Fuji Seal International, Inc. and Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2017, and Independent Auditor's Report

Deloitte Touche Tohmatsu LLC
Yodoyabashi Mitsui Building
4-1-1, Imabashi, Chuo-ku
Osaka 541-0042
Japan
Tel: +81 (6) 4560 6000
Fax: +81 (6) 4560 6001
www.deloitte.com/jp

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Fuji Seal International, Inc.:

We have audited the accompanying consolidated balance sheet of Fuji Seal International, Inc. and its subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fuji Seal International, Inc. and its subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 15, 2017

Member of
Deloitte Touche Tohmatsu Limited

Fuji Seal International, Inc. and Subsidiaries

Consolidated Balance Sheet
March 31, 2017

ASSETS	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT ASSETS:			
Cash and bank deposits (Notes 15 and 20)	¥ 12,374	¥ 7,747	$ 110,295
Receivables (Note 15):			
Notes and accounts receivable - trade	33,745	32,331	300,784
Electronically recorded monetary claims - trade	6,405	4,641	57,091
Associated company	128	279	1,141
Other (Note 7)	2,143	2,334	19,102
Allowance for doubtful receivables	(212)	(173)	(1,890)
Inventories (Note 4)	15,631	15,707	139,326
Deferred tax assets (Note 12)	1,054	1,004	9,395
Other current assets	712	2,619	6,346
Total current assets	71,980	66,489	641,590
PROPERTY, PLANT AND EQUIPMENT:			
Land	5,409	6,970	48,213
Buildings and structures (Note 6)	38,841	37,085	346,207
Machinery and equipment (Notes 5 and 6)	78,671	79,302	701,230
Furniture and fixtures	5,311	5,570	47,339
Lease assets (Note 14)	482	499	4,296
Construction in progress	2,557	4,273	22,793
Total	131,271	133,699	1,170,078
Accumulated depreciation	(71,704)	(70,745)	(639,131)
Net property, plant and equipment	59,567	62,954	530,947
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 15)	3,188	2,656	28,416
Investment in associated company	4,006	3,531	35,707
Goodwill (Note 5)		47	
Software	1,341	1,005	11,953
Deferred tax assets (Note 12)	954	949	8,503
Asset for retirement benefits (Note 10)	984	1,464	8,771
Other assets	926	1,199	8,255
Total investments and other assets	11,399	10,851	101,605
TOTAL	¥ 142,946	¥ 140,294	$ 1,274,142

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT LIABILITIES:			
Short-term bank loans (Notes 9 and 15)	¥ 7,612	¥ 10,275	$ 67,849
Current portion of long-term debt (Notes 9 and 15)	750	1,480	6,685
Current portion of corporate bonds (Note 9)	5,000		44,567
Current portion of long-term lease obligations (Note 14)	57	60	508
Payables (Note 15):			
Notes and accounts payable - trade	14,571	15,456	129,878
Electronically recorded obligations - trade	7,794	5,418	69,471
Associated company	126	229	1,123
Other	5,215	7,484	46,484
Income taxes payable (Note 15)	1,442	1,124	12,853
Accrued expenses	3,239	3,092	28,871
Other current liabilities (Notes 12 and 15)	2,747	2,482	24,486
Total current liabilities	48,553	47,100	432,775
LONG-TERM LIABILITIES:			
Long-term debt (Notes 9 and 15)	5,300	6,050	47,241
Long-term lease obligations (Note 14)	136	147	1,212
Liability for retirement benefits (Note 10)	3,893	3,664	34,700
Deferred tax liabilities (Note 12)	3,065	3,091	27,320
Other long-term liabilities	164	173	1,462
Total long-term liabilities	12,558	13,125	111,935
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14 and 16)			
EQUITY (Notes 11 and 21):			
Common stock, authorized, 200,000,000 shares; issued, 60,161,956 shares in 2017 and 2016*	5,990	5,990	53,392
Capital surplus	6,302	6,302	56,173
Retained earnings	68,002	63,567	606,132
Treasury stock - at cost: 3,190,764 shares in 2017 and 3,190,266 shares in 2016*	(3,166)	(3,165)	(28,220)
Accumulated other comprehensive income (Note 17):			
Unrealized gains on available-for-sale securities	1,147	796	10,224
Deferred gain on derivatives under hedge accounting (Note 16)		3	
Foreign currency translation adjustments	4,935	7,784	43,987
Defined retirement benefit plan (Note 10)	(1,375)	(1,208)	(12,256)
Total	4,707	7,375	41,955
Total equity	81,835	80,069	729,432
TOTAL	¥ 142,946	¥ 140,294	$ 1,274,142

* Shares have been restated, as appropriate, to reflect a two-for-one stock split of its common stock effected January 1, 2017.

Fuji Seal International, Inc. and Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET SALES	¥ 141,977	¥ 138,488	$ 1,265,505
COST OF SALES (Note 13)	114,977	112,590	1,024,842
Gross profit	27,000	25,898	240,663
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 13 and 19)	17,236	17,105	153,632
Operating income	9,764	8,793	87,031
OTHER INCOME (EXPENSES):			
Interest and dividend income	52	107	463
Interest expense	(111)	(151)	(989)
Foreign exchange loss – net	(175)	(876)	(1,560)
Equity in earnings of associated company	375	407	3,343
Gain on sales of property, plant and equipment	61	172	544
Loss on sales and disposals of property, plant and equipment	(233)	(202)	(2,077)
Reorganization expenses (Note 6)		(182)	
Subsidy income	300		2,674
Insurance income (Note 7)		3,141	
Loss on fire accident (Note 8)		(3,714)	
Impairment loss (Note 5)	(221)		(1,970)
Loss on settlement of retirement benefit plan (Note 10)	(219)		(1,952)
Other – net	90	121	802
Other expenses – net	(81)	(1,177)	(722)
INCOME BEFORE INCOME TAXES	9,683	7,616	86,309
INCOME TAXES (Note 12):			
Current	(4,122)	(3,111)	(36,741)
Deferred	99	(317)	882
Total income taxes	(4,023)	(3,428)	(35,859)
NET INCOME	5,660	4,188	50,450
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 5,660	¥ 4,188	$ 50,450

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.u and 18):		*	
Basic net income	¥99.34	¥73.64	$0.89
Cash dividends applicable to the year	22.00	21.00	0.20

* Per share figures have been restated, as appropriate, to reflect a two-for-one stock split of its common stock effected January 1, 2017.

