

FY08 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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Summary of the Consolidated Financial Settlement

Consolidated Results

Yen million

	FY07 (Actual)		FY08 (Revised Plan)		FY08 (Actual)		Achievement			
	Value	Share	Value	Share	Value	Share	yr/yr		vs Plan	
							Value	%	Value	%
Net sales	50,066	100.0%	45,885	100.0%	45,421	100.0%	-4,645	-9.3%	-463	-1.0%
Cost of sales	32,728	65.4%	30,345	66.1%	30,673	67.5%	-2,055	-6.3%	328	1.1%
Gross profit	17,338	34.6%	15,540	33.9%	14,748	32.5%	-2,590	-14.9%	-791	-5.1%
SGA expenses	10,829	21.6%	11,305	24.6%	10,884	24.0%	54	0.5%	-420	-3.7%
Operating income	6,508	13.0%	4,235	9.2%	3,863	8.5%	-2,644	-40.6%	-371	-8.8%
Ordinary income	6,443	12.9%	3,975	8.7%	3,701	8.1%	-2,742	-42.6%	-273	-6.9%
Income before income taxes	6,411	12.8%	3,870	8.4%	3,514	7.7%	-2,897	-45.2%	-355	-9.2%
Net income	4,147	8.3%	2,430	5.3%	2,238	4.9%	-1,909	-46.0%	-191	-7.9%

Sales

Yen million

Segment		FY07	FY08	yr/yr		Remark
				Value	%	
Products	Fragrances	4,937	5,345	407	8.3%	Sales for household products increased
	Flavors	41,814	37,135	-4,678	-11.2%	Sales for tea products, sales of fruit preparation, and sales for instant noodles decreased
Sub total		46,751	42,480	-4,270	-9.1%	—
Traded items	Fragrances	584	556	-28	-4.9%	Sales for cosmetics decreased
	Flavors	2,730	2,384	-346	-12.7%	Sales of fruit preparation decreased
Sub total		3,315	2,940	-374	-11.3%	—
Total		50,066	45,421	-4,645	-9.3%	—

- Sales for tea products decreased by approx. ¥2,600mln
- Sales of fruit preparations decreased by approx. ¥1,400mln
- Sales for instant noodles decreased by approx. ¥300mln

Profit and Loss Statements

Yen million

	FY07 (Actual)		FY08 (Actual)		yr/yr		Remark
					Value	%	
Net sales	50,066	100.0%	45,421	100.0%	-4,645	-9.3%	
Cost of sales	32,728	65.4%	30,673	67.5%	-2,055	-6.3%	<ul style="list-style-type: none"> • Sales cost ratio was up 2.5 percentage points from 66.6% to 69.1% on non-consolidated basis due to the increase of depreciation & amortization by ¥236mln and the increase of fuel cost by ¥93mln • Raw material cost to sales was almost unchanged from FY07
Gross profit	17,338	34.6%	14,748	32.5%	-2,590	-14.9%	
SGA expenses	10,829	21.6%	10,884	24.0%	54	0.5%	<ul style="list-style-type: none"> • Depreciation & amortization increased by ¥61mln mainly due to the capital investment for the software
Operating income	6,508	13.0%	3,863	8.5%	-2,644	-40.6%	
Ordinary income	6,443	12.9%	3,701	8.1%	-2,742	-42.6%	<ul style="list-style-type: none"> • Non-operating expenses increased by ¥124mln mainly due to the increase of loss on disposal of inventories by ¥53mln and the increase of foreign exchange losses by ¥37mln
Income before income taxes	6,411	12.8%	3,514	7.7%	-2,897	-45.2%	<ul style="list-style-type: none"> • Extraordinary losses increased by ¥129mln mainly due to the increase of loss on retirement of fixed assets by ¥65mln and the increase of loss on revaluation of investments in securities by ¥35mln
Net income	4,147	8.3%	2,238	4.9%	-1,909	-46.0%	<ul style="list-style-type: none"> • Foreign tax credit : ¥148mln

