

# FY07 Financial Results

T. HASEGAWA CO., LTD.

## Caution with Respect to Forward-Looking Statements:

This material contains forward-looking statements about the future performance of T. Hasegawa, which are based on management's assumptions and beliefs in the light of information currently available to it. Therefore, please understand that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and that you should not place undue reliance on them. Please also note that we will assume no responsibility for any omission or error in the statements and data in this material.

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\* The numbers indicate the pages on each slide

# Summary of the Consolidated Financial Settlement

# Consolidated Results

Yen million

	FY06 (Actual)		FY07 (Revised Plan)		FY07 (Actual)		Achievement			
	Value	Share	Value	Share	Value	Share	yr/yr		vs Plan	
							Value	%	Value	%
Net sales	47,000	100.0%	49,350	100.0%	50,066	100.0%	3,066	6.5%	716	1.5%
Cost of sales	30,521	64.9%	31,870	64.6%	32,728	65.4%	2,206	7.2%	858	2.7%
Gross profit	16,479	35.1%	17,480	35.4%	17,338	34.6%	859	5.2%	-141	-0.8%
SGA expenses	10,497	22.3%	11,000	22.3%	10,829	21.6%	332	3.2%	-170	-1.5%
Operating income	5,981	12.7%	6,480	13.1%	6,508	13.0%	527	8.8%	28	0.4%
Ordinary income	5,918	12.6%	6,350	12.9%	6,443	12.9%	524	8.9%	93	1.5%
Income before income taxes	5,838	12.4%	6,300	12.8%	6,411	12.8%	573	9.8%	111	1.8%
Net income	3,713	7.9%	4,120	8.3%	4,147	8.3%	434	11.7%	27	0.7%

The plan for FY07 had been revised when the first half financial results were announced on May 18, 2007

# Sales (Comparison with the Previous Fiscal Year)

Yen million

Segment		FY06	FY07	yr/yr		Remark
				Value	%	
Products	Fragrances	4,921	4,937	15	0.3%	Sales for toiletry products increased
	Flavors	38,698	41,814	3,115	8.1%	Sales for tea products increased
Sub total		43,619	46,751	3,131	7.2%	—
Traded items	Fragrances	643	584	-58	-9.2%	Sales of functional ingredients decreased
	Flavors	2,737	2,730	-6	-0.2%	—
Sub total		3,381	3,315	-65	-1.9%	—
Total		47,000	50,066	3,066	6.5%	—

# Profit and Loss Statements (Comparison with the Previous Fiscal Year)

Yen million

	FY06 (Actual)		FY07 (Actual)		yr/yr		Remark
	Value	%	Value	%	Value	%	
Net sales	47,000	100.0%	50,066	100.0%	3,066	6.5%	•Sales for tea products increased •Domestic sales : ¥45,032mln, overseas sales : ¥5,034mln
Cost of sales	30,521	64.9%	32,728	65.4%	2,206	7.2%	•Depreciation & amortization increased by ¥411mln
Gross profit	16,479	35.1%	17,338	34.6%	859	5.2%	
SGA expenses	10,497	22.3%	10,829	21.6%	332	3.2%	•Personnel expenses increased by ¥181mln mainly due to the increase of the number of researchers
Operating income	5,981	12.7%	6,508	13.0%	527	8.8%	
Ordinary income	5,918	12.6%	6,443	12.9%	524	8.9%	•Non-operating income decreased by ¥20mln mainly due to the decrease of foreign exchange gains •Non-operating expenses decreased by ¥17mln mainly due to the decrease in the depreciation of assets lent to others
Income before income taxes	5,838	12.4%	6,411	12.8%	573	9.8%	•Extra ordinary losses decreased by ¥50mln mainly due to the decreased disposal of fixed assets
Net income	3,713	7.9%	4,147	8.3%	434	11.7%	•IT related tax savings effect

