

Consolidated Financial Statements
Fiscal Year 2015
(March 31 , 2015 and 2014)

Takasago International Corporation

Analysis of Business Results

Overview of Business Results

During the fiscal year under review, the future of the world economy remained uncertain, reflecting factors such as increased geopolitical risk in certain regions, low crude oil prices and slower growth in emerging nations, which had acted as a driving force.

In the same fiscal year, the Japanese economy, against a background of stimulus measures taken by the Japanese government and monetary policies adopted by the Bank of Japan, showed signs of improvement centered on the export industry. Consequently, business recovery became more widespread in Japan.

In the flavor and fragrance industry, growth markets, such as China and Southeast Asia, remained strong. In the meantime, the competitive environment for the Company continued to be tough at home and abroad as demonstrated by the competition for global market shares and the fact that business development in the domestic market is mature.

Since the fire at the flavor manufacturing building at the Company's Hiratsuka Factory in April 2013, the Company has worked to make sure there is thorough awareness of the safety culture that is to be at the foundation of stable supply and safe operations, to make it known to all the directors and employees of the Group that "safety takes precedence over all other considerations."

Under these circumstances, the Group furthered business in 28 countries and regions around the world with a solid consolidated management structure worldwide, implementing the medium-term management plan, "New Takasago Global Plan (GP-2)," for the period from fiscal 2012 to fiscal 2014 under the basic business policy of "becoming a leading flavors and fragrances supplier in global markets by continuing to supply dependable products."

Net sales for the fiscal year under review rose 0.5% from the previous fiscal year to ¥131,653 million. By business segment, net sales for the Flavors segment fell 0.8% year on year to ¥78,355 million, reflecting poor results for the Company that offset the strong performance of the subsidiaries in other Asian countries. Net sales for the Fragrances segment grew 10.0% year on year to ¥36,553 million owing to favorable results posted by the subsidiaries in France and China. Net sales for the Aroma Chemicals segment dropped 2.7% year on year to ¥9,908 million due to lower results for menthols, which are main products. Net sales also sank 25.0% year on year to ¥5,459 million for the Fine Chemicals segment reflecting poor results for pharmaceutical intermediates. Net sales for the Real Estate business segment grew 1.7% year on year to ¥1,376 million.

Looking at profits, operating income declined 41.8% from the previous fiscal year to ¥3,144 million. Ordinary income plunged 34.4% year on year to ¥3,893 million. Net income also fell 15.7% year on year to ¥2,549 million.

By geographical segment, in Japan, net sales dropped 8.1% from the previous fiscal year to ¥64,304 million due to factors, including an income decrease posted by the Flavors segment of the Company. Operating income for the segment also declined 72.1% year on year to ¥952 million. In the Americas, net sales increased 0.8% year on year to ¥27,001 million. Operating loss for the segment amounted to ¥1,472 million (compared with a loss of ¥420 million posted in the previous fiscal year), mainly reflecting the poor performance of U.S. subsidiaries. In Europe, net sales climbed 17.4% from the previous fiscal year to ¥20,157 million thanks to substantial business growth for the subsidiaries in France. Operating income for the segment was ¥1,296 million (compared with an income of ¥8 million posted in the previous fiscal year). In Asia, net sales rose 18.1% year on year to ¥20,189 million and operating income for the segment grew 0.4% year on year to ¥2,236 million, reflecting strong results posted by the subsidiaries in China.

Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	FY 2014 (As of March 31, 2014)	FY 2015 (As of March 31, 2015)
Assets		
Current assets		
Cash and deposits	15,632	19,247
Notes and accounts receivable–trade	28,759	28,736
Merchandise and finished goods	19,276	20,873
Work in progress	236	340
Raw materials and supplies	14,632	15,128
Deferred tax assets	1,305	1,194
Others	2,902	3,396
Allowance for doubtful accounts	(233)	(277)
Total current assets	82,513	88,640
Fixed assets		
Property, plant and equipment		
Buildings and structures	58,258	61,564
Accumulated depreciation	(32,085)	(33,901)
Buildings and structures (net)	26,173	27,663
Machinery, equipment and vehicles	54,226	56,310
Accumulated depreciation	(46,342)	(47,338)
Machinery, equipment and vehicles (net)	7,883	8,972
Tools, furniture and fixtures	10,667	10,926
Accumulated depreciation	(8,784)	(8,658)
Tools, furniture and fixtures (net)	1,883	2,268
Land	7,665	7,870
Construction in progress	2,087	9,270
Total property, plant and equipment	45,692	56,044
Intangible fixed assets	2,193	1,837
Investments and other assets		
Investment securities	17,266	22,471
Investments in capital	252	322
Long-term loans receivable	0	-
Deferred tax assets	281	205
Others	1,643	1,624
Allowance for doubtful accounts	(490)	(502)
Total investments and other assets	18,953	24,122
Total fixed assets	66,840	82,005
Total assets	149,353	170,645

(Million yen)

	FY 2014 (As of March 31, 2014)	FY 2015 (As of March 31, 2015)
Liabilities		
Current liabilities		
Notes and accounts payable–trade	11,706	12,947
Short-term loans payable	22,735	24,480
Current portion of long-term loans payable	4,793	7,643
Current portion of bonds	560	340
Accrued income taxes	325	772
Provision for bonuses	1,585	1,614
Provision for directors' bonuses	14	14
Others	8,052	8,663
Total current liabilities	49,773	56,476
Long-term liabilities		
Bonds payable	1,660	1,320
Long-term loans payable	17,071	21,667
Deferred tax liabilities	2,354	4,207
Provision for directors' retirement benefits	10	12
Net defined benefit liability	6,414	5,750
Others	958	1,160
Total long-term liabilities	28,468	34,118
Total liabilities	78,241	90,595
Net assets		
Shareholders' equity		
Capital stock	9,248	9,248
Capital surplus	8,357	8,357
Retained earnings	45,777	47,334
Treasury stock	(616)	(619)
Total shareholders' equity	62,766	64,321
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,996	11,186
Deferred gains or losses on hedges	-	0
Foreign currency translation adjustment	(510)	2,243
Remeasurements of defined benefit plans	437	650
Total accumulated other comprehensive income	6,923	14,081
Minority interests	1,420	1,647
Total net assets	71,111	80,050
Total liabilities and net assets	149,353	170,645

(2) Consolidated Statements of Income and Consolidated Comprehensive Income

Consolidated statements of income

(Million yen)

	FY 2014 (From April 1, 2013 to March 31, 2014)	FY 2015 (From April 1, 2014 to March 31, 2015)
Net sales	131,036	131,653
Cost of sales	91,460	91,036
Gross profit on sales	39,576	40,616
Selling, administrative, research and development expenses	34,171	37,471
Operating income	5,404	3,144
Non-operating income		
Interest income	46	60
Dividends income	333	362
Foreign exchange gains	333	540
Others	545	594
Total non-operating income	1,258	1,557
Non-operating expenses		
Interest expenses	459	490
Equity in losses of affiliates	118	51
Compensation for damage	-	144
Others	145	122
Total non-operating expenses	723	808
Ordinary income	5,940	3,893
Extraordinary income		
Gain on sale of fixed assets	1	317
Insurance income	2,194	1,507
Total extraordinary income	2,196	1,825
Extraordinary losses		
Loss on sale or disposition of fixed assets	238	53
Impairment loss	20	659
Loss on reduction of fixed assets	1,330	-
Loss on valuation of investments in securities	3	16
Loss incurred by the fire accident	1,745	-
Total extraordinary losses	3,338	729
Net income before income taxes and minority interests	4,797	4,989
Income taxes—current	1,434	1,613
Income taxes—deferred	141	580
Total income taxes	1,576	2,193
Income before minority interests	3,221	2,795
Minority interests in income	195	246
Net income	3,025	2,549

Consolidated comprehensive income

(Million yen)