See notes to consolidated financial statements.

Fuji Seal International, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET INCOME	¥ 5,660	¥ 4,188	$ 50,450
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized gains (losses) on available-for-sale securities	351	(341)	3,129
Deferred gain (loss) on derivatives under hedge accounting	(3)	16	(27)
Foreign currency translation adjustments	(2,949)	(1,329)	(26,286)
Share of other comprehensive income (loss) in associated company	100	(539)	891
Defined retirement benefit plan	(167)	30	(1,488)
Total other comprehensive loss	(2,668)	(2,163)	(23,781)
COMPREHENSIVE INCOME (Note 17)	¥ 2,992	¥ 2,025	$ 26,669
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 17):			
Owners of the parent	¥2,992	¥2,025	$26,669

See notes to consolidated financial statements.

Fuji Seal International, Inc. and Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2017

	Number of Shares of Common Stock Outstanding*	Millions of Yen								
						Accumulated Other Comprehensive Income (Loss)				
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gains on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plan	Total Equity
BALANCE, APRIL 1, 2015	56,772,490	¥ 5,990	¥ 6,233	¥ 60,576	¥ (3,301)	¥ 1,137	¥ (13)	¥ 9,652	¥ (1,238)	¥ 79,036
Net income attributable to owners of the parent				4,188						4,188
Cash dividends, ¥21 per share*				(1,197)						(1,197)
Purchase of treasury stock	(800)				(2)					(2)
Disposal of treasury stock	200,000		69		138					207
Net change in the year						(341)	16	(1,868)	30	(2,163)
BALANCE, MARCH 31, 2016	56,971,690	5,990	6,302	63,567	(3,165)	796	3	7,784	(1,208)	80,069
Net income attributable to owners of the parent				5,660						5,660
Cash dividends, ¥22 per share*				(1,225)						(1,225)
Purchase of treasury stock	(498)				(1)					(1)
Disposal of treasury stock	0									
Net change in the year						351	(3)	(2,849)	(167)	(2,668)
BALANCE, MARCH 31, 2017	56,971,192	¥ 5,990	¥ 6,302	¥ 68,002	¥ (3,166)	¥ 1,147	¥	¥ 4,935	¥ (1,375)	¥ 81,835

	Thousands of U.S. Dollars (Note 1)								
					Accumulated Other Comprehensive Income (Loss)				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gains on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plan	Total Equity
BALANCE, MARCH 31, 2016	$ 53,392	$ 56,173	$ 566,601	$ (28,211)	$ 7,095	$ 27	$ 69,382	$ (10,768)	$ 713,691
Net income attributable to owners of the parent			50,450						50,450
Cash dividends, $0.20 per share*			(10,919)						(10,919)
Purchase of treasury stock				(9)					(9)
Disposal of treasury stock									
Net change in the year					3,129	(27)	(25,395)	(1,488)	(23,781)
BALANCE, MARCH 31, 2017	$ 53,392	$ 56,173	$ 606,132	$ (28,220)	$ 10,224	$	$ 43,987	$ (12,256)	$ 729,432

* Shares and per share figures have been restated, as appropriate, to reflect two-for-one stock split effected January 1, 2017.

See notes to consolidated financial statements.

Fuji Seal International, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥ 9,683	¥ 7,616	$ 86,309
Adjustments for:			
Income taxes - paid	(3,615)	(3,828)	(32,222)
Depreciation and amortization	8,549	7,223	76,201
Impairment losses (Note 5)	221		1,970
Losses on settlement of retirement benefit plan (Note 10)	219		1,952
Subsidy income	(300)		(2,674)
Reorganization expenses (Note 6)		182	
Insurance income (Note 7)		(3,141)	
Loss on fire accident (Note 8)		3,714	
Gain on sales of property, plant and equipment	(61)	(172)	(544)
Loss on sales and disposals of property, plant and equipment	233	202	2,077
Equity in earnings of associated company	(375)	(407)	(3,343)
Changes in assets and liabilities:			
Increase in receivables	(3,576)	(3,515)	(31,874)
Decrease (increase) in inventories	(479)	240	(4,270)
Increase in payables	1,679	1,442	14,966
Increase in liability for retirement benefits	532	295	4,742
Payments on fire accident		(3,773)	
Insurance recoveries	1,688	3,263	15,046
Other – net	787	1,513	7,015
Total adjustments	5,502	3,238	49,042
Net cash provided by operating activities	15,185	10,854	135,351
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(11,742)	(14,707)	(104,662)
Purchases of software and other assets	(515)	(457)	(4,590)
Purchases of investment securities	(26)	(134)	(232)
Other – net	1,699	149	15,144
Net cash used in investing activities	(10,584)	(15,149)	(94,340)
FINANCING ACTIVITIES:			
Increase in short-term bank loans – net	(3,798)	5,258	(33,853)
Proceeds from long-term debt	5,000	300	44,567
Repayments of long-term debt	(1,480)	(1,260)	(13,192)
Dividends paid	(1,225)	(1,197)	(10,919)
Other – net	(67)	39	(597)
Net cash provided by (used in) financing activities	(1,570)	3,140	(13,994)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(37)	(19)	(330)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,994	(1,174)	26,687
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,633	7,807	59,123
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 20)	¥ 9,627	¥ 6,633	$ 85,810