# Profit and Loss Statements (Comparison with the Revised Plan)

Yen million

	FY07 (Revised Plan)		FY07 (Actual)		vs Plan	
	Value	Share	Value	Share	Value	Share
<b>Net sales</b>	<b>49,350</b>	<b>100.0%</b>	<b>50,066</b>	<b>100.0%</b>	<b>716</b>	<b>1.5%</b>
<b>Cost of sales</b>	<b>31,870</b>	<b>64.6%</b>	<b>32,728</b>	<b>65.4%</b>	<b>858</b>	<b>2.7%</b>
<b>Gross profit</b>	<b>17,480</b>	<b>35.4%</b>	<b>17,338</b>	<b>34.6%</b>	<b>-141</b>	<b>-0.8%</b>
<b>SGA expenses</b>	<b>11,000</b>	<b>22.3%</b>	<b>10,829</b>	<b>21.6%</b>	<b>-170</b>	<b>-1.5%</b>
<b>Operating income</b>	<b>6,480</b>	<b>13.1%</b>	<b>6,508</b>	<b>13.0%</b>	<b>28</b>	<b>0.4%</b>
<b>Ordinary income</b>	<b>6,350</b>	<b>12.9%</b>	<b>6,443</b>	<b>12.9%</b>	<b>93</b>	<b>1.5%</b>
<b>Net income</b>	<b>4,120</b>	<b>8.3%</b>	<b>4,147</b>	<b>8.3%</b>	<b>27</b>	<b>0.7%</b>

- Net sales were above the plan mainly due to the brisk sales for tea products
- Gross profit was below the plan mainly due to the rise of sales cost ratio derived from the change of sales composition
- Lower-than-expected SGA expenses led to the better-than-expected operating profit, ordinary income, and net income



# Balance Sheets (Comparison with the Previous Fiscal Year)

Yen million

Account item	FY06	FY07	Change	Remark
Current assets	41,581	44,149	2,568	▪Cash and time deposits increased by ¥2,123mln due to the profit increase
Fixed assets	38,154	39,860	1,706	▪Intangible fixed assets increased by ¥712mln mainly due to the capital investment for the new mission-critical system ▪Stock appreciation increased by ¥222mln
Total assets	79,735	84,010	4,274	—
Current liabilities	12,799	17,559	4,760	▪Bond with warrant attached (¥3,546mln) shifted from long-term liabilities due to the redemption limit becoming less than 1 year
Long-term liabilities	11,831	7,426	△ 4,405	▪Bond with warrant attached (¥3,546mln) shifted to current liabilities ▪Conversion of bond with warrant attached : ¥1,044mln
Shareholders' equity	55,104	59,024	3,919	▪Net income : ¥4,148mln ▪Conversion of bond with warrant attached : ¥1,044mln
Total liabilities and shareholders' equity	79,735	84,010	4,274	—

# Statements of Cash Flow

Yen million

Account item	FY06	FY07	Change	Remark
Cash flows from operating activities	4,160	7,693	3,532	<ul style="list-style-type: none"> <li>▪Income before income taxes : ¥6,411mln</li> <li>▪Depreciation &amp; amortization : ¥2,985mln</li> <li>▪Trade payables : ¥666mln</li> <li>▪Income taxes paid : ¥2,362mln</li> </ul>
Cash flows from investing activities	△ 4,504	△ 3,872	631	<ul style="list-style-type: none"> <li>▪Acquirement of tangible assets : ¥2,387mln</li> <li>▪Acquirement of intangible assets : ¥1,263mln</li> </ul>
Cash flows from financing activities	△ 1,032	△ 1,448	△ 416	<ul style="list-style-type: none"> <li>▪Payment of cash dividends : ¥1,443mln</li> </ul>
Effect of currency change on cash and cash equivalents	38	△ 50	△ 88	—
Net change in cash and cash equivalents	△ 1,336	2,321	3,658	—
Cash and cash equivalents at beginning of period	12,541	11,204	△ 1,336	—
Cash and cash equivalents at end of period	11,204	13,526	2,321	—

# Capital Investment, Depreciation & Amortization, R&D Expenses

Yen million

		FY07(Plan)	FY07(Actual)	Progress
Capital Investment	Consolidated	4,546	3,853	84.8%
	Non-consolidated	4,057	3,225	79.5%
Depreciation & Amortization	Consolidated	2,900	2,985	102.9%
	Non-consolidated	2,728	2,826	103.6%
R&D Expenses	Consolidated	3,340	3,430	102.7%
	Non-consolidated	3,000	3,056	101.9%

