management determines the appropriate classification of securities, and all securities other than investments in affiliates are classified as "Other securities" which represent securities other than trading securities and held-to-maturity securities. Marketable "Other securities" are stated at market value. Adjustments to market value, net of tax, are recorded as an increase or decrease in shareholders' equity. Such unrealized holding gains on "Other securities" in shareholders' equity are not available for distribution as dividends and bonuses to directors and corporate auditors under the Commercial Code. Cost of their sales is determined by the moving average method. "Other securities" which are not marketable are stated at cost, cost being determined by the moving average method.

The effect of the adoption of the new accounting standards for the year ended March 31, 2001, which includes the effect of the change in the accounting for allowance for doubtful accounts described in Note 2 (j), is to increase income before income taxes and minority interests by ¥11,274 thousand ($91 thousand).

*(e) Inventories*
The Company's finished goods and work in process are stated at cost, cost being determined by the moving average method. The subsidiaries' finished goods and work in process are valued under the retail method. Raw materials and supplies are mainly valued under the last invoice cost method.

*(f) Property, Plant and Equipment*
Depreciation of property, plant and equipment other than buildings acquired by the Company and its domestic subsidiaries on or after April 1, 1998 is mainly computed using the declining balance method. Buildings acquired on or after April 1, 1998 are depreciated based on the straight line method. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 2 to 13 years for machinery and equipment.

*(g) Finance Leases*
Where the finance leases do not transfer ownership of the leased property to the lessee during the lease terms or on their terminations, the leased property other than that of overseas subsidiaries, which is capitalized, is not capitalized, and the relating lease expenses are charged to income in the period incurred.

*(h) Capitalized Computer Software Costs*
Capitalized computer software costs comprise costs of software used in the Company and its consolidated subsidiaries' business. Amortization of capitalized computer software costs is computed on the straight line method over the estimated useful life of the software, 5 years.

*(i) Other Assets*
Other in investments and other assets includes deferred charge. Amortization of deferred charge is computed on the straight line method.

*(j) Allowance for Doubtful Accounts*
As of March 31, 2000, the allowance for doubtful accounts is mainly provided in an amount equivalent to the maximum deductible under the Income Taxes Law and an amount deemed necessary to cover estimated uncollectible accounts based on management's judgement.

Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries have adopted the new Financial Accounting Standards for Financial Instruments and provided their allowance for doubtful accounts at the average percentage of bad debt loss on actual defaults suffered during certain past periods, together with an amount necessary to cover possible uncollectible amounts based on management's judgement.

*(k) Accrued Bonuses*
Accrued employees' bonuses are calculated based on the amount estimated to be paid.

*(l) Accrued Severance Indemnities*
As of March 31, 1999, the accrued severance indemnities of the Company represented 40% of the liability that the Company would be required to pay if all eligible employees voluntarily terminated employment at the balance sheet date, which was reduced by the benefits payable under the non-contributory pension plan. The pension contribution of the Company was charged to income when paid for the year ended March 31, 1999.

As at March 31, 2000, the Company changed its accounting policy in respect of the accounting for the accrued severance indemnities and the pension contribution described above, providing accrued severance indemnities based on the amount of projected benefit obligation minus pension plan assets at fair value. This accounting change was made to provide a more proper allocation of the cost of retirement benefits and further strengthen the financial position, recognizing the amount of projected benefit obligation beforehand with the future introduction of accounting standards for retirement benefits.

The effect of the change for the year ended March 31, 2000 was to increase other expenses and decrease income before income taxes and minority interests by ¥138,831.

As of March 31, 2000, the accrued severance indemnities of the domestic subsidiaries represented 40% of the liability that they would be required to pay if all eligible employees voluntarily terminated employment at the balance sheet date, which was reduced by the benefit payable under the non-contributory pension plan.

Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries have adopted the new Financial Accounting Standards for Retirement Benefits issued by the Business Accounting Deliberation Council. Following the new standards, the Company and its domestic subsidiaries provided accrual severance indemnities of employees based on the amount of projected benefit obligation minus pension plan assets at fair value. ¥2,615 thousand ($21 thousand) of transition amount arising from adopting the new standards was charged to income during the current year. The actuarial differences are amortized using the straight line method over ten years counting from the next year in which they arise.

The effect of the adoption of the new standards for the year ended March 31, 2001 is to decrease income before income taxes and minority interests by ¥2,615 thousand ($21 thousand).