Balance Sheets

Yen million

	FY07	FY08	Change	Remark
Current assets	44,149	36,161	△ 7,988	<ul style="list-style-type: none"> Available-for-sale securities decreased by ¥3,995mln mainly due to the redemption of bond with warrant attached (¥2,356mln) Notes receivable-trade decreased by ¥3,140mln mainly due to the sales decline
Fixed assets	39,860	41,923	2,063	<ul style="list-style-type: none"> Tangible assets increased by ¥3,009mln Investments and other assets decreased by ¥679mln
Total assets	84,010	78,085	△ 5,924	—
Current liabilities	17,559	10,458	△ 7,100	<ul style="list-style-type: none"> Conversion of bond with warrant attached : ¥1,190mln Redemption of bond with warrant attached : ¥2,356mln Accounts payable decreased by ¥1,215mln
Long-term liabilities	7,426	7,488	61	—
Shareholders' equity	59,024	60,138	1,114	<ul style="list-style-type: none"> Both capital stock and capital surplus increased by ¥595mln Retained earnings increased by ¥978mln Unrealized gains on available-for-sale securities decreased by ¥829mln
Total liabilities and shareholders' equity	84,010	78,085	△ 5,924	—

Statements of Cash Flow

Yen million

Account item	FY07	FY08	Change	Remark
Cash flows from operating activities	7,693	6,730	△ 962	<ul style="list-style-type: none"> Income before income taxes : ¥3,514mln Depreciation & Amortization : ¥3,286mln Decrease in trade receivables : ¥3,383mln Income taxes paid : ¥2,184mln
Cash flows from investing activities	△ 3,872	△ 7,201	△ 3,328	<ul style="list-style-type: none"> Acquirement of tangible assets : ¥7,270mln Acquirement of intangible assets : ¥234mln
Cash flows from financing activities	△ 1,448	△ 3,619	△ 2,170	<ul style="list-style-type: none"> Redemption of bond with warrant attached : ¥2,356mln Payment of cash dividends : ¥1,259mln
Effect of currency change on cash and cash equivalents	△ 50	△ 192	△ 142	—
Net change in cash and cash equivalents	2,321	△ 4,282	△ 6,604	—
Cash and cash equivalents at beginning of period	11,204	13,526	2,321	—
Cash and cash equivalents at end of period	13,526	9,243	△ 4,282	—

Capital Investment, Depreciation & Amortization, R&D Expenses

Yen million

		FY08 (Plan)	FY08 (Actual)	Progress (%)
Capital Investment	Consolidated	6,380	6,295	98.7%
	Non-consolidated	3,590	2,589	72.1%
Depreciation & Amortization	Consolidated	3,312	3,286	99.2%
	Non-consolidated	3,130	3,106	99.2%
R&D Expenses	Consolidated	3,530	3,513	99.5%
	Non-consolidated	3,120	3,122	100.1%

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

Yen million

	FY07 (Actual)		FY08 (Revised Plan)		FY08 (Actual)		Achievement			
	Value	Share	Value	Share	Value	Share	yr/yr		vs Plan	
							Value	%	Value	%
Net sales	45,955	100.0%	41,550	100.0%	41,200	100.0%	-4,754	-10.3%	-349	-0.8%
Cost of sales	30,584	66.6%	28,150	67.7%	28,450	69.1%	-2,134	-7.0%	300	1.1%
Gross profit	15,370	33.4%	13,400	32.3%	12,750	30.9%	-2,620	-17.0%	-649	-4.8%
SGA expenses	9,499	20.7%	9,920	23.9%	9,500	23.1%	0	0.0%	-419	-4.2%
Operating income	5,871	12.8%	3,480	8.4%	3,250	7.9%	-2,620	-44.6%	-229	-6.6%
Ordinary income	5,853	12.7%	3,615	8.7%	3,538	8.6%	-2,315	-39.6%	-76	-2.1%
Income before income taxes	5,822	12.7%	3,514	8.5%	3,363	8.2%	-2,458	-42.2%	-150	-4.3%
Net income	3,708	8.1%	2,325	5.6%	2,256	5.5%	-1,452	-39.2%	-68	-3.0%

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

Yen million

	FY07		FY08		yr/yr	
	Value	Share	Value	Share	Change	%
Net sales	3,289	100.0%	3,457	100.0%	167	5.1%
Cost of sales	2,119	64.4%	2,136	61.8%	17	0.8%
Gross profit	1,170	35.6%	1,320	38.2%	150	12.9%
SGA expenses	683	20.8%	721	20.9%	38	5.6%
Operating income	486	14.8%	599	17.3%	112	23.1%
Ordinary income	517	15.7%	639	18.5%	122	23.6%