# T. HASEGAWA CO., LTD. (Non-consolidated)

Yen million

	FY06 (Actual)		FY07 (Revised Plan)		FY07 (Actual)		Achievement			
	Value	Share	Value	Share	Value	Share	yr/yr		vs Plan	
							Value	%	Value	%
Net sales	43,784	100.0%	45,450	100.0%	45,955	100.0%	2,170	5.0%	505	1.1%
Cost of sales	28,780	65.7%	29,900	65.8%	30,584	66.6%	1,804	6.3%	684	2.3%
Gross profit	15,004	34.3%	15,550	34.2%	15,370	33.4%	366	2.4%	-179	-1.2%
SGA expenses	9,458	21.6%	9,660	21.3%	9,499	20.7%	41	0.4%	-160	-1.7%
Operating income	5,546	12.7%	5,890	13.0%	5,871	12.8%	324	5.8%	-18	-0.3%
Ordinary income	5,535	12.6%	5,800	12.8%	5,853	12.7%	318	5.8%	53	0.9%
Income before income taxes	5,459	12.5%	5,750	12.7%	5,822	12.7%	363	6.7%	72	1.3%
Net income	3,374	7.7%	3,650	8.0%	3,708	8.1%	333	9.9%	58	1.6%

# T. HASEGAWA FLAVOURS & FRAGRANCES (SHANGHAI) CO., LTD.

Yen million

	FY06		FY07		yr/yr	
	Value	Share	Value	Share	Change	%
Net sales	2,841	100.0%	3,289	100.0%	448	15.8%
Cost of sales	2,023	71.2%	2,119	64.4%	96	4.8%
Gross profit	817	28.8%	1,170	35.6%	352	43.1%
SGA expenses	480	16.9%	683	20.8%	203	42.3%
Operating income	337	11.9%	486	14.8%	148	44.1%
Ordinary income	361	12.7%	517	15.7%	155	42.9%

¥14.49/RMB

¥15.44/RMB

Sales for instant noodles contributed to the higher sales

Sales composition → Flavors : Fragrances = 7 : 3

Sales cost ratio improved mainly due to the change of sales composition and the higher RMB

Sales cost ratio was high in FY06 mainly due to the losses on inventory write-downs

SGA expenses increased due to the increase of sales commissions

Yen million

	FY06		FY07		yr/yr	
	Value	Share	Value	Share	Change	%
Net sales	1,624	100.0%	1,932	100.0%	307	19.0%
Cost of sales	995	61.3%	1,199	62.1%	204	20.5%
Gross profit	628	38.7%	732	37.9%	103	16.5%
SGA expenses	579	35.7%	607	31.4%	28	4.8%
Operating income	49	3.1%	125	6.5%	75	152.5%
Ordinary income	71	4.4%	139	7.2%	68	95.4%

¥116.26/\$

¥119.00/\$

Sales for salad dressings and sauces contributed to the higher sales

Sales composition → 100% flavors

The increase of disposal of inventories led to the higher sales cost ratio

Capital investment is in process to focus on the savory flavors which are highly demanded in the U.S. market

# Three-year Strategies (Consolidated)

Yen million

	'07 / 9 (Actual)			FY08/9(Plan)			FY09/9(Plan)			FY10/9(Plan)		
	Value	Share	yr/yr	Value	Share	yr/yr	Value	Share	yr/yr	Value	Share	yr/yr
Net sales	50,066	100.0%	6.5%	51,760	100.0%	3.4%	53,530	100.0%	3.4%	55,500	100.0%	3.7%
Cost of sales	32,728	65.4%	7.2%	33,540	64.8%	2.5%	34,740	64.9%	3.6%	36,340	65.5%	4.6%
Gross profit	17,338	34.6%	5.2%	18,220	35.2%	5.1%	18,790	35.1%	3.1%	19,160	34.5%	2.0%
SGA expenses	10,829	21.6%	3.2%	11,370	22.0%	5.0%	11,580	21.6%	1.8%	11,610	20.9%	0.3%
Operating income	6,508	13.0%	8.8%	6,850	13.2%	5.2%	7,210	13.5%	5.3%	7,550	13.6%	4.7%
Ordinary income	6,443	12.9%	8.9%	6,850	13.2%	6.3%	7,210	13.5%	5.3%	7,550	13.6%	4.7%
Income before income	6,411	12.8%	9.8%	6,750	13.0%	5.3%	7,120	13.3%	5.5%	7,460	13.4%	4.8%
Net income	4,147	8.3%	11.7%	4,220	8.2%	1.7%	4,430	8.3%	5.0%	4,710	8.5%	6.3%