The accrued severance indemnities include those for the Company's directors and corporate auditors, which are the amount estimated by the Company that would be paid at the balance sheet date in accordance with the Company's internal regulations if all directors and corporate auditors retired at that date. Amounts payable to directors and corporate auditors on retirement are subject to the approval of shareholders.

*(m) Income Taxes*
In the year ended March 31, 1999, the Company and its domestic subsidiaries provided for income taxes based on the amounts currently payable upon the tax return filed with tax authorities for each fiscal year. Also, certain consolidated overseas subsidiaries account for income taxes on the basis of interperiod allocation whereby tax effects on temporary differences between financial reporting and income tax purpose are recognized.

Effective for the year ended March 31, 2000, the Company and its domestic subsidiaries have adopted the Financial Accounting Standards on Accounting for Deferred Income Taxes issued by the Business Accounting Deliberation Council, which require that deferred income taxes be provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purpose. The effect of initial adoption for the year ended March 31, 2000 was to increase the net income by ¥63,064 thousand and retained earnings by ¥435,176 thousand.

*(n) Net Income and Dividend Per Share*

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each year.

Diluted net income per share is not applicable due to no outstanding warrant or convertible bond.

Cash dividends per share represent interim dividends paid and annual dividends declared as applicable to the respective years.

*(o) Appropriation of Retained Earnings*

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, a proposal by the Board of Directors for the appropriation of retained earnings (principally the payment of annual cash dividends) should be approved by a shareholders' meeting which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements for each financial year represents the appropriation which was approved by the shareholders' meeting and disposed of during that year but which related to the immediately preceding financial year.

The payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income for the year and constitutes a part of the appropriation referred to the above.

*(p) Hedging Activities*

The Company enters into interest rate swap agreement, hedging instruments, to convert variable interest rates on the principal amount of certain debts, positions hedged, to fixed interest rates. The Company adopted the exceptional treatment in respect of accounting for the swap agreements prescribed under the new Financial Accounting Standards for Financial Instruments, which permit not to evaluate the swap agreements outstanding at fair value as of March 31, 2001.

## 3. Investments in Securities

"Other securities" as of March 31, 2001 are analyzed as follows:

| | Thousands of Yen | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|
| **2001** | Book value | Acquisition cost | Difference | Book value | Acquisition cost | Difference |
| Market value available | | | | | | |
| Securities whose book value exceeds their acquisition cost: | | | | | | |
| Equity securities | ¥443,323 | ¥301,378 | ¥141,945 | $3,578 | $2,432 | $1,146 |
| Bonds and debentures: | | | | | | |
| Public bonds | – | – | – | – | – | – |
| Corporate bonds | – | – | – | – | – | – |
| Other | – | – | – | – | – | – |
| Other securities | – | – | – | – | – | |
| | 443,323 | 301,378 | 141,945 | 3,578 | 2,432 | 1,146 |
| Securities whose book value does not exceed their acquisition cost: | | | | | | |
| Equity securities | 46,282 | 92,507 | (46,225) | 374 | 747 | (373) |
| Bonds and debentures: | | | | | | |
| Public bonds | – | – | – | – | – | – |
| Corporate bonds | – | – | – | – | – | – |
| Other | – | – | – | – | – | – |
| Other securities | – | – | – | – | – | – |
| | 46,282 | 92,507 | (46,225) | 374 | 747 | (373) |
| | ¥489,605 | ¥393,885 | ¥ 95,720 | $3,952 | $3,179 | $ 773 |
| Market value not available | | | | | | |
| Equity securities | 164,717 | | | 1,329 | | |
| Total | ¥654,322 | | | $5,281 | | |

Investments in securities as of March 31, 2000 are analyzed as follows:

| | Thousands of Yen | | |
|---|---|---|---|
| 2000 | Carrying amounts | Market Value | Unrealized Gain (loss) |
| Market value available | | | |
| Equity securities | ¥296,073 | ¥443,576 | ¥147,503 |
| Bonds and debentures | – | – | – |
| Other securities | – | – | – |
| | ¥296,073 | ¥443,576 | ¥147,503 |
| Market value not available | | | |
| Equity securities | 164,728 | | |
| Total | ¥460,801 | | |

## 4. Inventories

Inventories as of March 31, 2001 and 2000 comprised the following:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Finished goods | **¥2,405,300** | ¥2,345,198 | **$19,413** |
| Work in process | **1,088,367** | 822,344 | **8,784** |
| Raw materials and supplies | **1,508,205** | 905,108 | **12,173** |
| | **¥5,001,872** | ¥4,072,650 | **$40,370** |

## 5. Short-term Bank Loans and Long-term Debt

The annual average interest rate applicable to short-term bank loans as of March 31, 2001 and 2000 was 4.3%.