¥15.44/CNY

¥15.17/CNY

CNY thousand

	FY07		FY08		yr/yr	
	Value	Share	Value	Share	Change	%
Net sales	213,061	100.0%	227,921	100.0%	14,860	7.0%
Cost of sales	137,280	64.4%	140,847	61.8%	3,567	2.6%
Gross profit	75,780	35.6%	87,073	38.2%	11,293	14.9%
SGA expenses	44,272	20.8%	47,583	20.9%	3,310	7.5%
Operating income	31,507	14.8%	39,490	17.3%	7,982	25.3%
Ordinary income	33,498	15.7%	42,142	18.5%	8,643	25.8%

Although sales for beverages and instant noodles contributed to the higher sales, sales growth rate remained at 7.0% due to heavy snow, floods in South China, and earthquake in Sichuan
Sales composition → Flavors : Fragrances = 7 : 3

Sales cost ratio improved mainly due to the decrease of the imported raw materials cost derived from the higher CNY (against the US dollars), and the increase of domestic manufacturing

T. HASEGAWA U.S.A., INC.

Yen million

	FY07		FY08		yr/yr	
	Value	Share	Value	Share	Change	%
Net sales	1,932	100.0%	1,823	100.0%	-108	-5.6%
Cost of sales	1,199	62.1%	1,155	63.4%	-43	-3.6%
Gross profit	732	37.9%	668	36.6%	-64	-8.8%
SGA expenses	607	31.4%	598	32.8%	-8	-1.5%
Operating income	125	6.5%	69	3.8%	-55	-44.4%
Ordinary income	139	7.2%	87	4.8%	-51	-37.1%

¥119.00/\$

¥107.67/\$

\$ thousand

	FY07		FY08		yr/yr	
	Value	Share	Value	Share	Change	%
Net sales	16,235	100.0%	16,938	100.0%	703	4.3%
Cost of sales	10,080	62.1%	10,734	63.4%	654	6.5%
Gross profit	6,155	37.9%	6,204	36.6%	48	0.8%
SGA expenses	5,102	31.4%	5,557	32.8%	454	8.9%
Operating income	1,052	6.5%	646	3.8%	-405	-38.6%
Ordinary income	1,173	7.2%	816	4.8%	-357	-30.4%

Sales growth rate was below the initial plan of 12.2% mainly due to the sales decline for fishery products


Sales composition → 100% flavors

Business Outline

1. Flavors & Fragrances



- Natural flavors & fragrances
- Aromatic chemicals

2. Main products of flavor & fragrance companies

- Compound 
 - Flavors
 - Fragrances

- Aromatic Chemicals (Mainly used for fragrances, although some materials are used for flavors as well)