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Fuji Seal International, Inc. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.19 to $1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation*** - The consolidated financial statements as of March 31, 2017, include the accounts of the Company and its 24 (24 in 2016) subsidiaries (collectively, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investment in one (one in 2016) associated company is accounted for by the equity method.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized using the straight-line method over five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements -*** Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items, that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

c. ***Unification of Accounting Policies Applied to Foreign-Associated Company for the Equity Method -*** ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by a foreign-associated company in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

d. ***Business Combinations -*** Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

e. ***Cash Equivalents -*** Cash equivalents presented in the consolidated statement of cash flows are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include deposits in banks and other short-term investments which mature or become due within 12 months of the date of acquisition. In the consolidated statements of cash flows, the ending balance of bank overdraft are excluded from cash equivalents (see Note 20).

f. ***Inventories -*** Inventories are stated at the lower of cost, determined by the moving average cost method principally for finished products and work in process and by the most recent purchase price principally for raw materials and supplies, or net selling value.

g. ***Investment Securities -*** Available-for-sale securities, which are not classified as either trading securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

h. ***Allowance for Doubtful Receivables -*** The allowance for doubtful receivables is stated in amounts considered to be appropriate, based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

i. ***Property, Plant and Equipment*** - Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is computed by the declining-balance method, while the straight-line method is applied to buildings acquired on or after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016. Depreciation of property, plant and equipment of the foreign subsidiaries is computed substantially by the straight-line method. The range of useful lives is from 2 to 50 years for buildings and structures, and from 2 to 15 years for machinery and equipment.

Equipment held under lease is depreciated by the straight-line method over the respective lease period.

Under certain conditions such as the receipt of subsidy income, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired. As of March 31, 2017, such deferred profit amounted to ¥1,478 million ($13,175 thousand).

Pursuant to an amendment to the Corporate Tax Act, the Company adopted ASBJ PITF No. 32, "Practical Solution on a change in depreciation method due to Tax Reform 2016" and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. The effect of this change on operating income and income before income taxes for the year ended March 31, 2017 was immaterial.

j. ***Long-Lived Assets -*** The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

k. ***Software -*** Software for internal use is amortized by the straight-line method over the estimated useful lives. The estimated useful life is five years.

l. ***Amortization of Goodwill -*** Goodwill is amortized on a straight-line basis over five years.

m. ***Retirement and Pension Plans -*** The Company and certain subsidiaries have defined contribution pension plans and defined benefit lump-sum payment plans for employees. The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss primarily over ten years but no longer than the expected average remaining service period of the employees.

n. ***Asset Retirement Obligations -*** An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset, and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement, and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

o. ***Research and Development Costs -*** Research and development costs are charged to income as incurred.

p. ***Leases -*** Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard permits leases that existed at the transition date and that do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions with certain "as if capitalized" information disclosed in the notes to the lessee's financial statements.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company continues to account for leases that existed at the transition date and that do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

q. ***Income Taxes -*** The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax rates to the temporary differences.

The Group files a tax return under the consolidated corporate tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

The Group applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended March 31, 2017.

r. ***Foreign Currency Transactions -*** All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

s. ***Foreign Currency Financial Statements -*** The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income (loss) in a separate component of equity. Revenue and expense accounts of the foreign subsidiaries are translated into yen at the average exchange rate.

t. ***Derivatives and Hedging Activities -*** The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value; and gains or losses on derivative transactions are recognized in the consolidated statement of income and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

u. ***Per Share Information -*** Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period retroactively adjusted for stock splits.

Diluted net income per share is not presented because there are no securities with a dilutive effect upon exercise or conversion into common stock.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

On January 1, 2017, the Company made a two-for-one stock split of its common stock. Shares and per share figures have been restated, as appropriate, to reflect the impact of the stock split.

v. ***Accounting Changes and Error Corrections*** - Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies - When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation - When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates - A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors - When an error in prior-period financial statements is discovered, those statements are restated.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Noncurrent:			
Marketable equity securities	¥ 2,989	¥ 2,457	$ 26,642
Unquoted equity securities	199	199	1,774
Total	¥ 3,188	¥ 2,656	$ 28,416

The costs and aggregate fair values of investment securities as of March 31, 2017 and 2016, were as follows:

	Millions of Yen			
	2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 1,338	¥ 1,653	¥ (2)	¥ 2,989
Total	¥ 1,338	¥ 1,653	¥ (2)	¥ 2,989

	Millions of Yen			
	2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 1,312	¥ 1,159	¥ (14)	¥ 2,457
Total	¥ 1,312	¥ 1,159	¥ (14)	¥ 2,457

	Thousands of U.S. Dollars			
	2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 11,926	$ 14,734	$ (18)	$ 26,642
Total	$ 11,926	$ 14,734	$ (18)	$ 26,642

There were no sales of equity securities for the year ended March 31, 2017 and immaterial amounts of sales of equity securities for the year ended March 31, 2016.

4. INVENTORIES

Inventories as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Finished products	¥ 7,506	¥ 6,927	$ 66,904
Work in process	2,683	2,758	23,906
Raw materials and supplies	5,442	6,022	48,516
Total	¥ 15,631	¥ 15,707	$ 139,326

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2017. As a result, the Group recognized impairment losses of ¥206 million ($1,836 thousand) of machinery and equipment and ¥15 million ($134 thousand) of goodwill as other expenses, and the carrying amounts of the relevant assets were written down to the recoverable amounts for the year ended March 31, 2017. The recoverable amounts of machinery and equipment were measured at their net selling prices and the recoverable amount of goodwill was measured at its value in use, which was set at zero. No impairment loss was recognized for the year ended March 31, 2016.

6. REORGANIZATION EXPENSES

Year ended March 31, 2017

No reorganization expenses were recognized.