▪ Management Indices are as follows

① Sales growth rate : 3% ② Operating income to net sales : 14%

③ Ordinary income to net sales : 13%

▪ The forecast is revised every year

# Three-year Strategies (Consolidated)

## Capital Investment, Depreciation & Amortization, R&D Expenses

Yen million

		FY07 (Actual)	FY08 (Plan)	FY09 (Plan)	FY10 (Plan)
Capital Investment	Consolidated	3,853	6,380	6,790	4,750
	Non-consolidated	3,225	3,590	4,590	3,530
Depreciation & Amortization	Consolidated	2,985	3,312	3,372	3,651
	Non-consolidated	2,826	3,130	3,150	3,070
R&D Expenses	Consolidated	3,430	3,530	3,640	3,750
	Non-consolidated	3,056	3,120	3,180	3,240



# Three-year Strategies (Consolidated)



## Breakdown of Capital Investment

Yen million

		Capital Expenditure	FY08 (plan)	FY09 (plan)	FY10 (plan)
Projects	New R&D Institute	4,500	150	2,990	500
	New plant for powder products	1,200	760	—	—
	Company housing for workers of Itakura Facility (land and building)	750	150	600	—
	Improve productivity of flavor production facilities	500	290	—	—
China (Shanghai and Suzhou)			2,290	2,090	1,110
U.S.A.			460	60	60
Others			2,280	1,050	3,080
Consolidated			6,380	6,790	4,750

# Business Outline

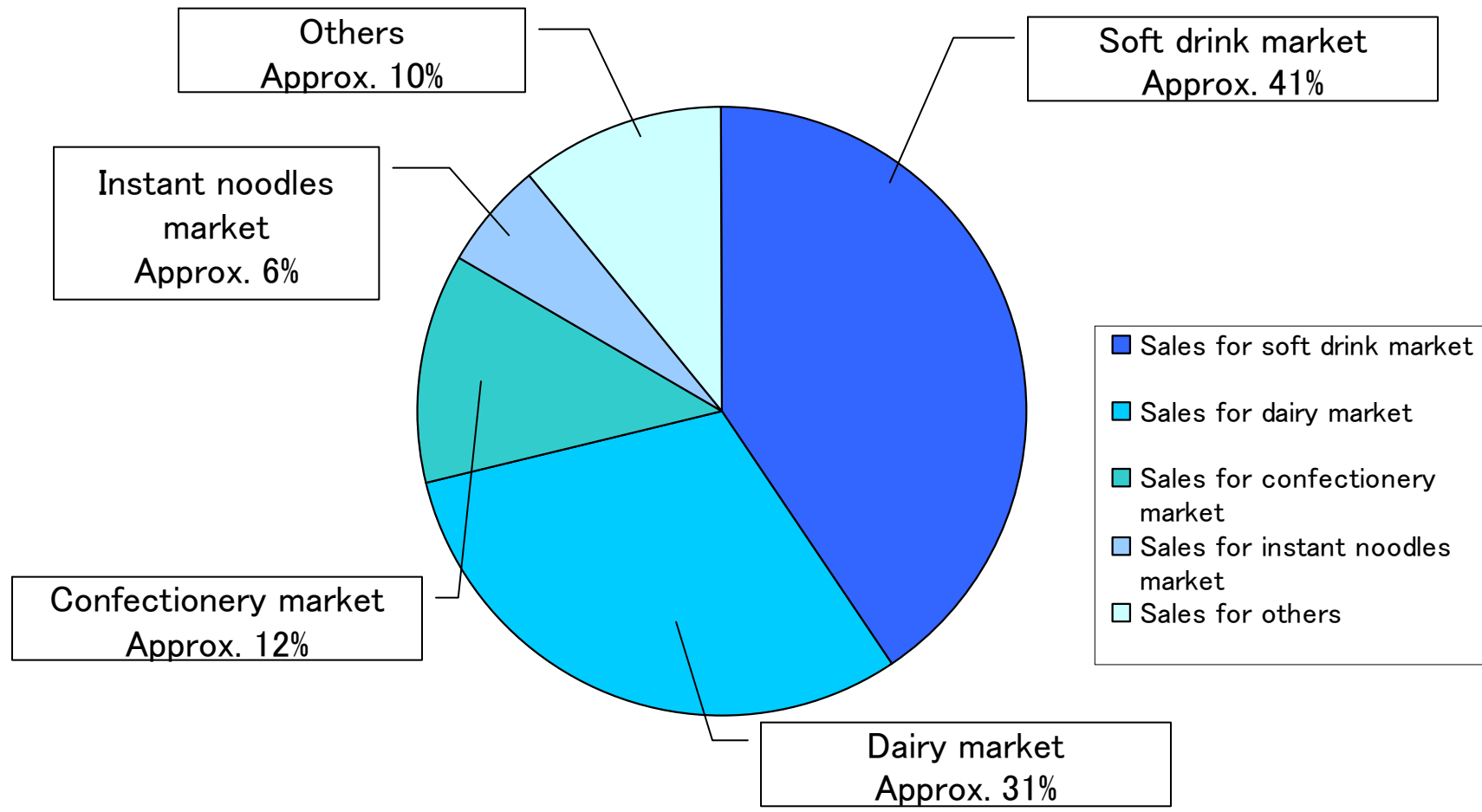
# Business Segments, Main Products & Applications ①

