

*New  
Vision,  
New  
Direction*

**Annual Report 2016**

For the fiscal year ended March 31, 2016

# To Our Stakeholders

## Greetings

In 2018, we will mark the 100th year of the Company's founding. The time since my appointment as president last April has passed quickly. Guided by our company slogan, "New Vision, New Direction," we

have worked to strengthen our business foundations in line with our basic strategy to "Pursue Quality." Although the environment in which the Company operates has been difficult in some respects, many issues have been identified and there have been some satisfactory results. In Japan, performance was firm thanks to the impact of inbound tourism demand and deregulation on our mainstay areas of products for use in food stuffs and pharmaceuticals. Overseas, we converted an Indian subsidiary into a consolidated company, and a collagen peptide plant went on line in North America. We also made steady progress toward recovering the investments we made to expand our global production platform. Going forward, we will continue striving to enhance corporate value.



**Koichi Ogata**

Representative Director  
and President

# Nitta Gelatin

## Business Segments

### Collagen Material Business

Gelatin Business

Peptide Business

Collagen Casing Business

Life Science Business

### Formula Solution Business

Food Material Business

Adhesive Business

## Contents

### About Nitta Gelatin

- 2 | Nitta Gelatin  
Snapshots of 2016
- 4 | Nitta Gelatin Group History

### Vision & Strategy

- 6 | Top Management Interview  
The Nitta Gelatin Group's  
Growth Strategies and  
Future Prospects

### Special Feature

- 10 | Pursuing the Potential of the  
Collagen Material Business

### Performance

- 12 | Business Activities
- 13 | Segment Performance

### Fundamentals

- 14 | Corporate Governance
- 17 | Outside Director Interview
- 18 | Board of Directors, Audit &  
Supervisory Board Members  
and Executive Officers

### Data Section

- 20 | Corporate Information
- 21 | Shareholder and Investor  
Information
- 22 | Management's Discussion  
and Analysis
- 24 | Business Risks
- 26 | Consolidated Financial  
Statements

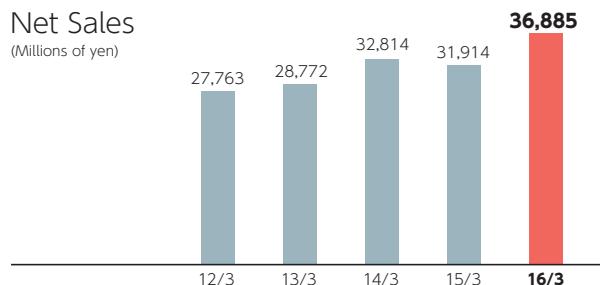
The earnings forecasts in this Annual Report are forward-looking statements made on the basis of information available at the time and other certain assumptions deemed reasonable. Therefore, actual earnings may differ from forecast figures as a result of changes in business performance and other factors.

# About Nitta Gelatin

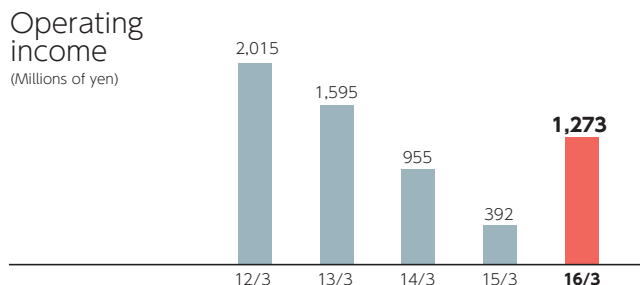
## Nitta Gelatin Snapshots of 2016

### Five-Year Consolidated Financial Highlights

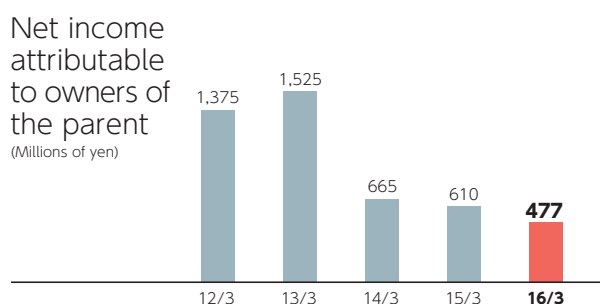
Net Sales  
(Millions of yen)