Year ended March 31, 2016

Reorganization expenses mainly resulted from activities to restructure the production structure of self-adhesive labels in the PAGO Segment, consisting of early retirement payments in the amount of ¥93 million; relocation costs of machinery and equipment in the amount of ¥84 million; and other related costs in the amount of ¥5 million.

7. INSURANCE INCOME

Year ended March 31, 2017

No insurance income was recognized.

Year ended March 31, 2016

Insurance income consisted of insurance proceeds received due to a fire accident that occurred in the Shrink Labels production facility of Fuji Seal Poland Sp.zo.o. (Poland), a subsidiary of the Company, in December 2014.

8. LOSSES ON FIRE ACCIDENT

Year ended March 31, 2017

No losses on fire accidents were recognized.

Year ended March 31, 2016

Losses related to the fire accident consisted of the fixed costs and production transfer costs during the period of shutdown in the amount of ¥2,747 million, and other restoring costs in the amount of ¥967 million.

9. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans as of March 31, 2017 and 2016, mainly consisted of bank overdrafts. The weighted-average annual interest rate applicable to the short-term bank loans was 0.8% and 0.6% for the years ended March 31, 2017 and 2016, respectively.

Long-term debt as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Loans from banks, due serially to 2021	¥ 6,050	¥ 2,530	$ 53,926
Unsecured bonds, due 2018	5,000	5,000	44,567
Total	11,050	7,530	98,493
Less current portion, with weighted-average per annum interest rate of 0.4% for 2017 (0.6% for 2016)	(5,750)	(1,480)	(51,252)
	¥ 5,300	¥ 6,050	$ 47,241

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Long-term loans from banks, less current portion, with weighted-average per annum interest rate of 0.2% for 2017 (0.4% for 2016)	¥ 5,300	¥ 1,050	$ 47,241
Unsecured 0.4% bonds, due 2018		5,000	
Total	¥ 5,300	¥ 6,050	$ 47,241

Annual maturities of long-term debt as of March 31, 2017, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 5,750	$ 51,252
2019		
2020	1,850	16,490
2021	2,400	21,392
2022	1,050	9,359
Total	¥ 11,050	$ 98,493

10. RETIREMENT AND PENSION PLANS

The Company and certain subsidiaries have defined retirement benefit plans, such as a defined corporate pension plan and lump-sum pension plan, and also have defined contribution plans. Under most circumstances, employees terminating their employment are entitled to retirement benefits, determined based on the rate of pay at the time of termination, years of service, and certain other factors. At the time of retirement, there are cases in which employees are entitled to larger payments, not subject to the defined retirement benefit obligation.

Defined Retirement Benefit Plan

(1) The changes in defined benefit obligation for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 20,836	¥ 21,132	$ 185,721
Current service cost	568	558	5,063
Interest cost	272	350	2,424
Actuarial losses	1,315	174	11,721
Benefits paid	(894)	(1,277)	(7,969)
Foreign currency transaction adjustment	(1,156)	(361)	(10,304)
Settlement of retirement benefit plan	(458)		(4,082)
Others	181	260	1,614
Balance at end of year	¥ 20,664	¥ 20,836	$ 184,188

(2) The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 18,636	¥ 19,134	$ 166,111
Interest income	153	212	1,364
Expected return on plan assets	172	191	1,533
Actuarial (losses) gains	718	(62)	6,400
Contributions from the employer	306	420	2,728
Benefits paid	(833)	(1,243)	(7,425)
Foreign currency transaction adjustment	(1,102)	(253)	(9,823)
Settlement of retirement benefit plan	(458)		(4,082)
Others	163	237	1,453
Balance at end of year	¥ 17,755	¥ 18,636	$ 158,259

(3) Reconciliation between the liability and asset recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2017 and 2016, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Funded defined benefit obligation	¥ 18,859	¥ 19,038	$ 168,099
Plan assets	(17,755)	(18,636)	(158,259)
Total	1,104	402	9,840
Unfunded defined benefit obligation	1,805	1,798	16,089
Net liability arising from defined benefit obligation	¥ 2,909	¥ 2,200	$ 25,929

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Liability for retirement benefits	¥ 3,893	¥ 3,664	$ 34,700
Asset for retirement benefits	(984)	(1,464)	(8,771)
Net liability arising from defined benefit obligation	¥ 2,909	¥ 2,200	$ 25,929

(4) The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost	¥ 568	¥ 558	$ 5,063
Net interest on the net defined benefit liability	119	138	1,060
Expected return on plan assets	(172)	(191)	(1,533)
Recognized actuarial losses	130	176	1,159
Amortization of prior service cost	28	72	250
Others (including early retirement payment)	10	104	89
Net periodic benefit costs	¥ 683	¥ 857	$ 6,088
Losses on settlement of retirement benefit plan	219		1,952
Total	¥ 902	¥ 857	$ 8,040

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Prior service cost	¥ 24	¥ 28	$ 214
Actuarial gains (losses)	(179)	10	(1,596)
Total	¥ (155)	¥ 38	$ (1,382)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized prior service cost	¥ (72)	¥ (96)	$ (642)
Unrecognized actuarial losses	(1,538)	(1,357)	(13,709)
Total	¥ (1,610)	¥ (1,453)	$ (14,351)

(7) Plan assets as of March 31, 2017 and 2016

a. Components of plan assets

Plan assets consisted of the following:

	2017	2016
Debt investments	34%	36%
Equity investments	28	29
Real estate including REIT	22	20
Insurance	15	12
Others	1	3
Total	100%	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2017 and 2016, were set forth as follows:

	2017	2016
Discount rate	Domestic: 0.1%	Domestic: 0.1%
	Foreign: 0.6 - 3.8%	Foreign: 0.8 - 3.9%
Expected rate of return on plan assets	Foreign: 8.0%	Foreign: 8.0%
Amortization period of prior service cost	Mainly 10 years	Mainly 10 years
Recognition period of actuarial gains/losses	Mainly 10 years	Mainly 10 years
Estimated rate of salary increase (*1)	Domestic: 4.1%	Domestic: 4.1%
	Foreign: 0.5 - 2.0%	Foreign: 0.5 - 2.0%

(*1) For domestic subsidiaries, the estimated rate of salary increase represented an estimated rate of increase in points, or standard salary, which is applied in calculating the retirement allowance.