Long-term debt as of March 31, 2001 and 2000 consisted of the following:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Domestic secured bonds, due 2001 at a rate of 4.4% | **¥ –** | ¥1,200,000 | **$ –** |
| Bank loans, due 2002–2009: | | | |
| Secured | **1,284,513** | 1,462,341 | **10,367** |
| Unsecured | **4,822,261** | 1,568,387 | **38,921** |
| Obligation under capitalized lease, due 2001 | **49,496** | 87,047 | **399** |
| | **6,156,270** | 4,317,775 | **49,687** |
| Less, current portion | **957,912** | 1,665,087 | **7,731** |
| | **¥5,198,358** | ¥2,652,688 | **$41,956** |

Aggregate annual maturities of long-term debt subsequent to March 31, 2001 were as follows:

| Year ending March 31 | Thousands of yen | Thousands of U.S. dollars |
|---|---|---|
| 2002 | ¥ 957,912 | $ 7,731 |
| 2003 | 1,540,875 | 12,436 |
| 2004 | 848,373 | 6,847 |
| 2005 | 706,841 | 5,705 |
| 2006 and thereafter | 2,102,269 | 16,968 |
| | ¥6,156,270 | $49,687 |

The annual average interest rates applicable to long-term bank loans as of March 31, 2001 and 2000 were 3.3% and 3.9%, respectively.

Assets pledged as collateral for long-term debt, including the current portion of long-term debt, as of March 31, 2001 and 2000 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Land | **¥1,985,531** | ¥1,985,530 | **$16,025** |
| Buildings and structures | **2,011,246** | 1,335,252 | **16,233** |

## 6. Accrued Severance Indemnities

Employees of the Company and its domestic subsidiaries with more than three years of service are entitled to receive lump-sum indemnities upon termination in accordance with their internal regulations. The amount of the benefits is determined based upon current basic rate of pay, length of service and cause of retirement. The Company and certain domestic subsidiaries have non-contributory pension plans covering a portion of their indemnities under their internal regulation for employees.

The following provided a reconciliation of projected benefit obligation to net liability for employees' retirement benefits recognized on the accompanying consolidated balance sheet as of March 31, 2001.

| | Thousands of yen | Thousands of U.S. dollars |
|---|---|---|
| Projected benefit obligation | ¥(746,179) | $(6,022) |
| Fair value of plan assets | 559,408 | 4,515 |
| Funded status | (186,771) | (1,507) |
| Unrecognized actuarial loss | 37,593 | 303 |
| Accrued severance indemnities for employees | ¥(149,178) | $(1,204) |

The projected benefit obligations of certain subsidiaries are calculated using simplified method, which is permitted to be applied by small size of companies, in conformity with the accounting standards for retirement benefits.

Components of net periodic benefit cost for the year ended March 31, 2001 are summarized as follows:

| | Thousands of yen | Thousands of U.S. dollars |
|---|---|---|
| Service cost | ¥64,881 | $524 |
| Interest cost | 23,451 | 189 |
| Expected return on plan assets | (4,797) | (39) |
| Transition amount recognized | 2,615 | 21 |
| Net periodic benefit cost | ¥86,150 | $695 |

The benefit obligation was determined using a discount rate of 3.5%, and the expected rate of return on plan assets was 1.0% for the year ended March 31, 2001. Projected benefit obligation is attributed to periods based on years of service. Actuarial differences are amortized over 10 years.

## 7. Contingencies

The Company and its subsidiaries were contingently liable as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| As an endorser of notes discounted | **¥ –** | ¥37,700 | **$ –** |

## 8. Lease

(1) Where the financing leases do not transfer ownership of the leased property to the lessee during the lease terms or on their terminations, the leased property is not capitalized and the relating lease expenses are charged to income in the period incurred, as per the statements issued by the Business Accounting Deliberation Council.