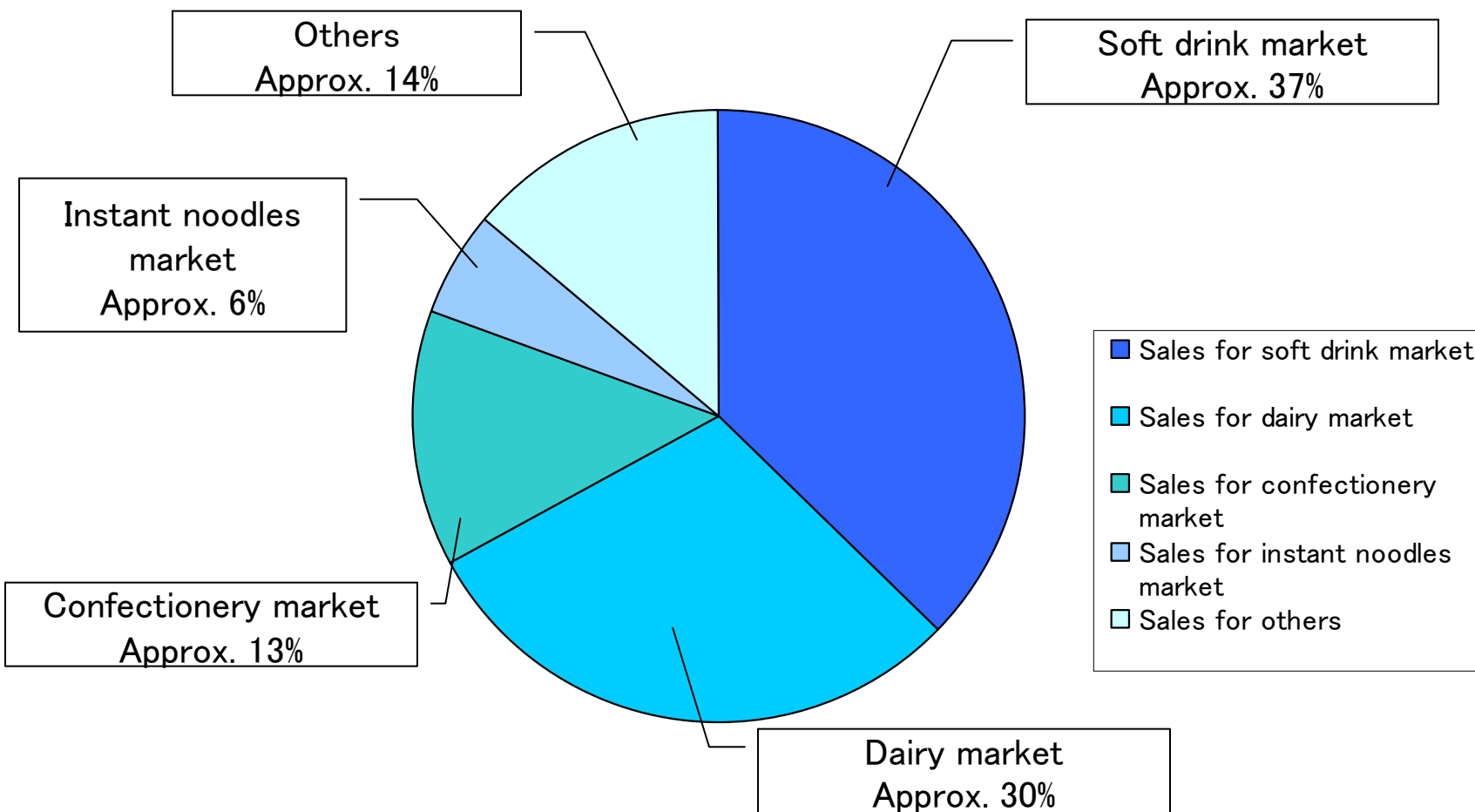
Business Outline ②

Products	Fragrances Production & sales of fragrance products	¥5,345mln 11.8%	 <p>Used in a wide variety of cosmetics, toiletries, household products etc.</p>
	Flavors Production & sales of : <ul style="list-style-type: none"> ▪ flavors ▪ seasonings ▪ extracts ▪ processed food materials ▪ fruit preparations ¥5,049mln (13.6% of flavor products) <ul style="list-style-type: none"> ▪ natural colorings, etc. 	¥37,135mln 81.8%	
Traded Items	Fragrances	¥556mln 1.2%	 <p>Used in a wide variety of beverages, confections, snacks, soups, desserts, frozen desserts etc.</p>
	Flavors (toll manufacture) <ul style="list-style-type: none"> ▪ fruit preparations ¥1,225mln (51.4% of flavor traded items)	¥2,384mln 5.2%	

Fruit preparations in total (products & traded items) : ¥6,275mln (sales composition: 13.8%)

Percentage: consolidated segmental sales breakdown at the end of FY08

Sales proportion of flavors by industry (non-consolidated)