	FY 2014 (From April 1, 2013 to March 31, 2014)	FY 2015 (From April 1, 2014 to March 31, 2015)
Income before minority interests	3,221	2,795
Other comprehensive income		
Valuation difference on available-for-sale securities	681	4,191
Deferred gains or losses on hedges	-	0
Foreign currency translation adjustment	6,209	2,761
Remeasurements of defined benefit plans, net of tax	-	211
Share of other comprehensive income of associates accounted for using equity method	196	144
Total other comprehensive income	7,087	7,308
Comprehensive income	10,309	10,104
(break down)		
Comprehensive income attributable to owners of the parent	9,862	9,706
Comprehensive income attributable to minority interests	446	397

(3) Statements of Changes in Net Assets

FY 2014 (From April 1, 2013 to March 31, 2014)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	9,248	8,357	43,545	(597)	60,554
Cumulative effects of changes in accounting policies					—
Restated balance	9,248	8,357	43,545	(597)	60,554
Changes of items during the period					
Dividends from surplus			(793)		(793)
Net income			3,025		3,025
Purchase of treasury stock				(20)	(20)
Disposal of treasury stock		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	0	2,231	(19)	2,212
Balance at the end of current period	9,248	8,357	45,777	(616)	62,766

	Accumulated other comprehensive income					Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	6,314	—	(6,664)	—	(350)	1,092	61,296
Cumulative effects of changes in accounting policies							—
Restated balance	6,314	—	(6,664)	—	(350)	1,092	61,296
Changes of items during the period							
Dividends from surplus							(793)
Net income							3,025
Purchase of treasury stock							(20)
Disposal of treasury stock							0
Net changes of items other than shareholders' equity	682	—	6,154	437	7,274	328	7,602
Total changes of items during the period	682	—	6,154	437	7,274	328	9,814
Balance at the end of current period	6,996	—	(510)	437	6,923	1,420	71,111

FY 2015 (From April 1, 2014 to March 31, 2015)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	9,248	8,357	45,777	(616)	62,766
Cumulative effects of changes in accounting policies			(198)		(198)
Restated balance	9,248	8,357	45,578	(616)	62,568
Changes of items during the period					
Dividends from surplus			(793)		(793)
Net income			2,549		2,549
Purchase of treasury stock				(2)	(2)
Disposal of treasury stock					—
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	1,755	(2)	1,753
Balance at the end of current period	9,248	8,357	47,334	(619)	64,321

	Accumulated other comprehensive income					Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	6,996	—	(510)	437	6,923	1,420	71,111
Cumulative effects of changes in accounting policies							(198)
Restated balance	6,996	—	(510)	437	6,923	1,420	70,912
Changes of items during the period							
Dividends from surplus							(793)
Net income							2,549
Purchase of treasury stock							(2)
Disposal of treasury stock							—
Net changes of items other than shareholders' equity	4,189	0	2,753	213	7,157	227	7,384
Total changes of items during the period	4,189	0	2,753	213	7,157	227	9,137
Balance at the end of current period	11,186	0	2,243	650	14,081	1,647	80,050

(4) Consolidated Statements of Cash Flows

(Million yen)

	FY 2014 (From April 1, 2013 to March 31, 2014)	FY 2015 (From April 1, 2014 to March 31, 2015)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	4,797	4,989
Depreciation and amortization	4,770	5,277
Impairment loss	20	659
Increase (decrease) in allowance for doubtful accounts	61	25
Increase (decrease) in net defined benefit liability	(514)	(667)
Interest and dividends income	(380)	(422)
Interest expenses	459	490
Loss (gain) on sales and retirement of property, plant and equipment	236	(263)
Loss on reduction of property, plant and equipment	1,330	-
Insurance income	(2,194)	(1,507)
Decrease (increase) in notes and accounts receivable trade	569	1,289
Decrease (increase) in inventories	(549)	(922)
Increase (decrease) in notes and accounts payable trade	(1,783)	255
Other	814	374
Subtotal	7,639	9,577
Interest and dividends income received	479	486
Interest income payment	(460)	(496)
Income taxes (paid) refund	(2,554)	(950)
Proceeds from insurance income	2,433	1,507
Net cash provided by (used in) operating activities	7,537	10,124
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(10,591)	(13,018)
Proceeds from sales of property, plant and equipment	7	386
Purchase of intangible assets	(214)	(187)
Purchase of investment securities	(22)	(23)
Payments for increase in capital of subsidiaries	(255)	(174)
Purchase of investments in subsidiaries	(15)	-
Payments of loans receivable	(416)	(671)
Collection of loans receivable	16	11
Other	(52)	28
Net cash provided by (used in) investing activities	(11,544)	(13,649)