Lease expenses for the years ended March 31, 2001 and 2000 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Lease expenses | **¥276,884** | ¥309,452 | **$2,235** |

Future lease payments, including interest, as of March 31, 2001 and 2000 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Due within one year | **¥204,166** | ¥251,581 | **$1,648** |
| Due after one year | **244,997** | 341,728 | **1,977** |
| Total | **¥449,163** | ¥593,309 | **$3,625** |

Additional information, requested by the Business Accounting Deliberation Council, to be disclosed as not included in the profit and loss accounts or balance sheets is as follows:

Notional acquisition cost and accumulated depreciation:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Notional acquisition cost: | | | |
| Machinery and equipment | **¥1,290,854** | ¥1,497,066 | **$10,419** |
| Other | **44,233** | 63,319 | **357** |
| Less—accumulated depreciation | **885,924** | 967,076 | **7,151** |
| | **¥ 449,163** | ¥ 593,309 | **$ 3,625** |

Notional depreciation expenses for the years ended March 31, 2001 and 2000 were ¥276,884 thousand ($2,235 thousand) and ¥309,452 thousand, respectively.

Notional acquisition cost means the cost which is characterized as the total lease payment, including interest due to the immateriality of the leased property. Notional depreciation expenses are calculated by the straight-line method assuming that there is no scrap value over the term of the lease based on notional acquisition cost.

(2) Future lease payments under non-cancelable operating leases as of March 31, 2001 and 2000 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Due within one year | **¥ 81,496** | ¥56,524 | **$ 658** |
| Due after one year | **113,656** | 2,356 | **917** |
| Total | **¥195,152** | ¥58,880 | **$1,575** |

## 9. Derivative and Hedging Activities

The Company enters into interest rate swap agreements, hedging instruments, to convert variable interest rates on the principal amount of certain debts, positions hedged, to fixed interest rates. The purpose of the hedging activities is to reduce certain exposures to rapid interest rate fluctuations having impact upon net income. The Company does not hold or issue any financial instruments for trading purposes. The Company's management believes that there is no credit risk since the swaps are executed with creditworthy financial institutions.

The interest-rate swap agreements outstanding as of March 31, 2001 and 2000 were as follows:

| | Thousands of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | **2001** | | 2000 | | **2001** | |
| | Notional amounts | Unrealized gain (loss) | Notional amounts | Unrealized gain (loss) | Notional amounts | Unrealized gain (loss) |
| Interest-rate swap agreements: | | | | | | |
| Variable-rate into fixed-rate obligations | **¥1,882,200** | **¥(40,184)** | ¥500,000 | ¥(7,312) | **$15,191** | **$(324)** |

## 10. Shareholders' Equity

The Japanese Commercial Code provides that at least 50% of the issue price of new shares, with a minimum of the par value thereof, should be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

Under the Japanese Commercial Code, an amount equal to at least 10% of cash dividends and other appropriations of retained earnings paid out with respect to each financial period is set aside in a legal reserve until such reserve equals 25% of the amount of common stock. This reserve may be transferred to common stock by a resolution of the Board of Directors or used to reduce a deficit with the approval of a shareholders' meeting but is not available for dividend payments. The legal reserve of the Company and its consolidated subsidiaries are included in the retained earnings and are not shown separately in the accompanying consolidated Balance sheets.

## 11. Selling, General and Administrative Expenses

Selling, general and administrative expenses in the accompanying consolidated statements of income mainly consisted of the following:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Employees' salaries and bonuses | **¥2,808,912** | ¥2,608,174 | **$22,671** |
| Freight charges | **860,938** | 749,187 | **6,949** |

### 12. Research and Development
Research and development expenditures charged to income were ¥1,076,418 thousand ($8,688 thousand) and ¥1,039,411 thousand for the years ended March 31, 2001 and 2000, respectively.

### 13. Income Taxes
The Company and its domestic subsidiaries are subject to several taxes based on income, which resulted in statutory tax rate of approximately 41.99% in the aggregate for the years ended March 31, 2001 and 2000, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The effective tax rate for the years ended March 31, 2001 and 2000 differed from the statutory tax rate for the following reasons:

| | **2001** | 2000 |
|---|---|---|
| Statutory tax rate | **41.99%** | 41.99% |
| Tax charged upon undistributed net income | **3.93** | 2.99 |
| Expenses not deductible for income tax purposes, entertainment expense and others | **0.43** | 0.37 |
| Aggregated net losses of the consolidated subsidiaries making loss | **6.54** | – |
| Other | **0.57** | 1.50 |
| Effective tax rate | **53.46%** | 46.85% |