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

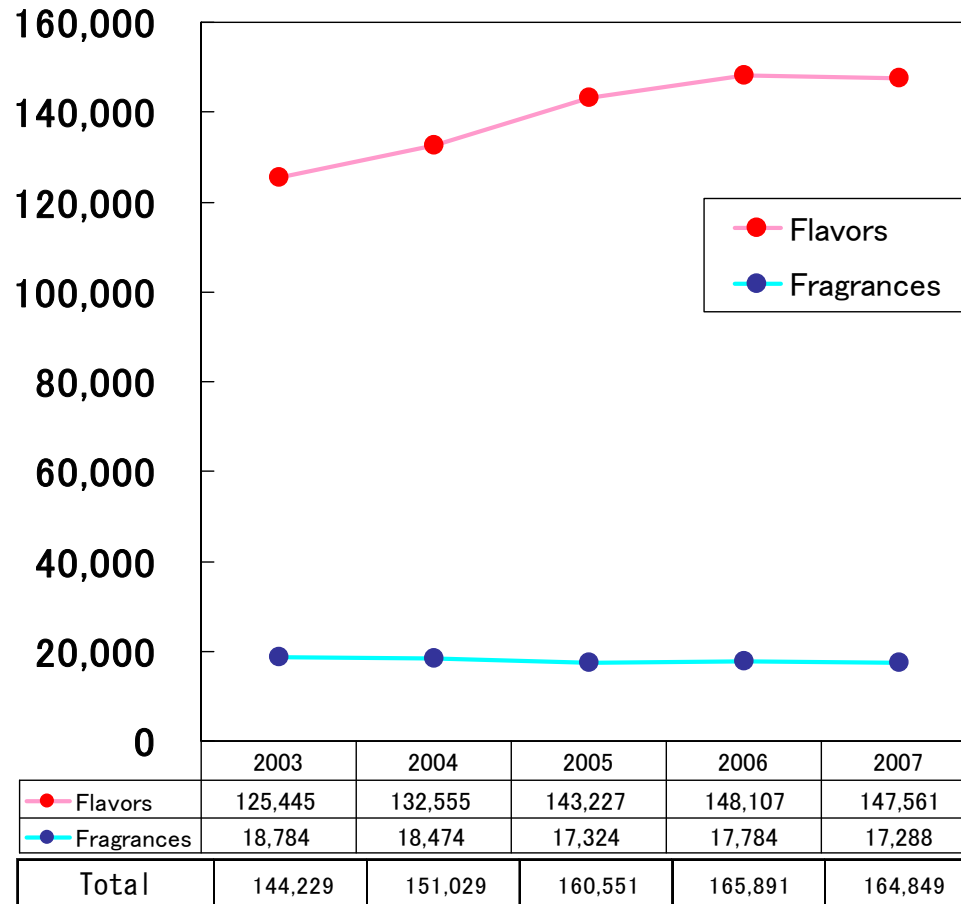
■ Tough Negotiation With Customers

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

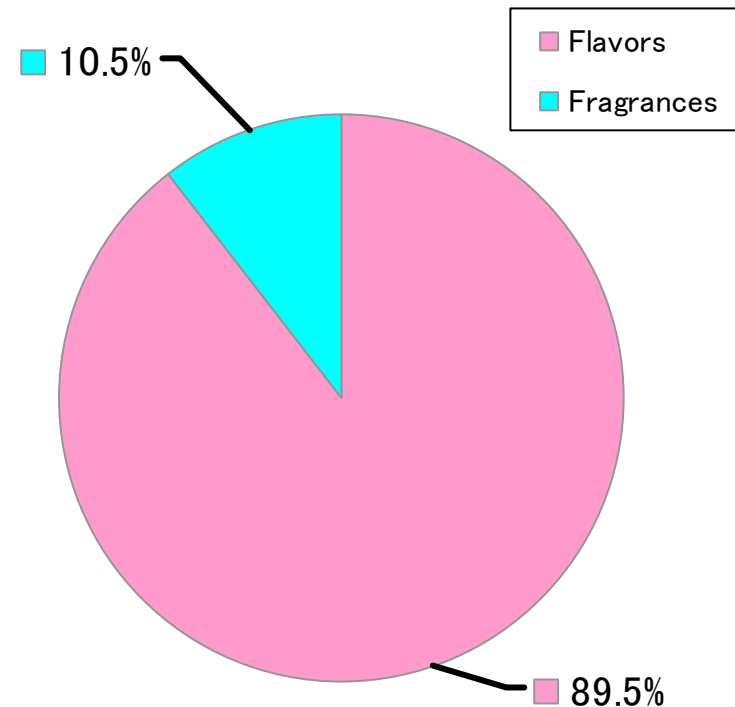
Trend in the Domestic Flavors & Fragrances Market