Products	Fragrances Production & sales of fragrance products	¥4,937mln 9.9%	 <p>Used in a wide variety of cosmetics, toiletries, household products etc.</p>
	Flavors Production & sales of : ・flavors ・seasonings ・extracts ・processed food materials ・fruit preparations ¥6,182mln (14.8% of flavor products) ・natural colorings, etc.	¥41,814mln 83.5%	
Traded Items	Fragrances	¥584mln 1.2%	 <p>Used in a wide variety of beverages, confections, snacks, soups, desserts, frozen desserts etc.</p>
	Flavors (toll manufacture) ・fruit preparations ¥1,509mln (55.3% of flavor traded items)	¥2,730mln 5.5%	

Fruit preparations in total (products & traded items) : ¥7,691mln (sales composition: 15.4%)

Percentage: consolidated segmental sales breakdown at the end of FY07 period

## Sales proportion of flavors by industry



Note: This data was calculated by assuming the total sales of customers with identifiable business segments as 100

## ■ High Entry Barrier

- Market size not all that big
- Substantial capital investment and R&D expenses required
- Firm quality assurance systems are essential

## ■ Severe Competition Within the Industry

- Matured domestic market for fragrances
- Stably growing domestic market for flavors due to consistent development of processed foods

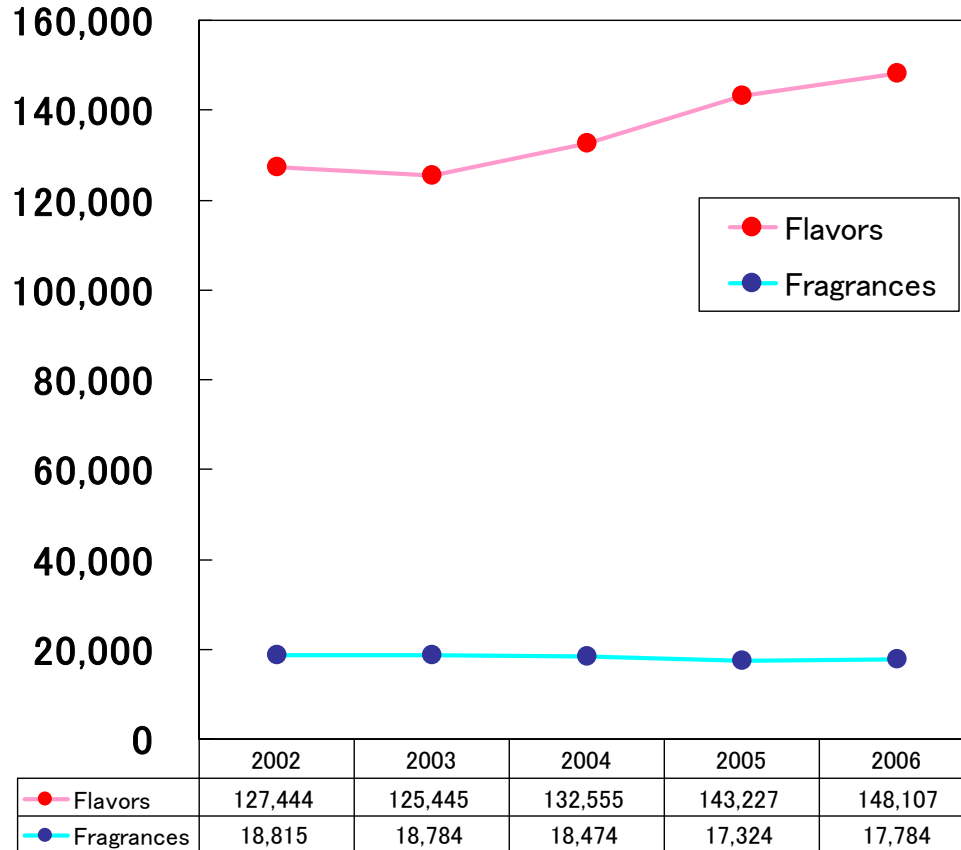
## ■ Tough Negotiation With Customers

- Intensified competition in the final product market due to the matured domestic market
- Thorough cost-consciousness of customers

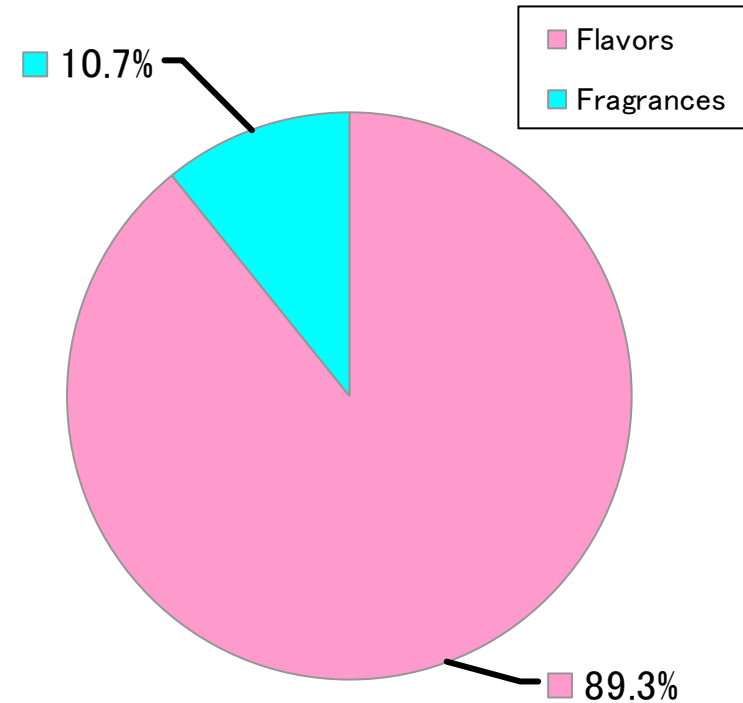
# Trend in the Domestic Flavors & Fragrances Market