Defined Contribution Plan

The amounts of required contribution for the years ended March 31, 2017 and 2016, were ¥272 million ($2,424 thousand) and ¥282 million, respectively.

11. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below.

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Board of Directors of companies with board committees (namely appointment committee, compensation committee, and audit committee) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with board committees.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

On January 1, 2017, the Company made a two-for-one stock split of its common stock based on the resolution of the Board of Directors' meeting held on December 8, 2016.

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.81% and 33.02% for the years ended March 31, 2017 and 2016, respectively. The foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Accrued enterprise taxes	¥ 117	¥ 128	$ 1,043
Accrued bonuses	377	354	3,360
Allowance for doubtful receivables	38	17	339
Liability for retirement benefits	1,121	1,076	9,992
Tax loss carryforwards	2,295	2,012	20,456
Depreciation	224	113	1,997
Loss on fire accident		200	
Unrealized intercompany profits	253	209	2,255
Preferential taxation for investments	1,075	1,201	9,582
Other	524	539	4,671
Less valuation allowance	(3,134)	(3,078)	(27,935)
Total	¥ 2,890	¥ 2,771	$ 25,760
Deferred tax liabilities:			
Reserve for special depreciation	¥ (15)	¥ (31)	$ (134)
Reserve for advanced depreciation of property, plant and equipment	(289)	(238)	(2,576)
Net unrealized gains on available-for-sale securities	(504)	(350)	(4,492)
Depreciation	(2,275)	(2,582)	(20,278)
Fixed assets	(633)	(376)	(5,642)
Other	(321)	(428)	(2,862)
Total	¥ (4,037)	¥ (4,005)	$ (35,984)
Net deferred tax liabilities	¥ (1,147)	¥ (1,234)	$ (10,224)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2017, with the corresponding figures for 2016, is as follows:

	2017	2016
Normal effective statutory tax rate	30.81%	33.02%
Change in valuation allowance	3.98	13.32
Different tax rates applied to foreign subsidiaries	4.11	3.58
Per capita inhabitants tax	0.39	0.50
Tax credits on research and development costs	(2.55)	(4.11)
Fluctuation in foreign currency exchange rates on certain foreign subsidiaries	5.44	5.88
Resolution of the uncertain tax position on foreign subsidiaries		(5.14)
Adjustment of undistributed earnings of foreign subsidiaries	0.76	
Amortization of goodwill	0.09	0.14
Equity in earnings of associated company	(1.19)	(1.81)
Other – net	(0.29)	(0.37)
Actual effective tax rate	41.55%	45.01%

At March 31, 2017, certain subsidiaries have tax loss carryforwards aggregating approximately ¥8,921 million ($79,517 thousand), excluding a portion available only for local taxes in the amount of approximately ¥1,126 million ($10,035 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022	¥ 623	$ 5,553
2023 and thereafter	8,298	73,954
Total	¥ 8,921	$ 79,517

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,343 million ($20,884 thousand) and ¥2,515 million for the years ended March 31, 2017 and 2016, respectively.

14. LEASES

The Group leases certain machinery, computer equipment, office space and other assets.

Total rental expenses, including lease payments under finance leases for the years ended March 31, 2017 and 2016, were ¥212 million ($1,890 thousand) and ¥242 million, respectively.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2017		2017	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 57	¥ 97	$ 508	$ 865
Due after one year	136	264	1,212	2,353
Total	¥ 193	¥ 361	$ 1,720	$ 3,218

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group invests cash surpluses in low-risk financial assets, mainly short-term deposits, and uses financial instruments, mainly short-term bank loans and bonds, for funding. The Company and its subsidiaries apply short-term deposits and short-term loans receivable among group companies (cash management system). Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables for trade are exposed to customer credit risk. Receivables and payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates. Marketable and investment securities, mainly listed shares, are exposed to the risk of market price fluctuations. Payment terms of payables for trade are mostly less than six months.

Maturities of bank loans and bonds are less than five years after the balance sheet date. Although a part of such bank loans are exposed to market risks from changes in variable interest rates, those risks are mitigated by using derivatives of interest rate swaps.

Derivatives consist primarily of forward foreign currency contracts and interest rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables and from changes in interest rates of bank loans. Please see Notes 2.t and 16 for more details about derivatives.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. The credit risk affecting subsidiaries is also managed in the same manner.

Market risk management (foreign exchange risk and interest rate risk)

Foreign currency trade receivables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk, which is recognized with respect to each currency and each month, is hedged principally by forward foreign currency contracts. Forward foreign currency contracts are used when foreign currency trade receivables are expected with certainty from forecasted transactions and subject to exchange fluctuations.

Investment securities are managed by monitoring market values and the financial position of issuers on a regular basis.

Interest-rate swaps are used to manage exposure to market risks from changes in interest rates of loans.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on its maturity dates. The Group manages its liquidity risk by holding adequate volume of liquid assets in view of business income and manages expenditures and equipment investment spending plans, along with adequate financial planning by the Corporate Treasury Department. Subsidiaries also report their financial plans to the Group. The Finance Department manages liquidity risk by obtaining information on cash flows of the whole group.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead. The valuation technique utilizes certain assumptions, and the fair values may change by adopting different assumptions. In addition, the contract amounts of derivatives in Note 16 do not directly indicate the market risk of derivatives.

(a) Fair value of financial instruments

The carrying amounts, fair values, and unrealized gain/loss as of March 31, 2017 and 2016, were as follows. Note that financial instruments whose fair value cannot be reliably determined are not included (see (b)).