The components of the Company and its subsidiaries' deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Deferred tax assets: | | | |
| Allowance for doubtful accounts | **¥ 65,261** | ¥ 57,118 | **$ 527** |
| Accrued Bonuses | **95,157** | 69,085 | **768** |
| Enterprise tax | **95,393** | 101,827 | **770** |
| Accrued severance indemnities | **167,833** | 178,813 | **1,355** |
| Other | **157,439** | 152,350 | **1,270** |
| Total gross deferred tax assets | **581,083** | 559,193 | **4,690** |
| Deferred tax liabilities: | | | |
| Reserve for special depreciation | **(81,089)** | (97,686) | **(654)** |
| Unrealized holding gains on "Other securities" | **(74,188)** | – | **(599)** |
| Other | **(42,165)** | (24,902) | **(340)** |
| Total gross deferred tax liabilities | **(197,442)** | (122,588) | **(1,593)** |
| Net deferred tax assets | **¥ 383,641** | ¥ 436,605 | **$ 3,097** |

### 14. Segment Information
Information about operations in industry segments, geographic segments and sales to foreign customers of the Company and its subsidiaries for the years ended March 31, 2001 and 2000 is as follows:

#### (1) Industry Segments
The Company's management believes that the Company and its subsidiaries operate in a single industry and there is no separated segment.

#### (2) Geographic Segments
The foreign operations of the Company and its subsidiaries for the years ended March 31, 2001 and 2000 are summarized as follows:

| | Thousands of yen | | | | |
|---|---|---|---|---|---|
| **2001** | Japan | North America | Europe | Eliminations/ Corporate | Consolidated |
| Sales to customers | **¥47,524,212** | **¥3,083,236** | **¥3,288,397** | **¥ –** | **¥53,895,845** |
| Intersegment | **444,936** | **4,767** | **335,369** | **(785,072)** | **–** |
| Total sales | **47,969,148** | **3,088,003** | **3,623,766** | **(785,072)** | **53,895,845** |
| Operating expenses | **43,040,497** | **3,269,759** | **3,995,529** | **(832,165)** | **49,473,620** |
| Operating income | **¥ 4,928,651** | **¥ (181,756)** | **¥ (371,763)** | **¥ 47,093** | **¥ 4,422,225** |
| Assets | **¥47,186,034** | **¥7,577,676** | **¥4,311,763** | **¥(10,959,146)** | **¥48,116,327** |

| | Thousands of yen | | | | |
|---|---|---|---|---|---|
| 2000 | Japan | North America | Europe | Eliminations/ Corporate | Consolidated |
| Sales to customers | ¥44,795,761 | ¥3,066,452 | ¥3,463,744 | ¥ – | ¥51,325,957 |
| Intersegment | 423,668 | 2,024 | 93,625 | (519,317) | – |
| Total sales | 45,219,429 | 3,068,476 | 3,557,369 | (519,317) | 51,325,957 |
| Operating expenses | 39,989,074 | 3,000,694 | 3,443,992 | (549,763) | 45,883,997 |
| Operating income | ¥ 5,230,355 | ¥ 67,782 | ¥ 113,377 | ¥ 30,446 | ¥ 5,441,960 |
| Assets | ¥37,897,283 | ¥1,256,588 | ¥3,193,419 | ¥(3,697,505) | ¥38,649,785 |

| 2001 | Japan | North America | Europe | Eliminations/ Corporate | Consolidated |
|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | |
| Sales to customers | **$383,569** | **$24,885** | **$26,541** | **$ –** | **$434,995** |
| Intersegment | **3,591** | **38** | **2,707** | **(6,336)** | **–** |
| Total sales | **387,160** | **24,923** | **29,248** | **(6,336)** | **434,995** |
| Operating expenses | **347,381** | **26,390** | **32,249** | **(6,717)** | **399,303** |
| Operating income | **$ 39,779** | **$ (1,467)** | **$ (3,001)** | **$ 381** | **$ 35,692** |
| Assets | **$380,840** | **$61,160** | **$34,800** | **$(88,452)** | **$388,348** |

The effect of the adoption of the new standards for retirement benefits for the year ended March 31, 2001 is to decrease operating income of Japan by ¥2,615 thousand ($21 thousand). The effect of the adoption of the new standards for finance instruments for the year ended March 31, 2001 is to increase operating income of Japan by ¥21,381 thousand ($173 thousand).