## Production Quantity '02 - '06

Yen Million



## Composition Rate 2006

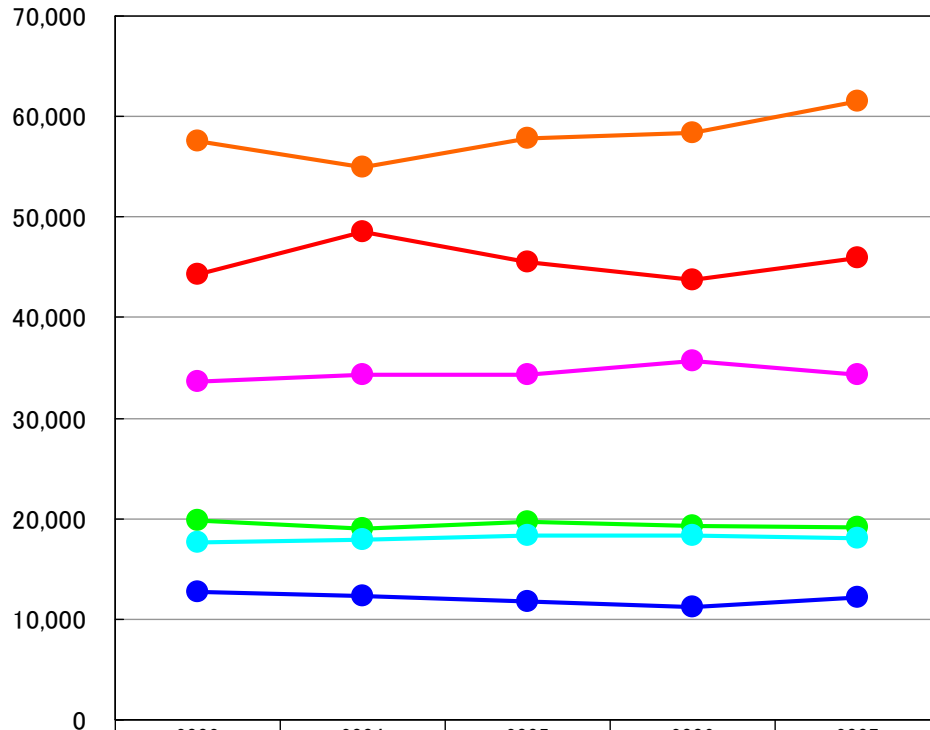


Source : Japan Flavor & Fragrances Materials Association

# T. Hasegawa's Domestic Market Share

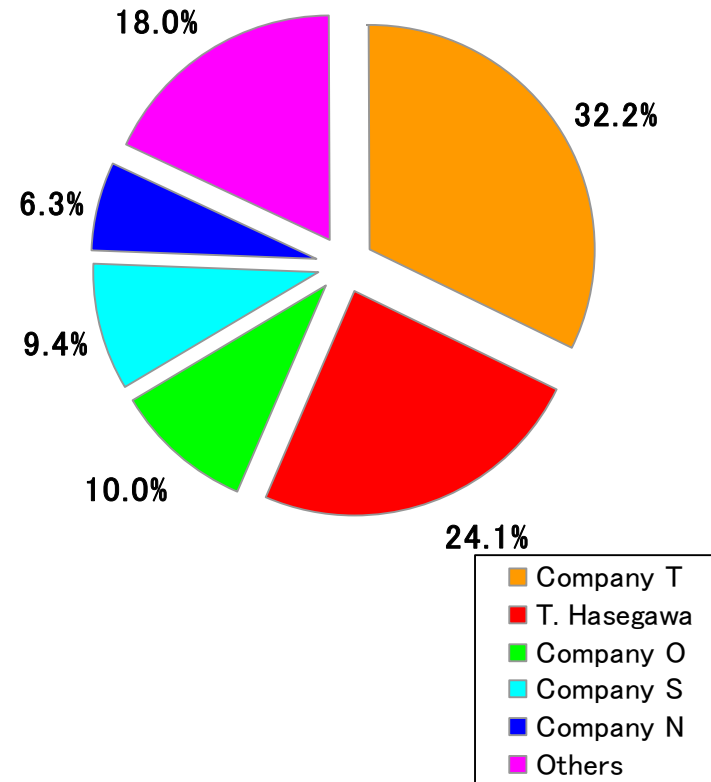
Sales '03 - '07

Yen Million



	2003	2004	2005	2006	2007
Company T	57,531	54,994	57,894	58,365	61,549
T.hasegawa	44,239	48,515	45,570	43,784	45,955
Company O	19,883	18,986	19,721	19,334	19,073
Company S	17,606	17,890	18,295	18,329	17,995
Company N	12,683	12,261	11,694	11,213	12,121
Others	33,594	34,268	34,265	35,750	34,362

Market Share (2007)



Based on a survey conducted by a private market research firm, the Company accounts for 24.1% of the total sales of the top 10 companies in Japan.