Production Quantity '03 - '07

Yen Million



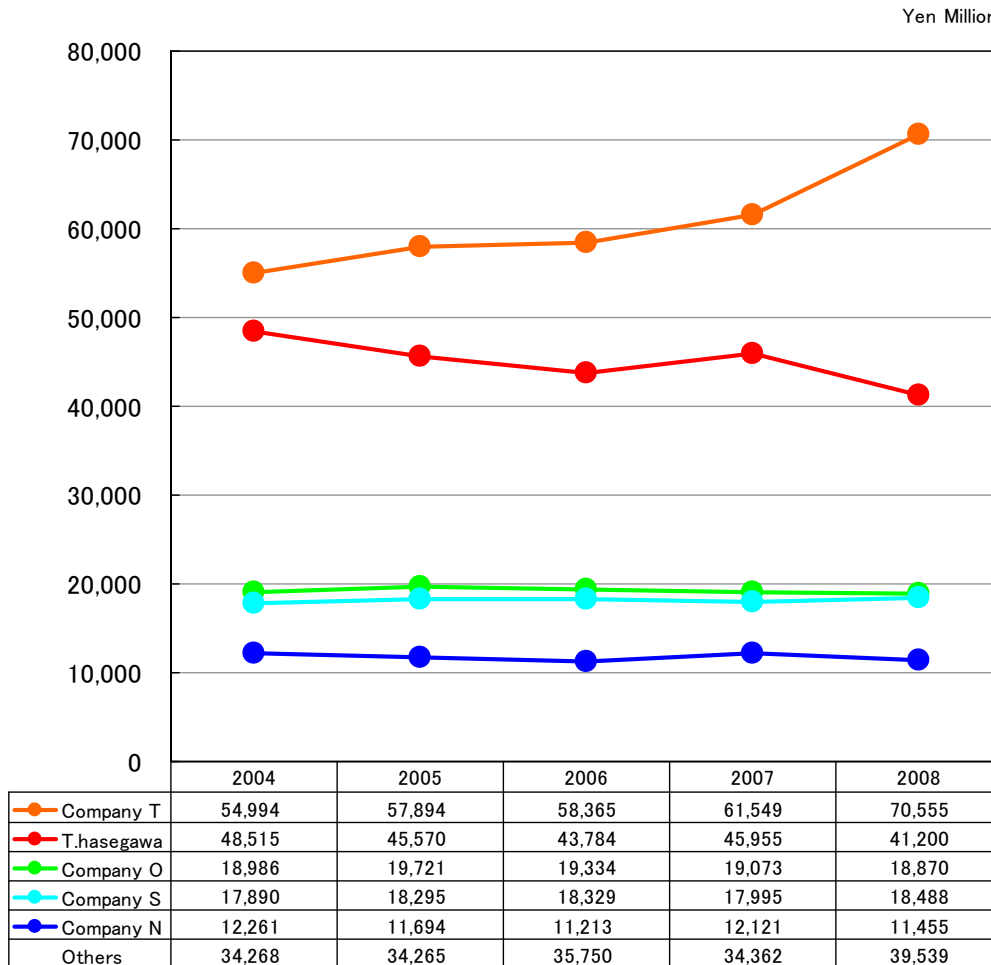
Composition Rate 2007



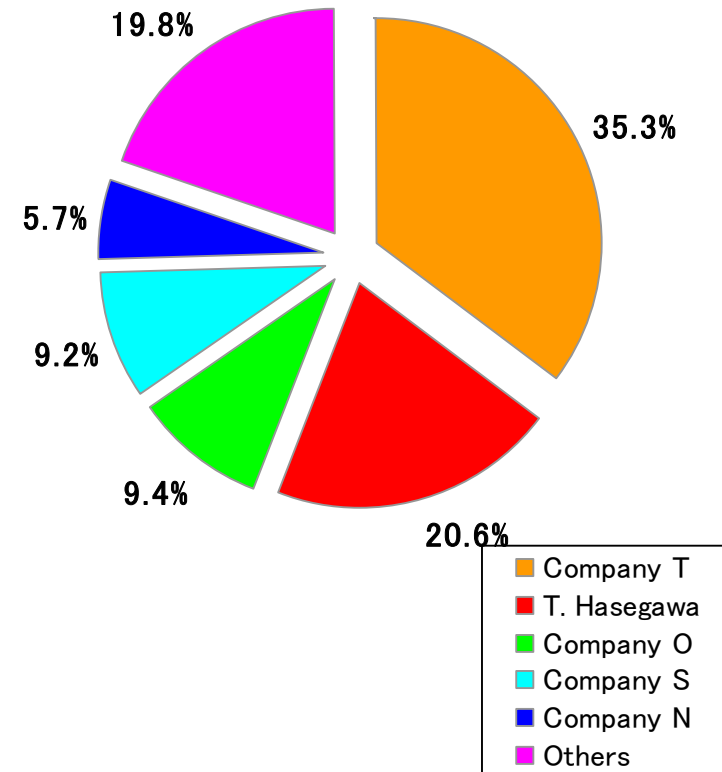
Source : Japan Flavor & Fragrances Materials Association