	Millions of Yen		
March 31, 2017	Carrying Amount	Fair Value	Unrealized Loss
Cash and bank deposits	¥ 12,374	¥ 12,374	¥
Receivables:			
Notes and accounts receivable - trade	33,745	33,745	
Electronically recorded monetary claims - trade	6,405	6,405	
Associated company	128	128	
Investment securities:			
Available-for-sale securities	2,989	2,989	
Total	¥ 55,641	¥ 55,641	¥
Short-term bank loans	¥ 7,612	¥ 7,612	
Payables:			
Notes and accounts payable - trade	14,571	14,571	
Electronically recorded obligations - trade	7,794	7,794	
Associated company	126	126	
Other	5,215	5,215	
Income taxes payable	1,442	1,442	
Long-term debt	11,050	11,053	¥ 3
Total	¥ 47,810	¥ 47,813	¥ 3
Derivatives (*1)	¥ (13)	¥ (13)	¥

	Millions of Yen		
March 31, 2016	Carrying Amount	Fair Value	Unrealized Loss
Cash and bank deposits	¥ 7,747	¥ 7,747	¥
Receivables:			
Notes and accounts receivable - trade	32,331	32,331	
Electronically recorded monetary claims - trade	4,641	4,641	
Associated company	279	279	
Investment securities:			
Available-for-sale securities	2,457	2,457	
Total	¥ 47,455	¥ 47,455	¥
Short-term bank loans	¥ 10,275	¥ 10,275	
Payables:			
Notes and accounts payable - trade	15,456	15,456	
Electronically recorded obligations - trade	5,418	5,418	
Associated company	229	229	
Other	7,484	7,484	
Income taxes payable	1,124	1,124	
Long-term debt	7,530	7,563	¥ 33
Total	¥ 47,516	¥ 47,549	¥ 33
Derivatives (*1)	¥(3)	¥(3)	¥

March 31, 2017	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Loss
Cash and bank deposits	$ 110,295	$ 110,295	$
Receivables:			
Notes and accounts receivable - trade	300,784	300,784	
Electronically recorded monetary claims - trade	57,091	57,091	
Associated company	1,141	1,141	
Investment securities:			
Available-for-sale securities	26,642	26,642	
Total	$ 495,953	$ 495,953	$
Short-term bank loans	$ 67,849	$ 67,849	
Payables:			
Notes and accounts payable - trade	129,878	129,878	
Electronically recorded obligations - trade	69,471	69,471	
Associated company	1,123	1,123	
Other	46,484	46,484	
Income taxes payable	12,853	12,853	
Long-term debt	98,493	98,520	$ 27
Total	$ 426,151	$ 426,178	$ 27
Derivatives (*1)	$ (116)	$ (116)	$

(*1) Derivative assets and liabilities are presented on a net basis. Negative balances indicate derivative liabilities.

Cash and bank deposits, receivables, payables, short-term bank loans and income taxes payable

The carrying values of cash and bank deposits, receivables, payables, short-term bank loans and income taxes payable approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price on the stock exchange for equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for investment securities by classification is included in Note 3.

Long-term debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate. The fair values of bonds are determined by the over-the-counter sale price published by Japan Securities Dealers Association.

Derivatives

Fair value information for derivatives is included in Note 16.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Investments in equity instruments that do not have a quoted market price in an active market	¥199	¥199	$1,774

(5) Maturity analysis for financial assets with contractual maturities

	Millions of Yen			
March 31, 2017	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and bank deposits	¥ 12,374	¥	¥	¥
Receivables:				
Notes and accounts receivable - trade	33,745			
Electronically recorded monetary claims - trade	6,405			
Associated company	128			
Total	¥ 52,652	¥	¥	¥

	Thousands of U.S. Dollars			
March 31, 2017	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and bank deposits	$ 110,295	$	$	$
Receivables:				
Notes and accounts receivable - trade	300,784			
Electronically recorded monetary claims - trade	57,091			
Associated company	1,141			
Total	$ 469,311	$	$	$

Please see Note 9 for annual maturities of long-term debt and Note 14 for obligation under finance leases.

16. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Group does not hold or issue derivatives for trading or speculative purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen			
At March 31, 2017	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:				
Buying Euro	¥349	¥	¥(13)	¥(13)

	Millions of Yen			
At March 31, 2016	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:				
Buying Euro	¥304	¥	¥(7)	¥(7)

	Thousands of U.S. Dollars			
At March 31, 2017	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:				
Buying Euro	$3,111	$	$(116)	$(116)

Derivative Transactions to which Hedge Accounting Is Applied

	Millions of Yen			
At March 31, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Conventional method:				
Foreign currency forward contracts:				
Selling Euro	Receivables	¥12	¥	(*1)
Selling USD	Receivables	48		(*1)
Interest rate swaps:				
(fixed-rate payment and floating-rate receipt)	Long-term debt	¥750	¥	(*2)

At March 31, 2016	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
	Millions of Yen			
Principal method:				
Foreign currency forward contracts:				
Buying Euro	Forecasted transactions	¥362	¥	¥4
Conventional method:				
Foreign currency forward contracts:				
Selling Euro	Receivables	¥ 8	¥	(*1)
Selling USD	Receivables	28		(*1)
Interest rate swaps: (fixed-rate payment and floating-rate receipt)	Long-term debt	¥1,750	¥750	(*2)

At March 31, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
	Thousands of U.S. Dollars			
Conventional method:				
Foreign currency forward contracts:				
Selling Euro	Receivables	$107	$	(*1)
Selling USD	Receivables	428		(*1)
Interest rate swaps: (fixed-rate payment and floating-rate receipt)	Long-term debt	$6,685	$	(*2)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

(*1) The hedged items denominated in foreign currencies are translated at the contracted rates if the forward foreign currency contracts qualify for hedge accounting. The fair value of such forward foreign currency contracts in Note 15 are included in the hedged items.