# Top 10 Flavor & Fragrance Companies

US \$ million

	Company	Country	Sales (2006)	Market Share
1	Givaudan	Switzerland	2,388	13.3%
2	IFF	USA	2,100	11.7%
3	Firmenich	Switzerland	2,052	11.4%
4	Symrise	Germany	1,623	9.0%
5	Quest	Netherlands	1,152	6.4%
6	Takasago	Japan	956	5.3%
7	Sensient Flavors	USA	535	3.0%
8	T. Hasegawa	Japan	394	2.2%
9	Mane SA	France	380	2.1%
10	Robertet	France	292	1.6%

1. Total world market estimated as US \$ 18.0 billion.
2. US \$ 1 ≙ ¥119.2
3. Givaudan (ranked 1st) acquired Quest (ranked 5th), and Firmenich (ranked 3rd) acquired Danisco's flavor division (ranked 12th) in 2007.

Source : Leffingwell & Associates  
[http://www.leffingwell.com/top\\_10.htm](http://www.leffingwell.com/top_10.htm)



# Management Indices

- |                                  |                   |
|----------------------------------|-------------------|
| 1. Sales Growth Rate             | higher than 3.0%  |
| 2. Operating Income to Net Sales | higher than 14.0% |
| 3. Ordinary Income to Net Sales  | higher than 13.0% |
| 4. ROE                           | higher than 8.0%  |

The management indices are determined, incorporating necessary and attainable goals for T. Hasegawa Group to achieve stable and sustainable growth.

# Mid-Term & Long-Term Strategies

1. Management Setup
2. Policies and Strategies on Flavor and Fragrance Market
3. R&D Policy
4. Capital Investment Policy
5. Cash Flow Policy
6. M&A Policy

## 1. Management Setup

1. Board of Directors
2. Executive Management Committee
3. Corporate Executive Officers
4. Quality Assurance Division and Internal Auditing Division Under the Direct Control of CEO

### <Advantage of T. Hasegawa's Management Setup>

- Smooth information-sharing
- Quick decision-making
- On-site based decision-making

## 2. Policies and Strategies on Flavor and Fragrance Market

- Concentrate on core business of compounding and on other areas derived from it
- Proprietary products are T. Hasegawa's source of profits
- Environment of the aromatic chemicals market
  - Captive use of aroma chemicals at T. Hasegawa
  - Sales of aroma chemicals are important source of profits for some Japanese companies and many European and the U.S. companies
  - Global market trend of aroma chemicals : Shifting of production of low priced items to China and India

### 1. Domestic Market

#### (1) Flavor

- Diversification of flavor applications (promotion of processed food development)
- Expected market : alcoholic drinks, health food, fast food, frozen meals
- Predominant business relationship with most of the leading companies
- T. Hasegawa's domestic market share is expected to be the largest

#### (2) Fragrance

- European and the U.S. companies had been expanding their market share over the past few years, but domestic companies have been regaining their market share recently

### 2. Global Market

Global expansion to take place where market for compound flavors and fragrances exist

⇒ Emphasizing on Asian market especially in China, and building a factory in Southeast Asia

is under consideration in a long-term perspective (sales office in Thailand began operations in 2004)

- China : a second plant is established in Suzhou in August 2006 (preparing for full scale operation in 2009)
- The U.S. : specializes in local companies with proactive R&D and sales activities
- The expansion in European and the U.S. market through M&A should any opportunity arise

# Mid-Term & Long-Term Strategies



Artist rendition of T. HASEGAWA FLAVOURS (SUZHOU) CO., LTD.

## 3. R&D Policy

- Development of new products and presentation for customers
- Establishment of a firm system that enables to respond to diversified request from all customers
- Integrate management resources to the areas of expertise
- Quick response to changes in rapid growing Chinese market

## 4. Capital Investment Policy

- Investments in Asia especially in China
- Investments to cope with new demand
- Investments for enhancement of production efficiency (zoning plan)
- Building of new R&D facility to strengthen the integration of the three research institutes (Flavor Institute, Fragrance Institute, Technical Research Center)

## 5. Cash Flow Policy

- Target dividend ratio : about 30% (consolidated basis)
- Remaining cash flow after dividend payout to be applied to capital investment

## 6. M&A Policy

- Purpose of M&A : Obtaining technology, human resource, trade area and raw material