T. Hasegawa's Domestic Market Share

Sales '04 - '08



Market Share (2008)



Based on a survey conducted by a private market research firm, T. Hasegawa accounts for 20.6% of the total sales of the top 10 companies in Japan.

T. Hasegawa's Share	25.9%	24.2%	23.6%	24.1%	20.6%

Top 10 Flavor & Fragrance Companies

US \$ million

	Company	Country	Sales (2007)	Market Share
1	Givaudan	Switzerland	3,647	18.4%
2	Firmenich	Switzerland	2,513	12.7%
3	IFF	USA	2,277	11.5%
4	Symrise	Germany	1,861	9.3%
5	Takasago	Japan	1,112	5.6%
6	Sensient Flavors	USA	572	2.9%
7	Mane SA	France	449	2.3%
8	T. Hasegawa	Japan	448	2.3%
9	Frutarom	Israel	368	1.9%
10	Robertet SA	France	352	1.8%

1. Total world market estimated as US \$ 19.8 billion.

2. US \$ 1 ≙ ¥111.7

Source : Leffingwell & Associates
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.

Analysis of Decreased Sales & Profit, Strategies for Recovery, and Three-year Strategies

Analysis of Decreased Sales & Profit and Strategies for Recovery

1. Consolidated net sales decreased by ¥4,600mln

- Sales for tea products decreased by approx. ¥2,600mln yr/yr due to the change of consumers' preferences
- Sales of fruit preparations decreased by approx. ¥1,400mln yr/yr due to the reduced demand of some of our major customers
- Sales for instant noodles decreased by approx. ¥300mln yr/yr due to the rise of wheat prices
- Production adjustment by our customers
- Less new product developments by our customers

2. Consolidated ordinary income decreased by ¥2,700mln

- Sales cost ratio was up 2.1 percentage points yr/yr mainly due to the declined sales, the increase of non-consolidated depreciation & amortization by ¥236mln, and the increase of non-consolidated fuel cost by ¥93mln
- SGA expenses increased by ¥54mln yr/yr mainly due to the increase of depreciation & amortization by ¥61mln
- Non-operating expenses increased by ¥124mln yr/yr mainly due to the increase of loss on disposal of inventories by ¥53mln and the increase of foreign exchange losses by ¥37mln

3. Strategies for Recovery

- Increase market share by promoting R&D efficiency and proactive sales activities
⇒ Although forecasted sales growth rate for the FY09 is 1.1%, it is expected to recover to the management index level (higher than 3.0%) in the FY11
- Go back to the basics to focus on the high-value added compound flavors
⇒ Change of the sales mix is projected to contribute to the increase of profits in the FY09 by approx. ¥150mln on non-consolidated basis
- Cut production cost by improving production efficiency and promoting automation
⇒ In addition to the cost-cutting efforts, depreciation & amortization recognized as cost of sales are expected to decrease by approx. ¥170mln in the FY09 on non-consolidated basis
- Try to reduce inventory losses by utilizing the new enterprise resource management system (ERP)
⇒ Loss on disposal of inventories is projected to be reduced by approx. ¥50mln in the FY09 on non-consolidated basis
- Cost-cut through reduction of personnel expenses and other expenses
⇒ Cost-cutting effort of approx. ¥70mln is projected in the FY09 on non-consolidated basis

Three-year Strategies (Consolidated)