(*2) The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps in Note 15 are included in the hedged items.

17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized gain (loss) on available-for-sale securities:			
Gain (loss) arising during the year	¥ 506	¥ (530)	$ 4,510
Amount before income tax effect	506	(530)	4,510
Income tax effect	(155)	189	(1,381)
Total	¥ 351	¥ (341)	$ 3,129
Deferred gain (loss) on derivatives under hedge accounting:			
Gain arising during the year		¥ 5	
Reclassification adjustments to profit or loss	¥ (4)	19	$ (36)
Amount before income tax effect	(4)	24	(36)
Income tax effect	1	(8)	9
Total	¥ (3)	¥ 16	$ (27)
Foreign currency translation adjustments:			
Loss arising during the year	¥ (2,949)	¥ (1,329)	$ (26,286)
Amount before income tax effect	(2,949)	(1,329)	(26,286)
Income tax effect			
Total	¥ (2,949)	¥ (1,329)	$ (26,286)
Share of other comprehensive income in associated company:			
Gain (loss) arising during the year	¥ 100	¥ (539)	$ 891
Total	¥ 100	¥ (539)	$ 891
Defined retirement benefit plan:			
Loss arising during the year	¥ (549)	¥ (170)	$ (4,893)
Reclassification adjustments to profit or loss	394	208	3,510
Amount before income tax effect	(155)	38	(1,381)
Income tax effect	(12)	(9)	(107)
Total	¥ (167)	¥ 29	$ (1,488)
Total other comprehensive loss	¥ (2,668)	¥ (2,164)	$ (23,781)

18. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2017 and 2016, is calculated as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares*	EPS*	
For the year ended March 31, 2017				
Basic EPS				
Net income available to common shareholders	¥5,660	56,972	¥99.34	$0.89
For the year ended March 31, 2016				
Basic EPS				
Net income available to common shareholders	¥4,188	56,871	¥73.64	

* Shares and per share figures have been restated, as appropriate, to reflect a two-for-one stock split effected January1, 2017.

Diluted net income per share is not disclosed because there are no dilutive shares.

19. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Employees' salary	¥6,493	¥6,509	$57,875
Freight charges	2,270	2,566	20,234

20. SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliations between cash and cash equivalents on the consolidated statement of cash flows and cash and bank deposits on the consolidated balance sheet at March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Cash and bank deposits	¥ 12,374	¥ 7,747	$ 110,295
Bank overdraft	(2,747)	(1,114)	(24,485)
Cash and cash equivalents	¥ 9,627	¥ 6,633	$ 85,810

21. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2017, was approved at the meeting of the Board of Directors of the Company held on May 16, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥11 ($0.10) per share	¥627	$5,589

Management Rationalization for the Improvement of Profitability on Subsidiaries of Fuji Seal International, Inc.

Management rationalization for the improvement of profitability on Pago Etikettiersysteme GmbH, the factory in Germany of Pago group which headquarters is located in Switzerland, was approved at the meeting of the Board of Directors of the Company held on May 2, 2017:

(1) Management Rationalization

Starting from the year 2015, the revival plan for the improvement of profitability had been carried out. The Company decided to implement the drastic management rationalization measures including further personnel reduction (about 100 people) during the year ending March 31, 2018, because of the change in the external competitive environment.

(2) Impact on Consolidated Financial Statements

The expenses relating to management rationalization measures, including personnel reduction costs are estimated to be about ¥2,000 million ($17,827 thousand) for the year ending March 31, 2018, and will be included in other expenses in the consolidated statement of income.

22. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information, Disclosures" an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decisionmaker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group conducts packaging business, which mainly consists of shrink labels and self-adhesive (tack) labels in Japan, Americas, Europe, ASEAN, and PAGO. Each of the regions are an independently managed unit that can conduct production and sales in their respective region. PAGO AG and its associated companies conduct their business mainly in Switzerland, Germany, and Italy. The Company defines the business area of PAGO AG and its associated companies as "PAGO."

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, Liabilities and Other Items for Each Reportable Segment.

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit (Loss), Assets, Liabilities, and Other Items

	Millions of Yen							
	2017							
	Reportable Segment							
	Japan	Americas	Europe	PAGO	ASEAN	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 86,171	¥ 28,816	¥ 13,075	¥ 11,543	¥ 2,372	¥ 141,977		¥ 141,977
Intersegment sales or transfers	1,210	391	1,661	404	22	3,688	¥ (3,688)	
Total	¥ 87,381	¥ 29,207	¥ 14,736	¥ 11,947	¥ 2,394	¥ 145,665	¥ (3,688)	¥ 141,977
Segment profit (loss)	¥ 9,324	¥ 2,443	¥ (643)	¥ (1,347)	¥ 23	¥ 9,800	¥ (36)	¥ 9,764
Segment assets	115,324	31,024	18,725	15,486	3,240	183,799	(40,853)	142,946
Segment liabilities	39,571	6,921	12,769	4,665	1,311	65,237	(4,126)	61,111
Other:								
Depreciation	4,337	2,488	1,016	544	188	8,573	(24)	8,549
Amortization of goodwill				29		29		29
Investments in equity method associated company	4,006					4,006		4,006
Increase in property, plant and equipment and intangible assets	6,960	1,026	1,432	340	319	10,077	(116)	9,961