**(3) Sales to Foreign Customers**

Sales to foreign customers for the years ended March 31, 2001 and 2000 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Sales to: | | | |
| North America | **¥3,087,127** | ¥3,067,169 | **$24,916** |
| Europe | **3,288,397** | 3,471,646 | **26,541** |
| Others | **511,073** | 716,703 | **4,125** |
| | **¥6,886,597** | ¥7,255,518 | **$55,582** |

## 15. Subsequent Event

The following appropriation of the Company's retained earnings in respect of the year ended March 31, 2001 was proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 28, 2001:

| Appropriations | Thousands of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends (¥12 per share) | ¥ 182,627 | $ 1,474 |
| Bonuses to directors and corporate auditors | – | – |
| Transfer to legal reserve | 19,000 | 154 |
| Transfer to reserve for special depreciation | 8,085 | 65 |
| Transfer to general reserve | 1,990,000 | 16,061 |
| Total appropriations | ¥2,199,712 | $17,754 |

# Report of Independent Accountants

The Board of Directors
FUJI SEAL, INC.

We have audited the accompanying consolidated balance sheets of FUJI SEAL, INC. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of FUJI SEAL, INC. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except for the change, with which we concur, made as of March 31, 2000 in the method of accounting for accrued severance indemnities as described in Note 2 (l).

As described in Notes 2, effective from the year ended March 31, 2001, FUJI SEAL, INC. and its subsidiaries have adopted new Japanese accounting standards for retirement benefits, financial instruments and foreign currency transactions.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

Osaka, Japan
June 28, 2001

# Five-year Summary

| | Millions of yen except per share amounts | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | **2001** | **2001** |
| For the year: | | | | | | |
| Net sales | ¥ 45,073 | ¥ 50,169 | ¥ 51,497 | ¥ 51,326 | **¥ 53,896** | **$434,995** |
| Income before income taxes | | | 4,797 | 5,420 | **4,657** | **37,590** |
| Operating income | 3,101 | 4,033 | 4,875 | 5,442 | **4,422** | **35,692** |
| Net income | 798 | 1,590 | 2,182 | 2,862 | **2,197** | **17,729** |
| At year-end: | | | | | | |
| Total assets | 31,439 | 33,695 | 35,675 | 38,650 | **48,116** | **388,348** |
| Shareholders equity | 6,925 | 10,412 | 14,057 | 17,127 | **18,368** | **148,249** |
| Per share data (in yen): | | | | | | |
| Shareholders equity | ¥15,995.71 | ¥1,424.42 | ¥1,847.30 | ¥1,125.34 | **¥1,206.91** | **9.74** |
| Net income | 1,844.04 | 232.72 | 290.64 | 188.04 | **144.34** | **1.17** |
| Number of employees | 1,181 | 1,259 | 1,355 | 1,398 | **1,767** | |

# Company Information

(As of April 1, 2001)

| | |
|---|---|
| **Name:** | FUJI SEAL, INC. |
| **Tokyo Head Office:** | 3-11-11, Nihonbashi, Honcho, Chuo-ku, Tokyo 103-0023 Japan<br>TEL: +81(3)-3662-5885 |
| **Osaka Head Office:** | 4-1-6, Miyahara, Yodogawa-ku, Osaka 532-0003 Japan<br>TEL: +81(6)-6350-1002 |
| **Established:** | 1897 |
| **Paid-in Capital:** | ¥23,185 million |
| **Employees:** | 935 (Japan) |
| **Business Lines:** | Planning, proposal, development, manufacture and sales of packing systems, primarily shrink labels and tack labels |
| **Head Offices:** | Tokyo, Osaka |
| **Branches:** | Sapporo, Nagoya, Fukuoka |
| **Plants:** | Osaka, Mie, Ibaraki |


http://www.fujiseal.co.jp/

**Fuji Seal, Inc.**

3-11-11 Nihonbashi Honcho
Chuo-ku Tokyo Japan
TEL.03-3662-5885 FAX.03-3662-7659

4-1-6 Miyahara Yodogawa-ku
Osaka Japan
TEL.06-6350-1002 FAX.06-6350-3132

**Fuji Seal Europe Ltd. (U.K.)**

**Fuji Seal Europe B.V. (N.L.)**

**American Fuji Seal, Inc.**

**Fuji Ace Co., Ltd.**

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