Yen million

	'08 / 9 (Actual)			FY09/9(Plan)			FY10/9(Plan)			FY11/9(Plan)		
	Value	Share	yr/yr	Value	Share	yr/yr	Value	Share	yr/yr	Value	Share	yr/yr
Net sales	45,421	100.0%	-9.3%	45,900	100.0%	1.1%	47,100	100.0%	2.6%	48,770	100.0%	3.5%
Cost of sales	30,673	67.5%	-6.3%	30,930	67.4%	0.8%	31,670	67.2%	2.4%	32,280	66.2%	1.9%
Gross profit	14,748	32.5%	-14.9%	14,970	32.6%	1.5%	15,430	32.8%	3.1%	16,490	33.8%	6.9%
SGA expenses	10,884	24.0%	0.5%	11,040	24.1%	1.4%	11,325	24.0%	2.6%	11,425	23.4%	0.9%
Operating income	3,863	8.5%	-40.6%	3,930	8.6%	1.7%	4,105	8.7%	4.5%	5,065	10.4%	23.4%
Ordinary income	3,701	8.1%	-42.6%	4,230	9.2%	14.3%	4,400	9.3%	4.0%	5,370	11.0%	22.0%
Income before income taxes	3,514	7.7%	-45.2%	4,130	9.0%	17.5%	4,280	9.1%	3.6%	5,250	10.8%	22.7%
Net income	2,238	4.9%	-46.0%	2,660	5.8%	18.8%	2,720	5.8%	2.3%	3,350	6.9%	23.2%

Three-year Strategies (Consolidated)

Capital Investment, Depreciation & Amortization, R&D Expenses

Yen million

		FY08 (Actual)	FY09 (Plan)	FY10 (Plan)	FY11 (Plan)
Capital Investment	Consolidated	6,295	5,388	4,550	4,550
	Non-consolidated	2,589	3,774	3,556	3,866
Depreciation & Amortization	Consolidated	3,286	3,235	3,641	3,521
	Non-consolidated	3,106	3,023	3,132	2,903
R&D Expenses	Consolidated	3,513	3,536	3,922	4,303
	Non-consolidated	3,122	3,122	3,489	3,854

Mid-Term & Long-Term Strategies

1. Policies and Strategies for the Flavor and Fragrance Market
2. R&D Policy
3. Capital Investment Policy
4. Cash Flow Policy
5. M&A Policy

Mid-Term & Long-Term Strategies

1. Policies and Strategies for the Flavor and Fragrance Market

1. Basic Strategy

- Concentrate on core business of compounding and on other areas derived from it
- Proprietary products are T. Hasegawa's source of profits

2. Domestic Market

(1) Flavor

- While anticipating steady growth due to the diversification of the processed food industries, we need to respond to the thorough cost consciousness of our customers resulting from the raw material price increases
- Maintain business relationship with most of the leading companies
(T. Hasegawa's domestic market share is estimated to be the largest)
- Put more efforts on expected market such as alcoholic drinks, health food, fast food, frozen meals, foods for medical use etc.
- Contributing to our customers' cost-cutting by replacing the raw materials that are increasing in prices with our flavors

(2) Fragrance

- European and the U.S. companies have been expanding their market share over the past few years, but domestic companies have been regaining their market share recently
- Emphasize on the areas T. Hasegawa's market share is relatively low, such as detergents, room fragrances, and air fresheners
- Emphasize on the functional ingredients

3. 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 : The second plant was established in Suzhou in August 2006 (preparing for full scale operation in 2009)
- The U.S. : Specialize in local companies with proactive R&D and sales activities mainly in the areas of savory flavors

Mid-Term & Long-Term Strategies



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

2. R&D Policy

- Development of new products and presentations to customers
- Implementation of an established R&D system that enables to respond to diversified request from all customers
- Integrate management resources to areas of our expertise
- Quick response to changes in rapid growing Chinese market

3. 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)
- Major investment projects will be mostly completed in FY09

4. Cash Flow Policy

- Target dividend ratio : about 30% on consolidated basis
⇒ Proposed dividend for FY09 is ¥30 per share
Although dividend ratio will exceed 30% substantially, emphasizing the distributions to the shareholders, it is to be maintained from the previous fiscal year
- Remaining cash flow after dividend payout to be applied to capital investment

5. M&A Policy

- Purpose of M&A : Obtaining technology, human resources, market area and source of raw materials