	Millions of Yen							
	2016							
	Reportable Segment							
	Japan	Americas	Europe	PAGO	ASEAN	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 79,183	¥ 28,565	¥ 13,301	¥ 15,386	¥ 2,053	¥ 138,488		¥ 138,488
Intersegment sales or transfers	1,501	320	2,036	334	0	4,191	¥ (4,191)	
Total	¥ 80,684	¥ 28,885	¥ 15,337	¥ 15,720	¥ 2,053	¥ 142,679	¥ (4,191)	¥ 138,488
Segment profit (loss)	¥ 9,003	¥ 2,055	¥ (1,495)	¥ (933)	¥ 26	¥ 8,656	¥ 137	¥ 8,793
Segment assets	108,748	31,379	21,719	16,720	3,336	181,902	(41,608)	140,294
Segment liabilities	38,900	6,840	12,568	4,237	1,311	63,856	(3,631)	60,225
Other:								
Depreciation	2,886	2,517	879	785	175	7,242	(19)	7,223
Amortization of goodwill				33		33		33
Investments in equity method associated company	3,531					3,531		3,531
Increase in property, plant and equipment and intangible assets	8,585	2,001	3,379	1,947	111	16,023	(167)	15,856

	Thousands of U.S. Dollars							
	2017							
	Reportable Segment							
	Japan	Americas	Europe	PAGO	ASEAN	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	$ 768,081	$ 256,850	$ 116,543	$ 102,888	$ 21,143	$ 1,265,505		$ 1,265,505
Intersegment sales or transfers	10,786	3,485	14,805	3,601	196	32,873	$ (32,873)	
Total	$ 778,867	$ 260,335	$ 131,348	$ 106,489	$ 21,339	$ 1,298,378	$ (32,873)	$ 1,265,505
Segment profit (loss)	$ 83,109	$ 21,776	$ (5,731)	$ (12,006)	$ 205	$ 87,353	$ (322)	$ 87,031
Segment assets	1,027,934	276,531	166,904	138,034	28,880	1,638,283	(364,141)	1,274,142
Segment liabilities	352,714	61,690	113,816	41,581	11,686	581,487	(36,777)	544,710
Other:								
Depreciation	38,658	22,177	9,056	4,849	1,676	76,416	(215)	76,201
Amortization of goodwill				258		258		258
Investments in equity method associated company	35,707					35,707		35,707
Increase in property, plant and equipment and intangible assets	62,038	9,145	12,764	3,031	2,843	89,821	(1,034)	88,787

Note: Reconciliation amount of segment assets of ¥40,853 million ($364,141 thousand) and ¥41,608 million for the years ended March 31, 2017 and 2016, respectively, was mainly composed of offsetting of the receivables and the payables, investment account and the capital account.

(4) Information about Products and Services

	Millions of Yen						
	2017						
	Shrink Labels	Other Labels	Self-adhesive (Tack) Labels	Soft Pouches	Machinery	Others	Total
Sales to external customers	¥79,972	¥1,485	¥23,449	¥14,286	¥10,953	¥11,832	¥141,977

	Millions of Yen						
	2016						
	Shrink Labels	Other Labels	Self-adhesive (Tack) Labels	Soft Pouches	Machinery	Others	Total
Sales to external customers	¥77,353	¥1,655	¥26,508	¥11,190	¥11,147	¥10,635	¥138,488

	Thousands of U.S. Dollars						
	2017						
	Shrink Labels	Other Labels	Self-adhesive (Tack) Labels	Soft Pouches	Machinery	Others	Total
Sales to external customers	$712,826	$13,236	$209,011	$127,338	$97,629	$105,465	$1,265,505

(5) Information about Geographical Areas

a. Sales

Millions of Yen				
2017				
Japan	Americas	Europe	Other	Total
¥85,569	¥28,904	¥24,207	¥3,297	¥141,977

Millions of Yen				
2016				
Japan	Americas	Europe	Other	Total
¥78,511	¥28,690	¥27,965	¥3,322	¥138,488

Thousands of U.S. Dollars				
2017				
Japan	Americas	Europe	Other	Total
$762,715	$257,634	$215,768	$29,388	$1,265,505

Note: Sales are classified by country or region based on the location of customers.

b. Property, plant and equipment

Millions of Yen							
2017							
	Americas			Europe			
Japan		United States	Mexico		Poland	Other	Total
¥26,004	¥16,736	¥9,574	¥7,162	¥15,159	¥7,259	¥1,668	¥59,567

	Millions of Yen						
	2016						
	Americas			Europe			
Japan		United States	Mexico		Poland	Other	Total
¥25,127	¥18,849	¥10,731	¥8,118	¥17,362	¥7,665	¥1,616	¥62,954

	Thousands of U.S. Dollars						
	2017						
	Americas			Europe			
Japan		United States	Mexico		Poland	Other	Total
$231,785	$149,176	$85,337	$63,838	$135,119	$64,703	$14,867	$530,947

(6) Information about Impairment Losses of Assets

	Millions of Yen						
	2017						
	Japan	Americas	Europe	PAGO	ASEAN	Other	Total
Impairment losses	¥	¥	¥	¥221	¥	¥	¥221

	Thousands of U.S. Dollars						
	2017						
	Japan	Americas	Europe	PAGO	ASEAN	Other	Total
Impairment losses	$	$	$	$1,970	$	$	$1,970

No impairment loss was recognized for the year ended March 31, 2016.

(7) Information about Major Customers

Information is not disclosed because there is no customer who accounts for 10% or more of total sales to external customers in the consolidated statement of income.

(8) Information about Goodwill

	Millions of Yen						
	2017						
	Japan	Americas	Europe	PAGO	ASEAN	Other	Total
Amortization of goodwill	¥	¥	¥	¥29	¥	¥	¥29
Goodwill at March 31, 2017							

	Millions of Yen						
	2016						
	Japan	Americas	Europe	PAGO	ASEAN	Other	Total
Amortization of goodwill	¥	¥	¥	¥33	¥	¥	¥33
Goodwill at March 31, 2016				47			47

	Thousands of U.S. Dollars						
	2017						
	Japan	Americas	Europe	PAGO	ASEAN	Other	Total
Amortization of goodwill	$	$	$	$258	$	$	$258
Goodwill at March 31, 2017							

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