(Million yen)

	FY 2014 (From April 1, 2013 to March 31, 2014)	FY 2015 (From April 1, 2014 to March 31, 2015)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	2,072	1,014
Proceeds from long-term loans payable	7,214	11,960
Repayment of long-term loans payable	(5,037)	(4,965)
Proceeds from issuance of bonds	2,000	-
Redemption of bonds	(220)	(560)
Purchase of treasury stock	(20)	(2)
Cash dividends paid	(793)	(793)
Cash dividends paid to minority shareholders	(119)	(170)
Other	(18)	(36)
Net cash provided by (used in) financing activities	5,077	6,446
Effect of exchange rate change on cash and cash equivalents	1,225	477
Net increase (decrease) in cash and cash equivalents	2,296	3,399
Cash and cash equivalents at beginning of period	13,336	15,632
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	-	215
Cash and cash equivalents at end of period	15,632	19,247

Information Concerning Sales, Income (Loss), and Assets Amount by Reporting Segment

FY 2014 (From April 1, 2013 to March 31, 2014)

(Million yen)

	Japan	Americas	Europe	Asia	Total	Adjustment Amount *1	Consolidated Financial Statement Amount *2
Net sales							
External sales	69,995	26,779	17,172	17,089	131,036	—	131,036
Inter-segment sales and transfers	7,874	1,017	1,643	491	11,026	(11,026)	—
Total	77,870	27,796	18,815	17,580	142,063	(11,026)	131,036
Segment income (loss)	3,416	(420)	8	2,227	5,232	172	5,404
Segment assets	100,790	19,434	17,418	20,567	158,210	(8,857)	149,353
Other item							
Depreciation expense	3,110	618	507	534	4,770	—	4,770
Increase in property, plant and equipment and intangible fixed assets	6,037	920	1,103	2,850	10,911	—	10,911

Notes: 1. Adjustment amounts are as follows.

(1) 172 million yen of the segment income (loss) adjustments amount includes 498 million yen in adjustments for internal gains and losses related to intersegment transaction, -323 million yen in adjustments for inventories related to intersegment transaction, and -2 million yen in others.

(2) -8,857 million yen of the segment assets adjustments amount includes -8,388 million yen in adjustments for internal transaction related to intersegment transaction, -678 million yen in adjustments for inventories related to intersegment transaction, and 209 million yen in others.

2. Segment income (loss) is adjusted with operating income, as recorded in consolidated statements of income.

FY 2015 (From April 1, 2014 to March 31, 2015)

(Million yen)

	Japan	Americas	Europe	Asia	Total	Adjustment Amount *1	Consolidated Financial Statement Amount *2
Net sales							
External sales	64,304	27,001	20,157	20,189	131,653	—	131,653
Inter-segment sales and transfers	8,256	1,027	1,640	464	11,388	(11,388)	—
Total	72,560	28,029	21,797	20,653	143,041	(11,388)	131,653
Segment income (loss)	952	(1,472)	1,296	2,236	3,013	131	3,144
Segment assets	114,706	22,918	20,707	24,229	182,561	(11,915)	170,645
Other item							
Depreciation expense	3,150	691	586	847	5,277	—	5,277
Increase in property, plant and equipment and intangible fixed assets	8,778	1,623	1,735	843	12,980	—	12,980

Notes: 1. Adjustment amounts are as follows.

(1) 131 million yen of the segment income (loss) adjustments amount includes 315 million yen in adjustments for internal gains and losses related to intersegment transaction, -183 million yen in adjustments for inventories related to intersegment transaction, and -0 million yen in others.

(2) -11,915 million yen of the segment assets adjustments amount includes -11,321 million yen in adjustments for internal transaction related to intersegment transaction, -851 million yen in adjustments for inventories related to intersegment transaction, and 258 million yen in others.

2. Segment income (loss) is adjusted with operating income, as recorded in consolidated statements of income.