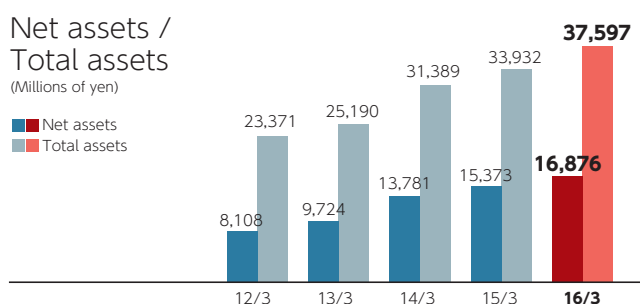
Operating income  
(Millions of yen)



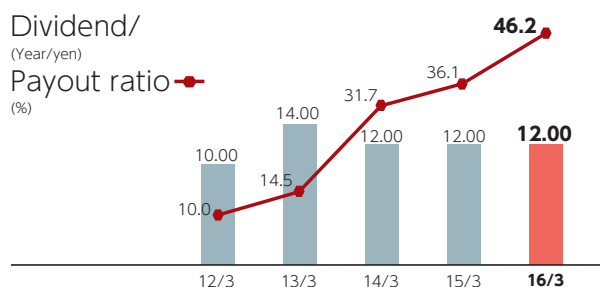
Net income attributable to owners of the parent  
(Millions of yen)



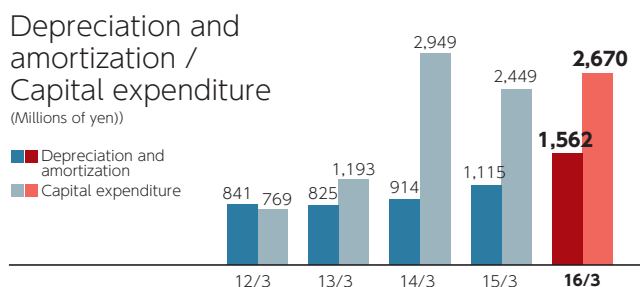
Net assets / Total assets  
(Millions of yen)



Dividend/  
(Year/yen)  
Payout ratio (%)



Depreciation and amortization / Capital expenditure  
(Millions of yen)



### Progress on the Medium-Term Management Plan

Company Slogan

“New Vision, New Direction”

Basic Strategy

“Pursue Quality”

### Consolidated Financial Targets for the Fiscal Year Ending March 31, 2018

Net sales  
**¥41.0 billion**

Operating income  
**¥2.0 billion**

Operating margin  
**4.9%**

Overseas sales ratio  
**50.0%**

### Strategic Priorities

- 1 Develop high-value-added products
- 2 Ensure optimal production, optimal sales
- 3 Strengthen global business foundations

	Millions of yen				Thousands of U.S. dollars	
	73rd term March, 2012	74th term March, 2013	75th term March, 2014	76th term March, 2015	77th term March, 2016	77th term March, 2016
<b>For the year:</b>						
Net sales	¥27,763	¥28,772	¥32,814	¥31,914	<b>¥36,885</b>	<b>\$327,517</b>
Operating income	2,015	1,595	955	392	<b>1,273</b>	<b>11,303</b>
Net income attributable to owners of the parent	1,375	1,525	665	610	<b>477</b>	<b>4,235</b>
Comprehensive income	986	1,913	1,227	1,530	<b>(136)</b>	<b>(1,208)</b>
Research and development expenses	895	1,026	1,004	915	<b>1,058</b>	<b>9,394</b>
Capital expenditure	769	1,193	2,949	2,449	<b>2,670</b>	<b>23,708</b>
Depreciation and amortization	841	825	914	1,115	<b>1,562</b>	<b>13,870</b>
Net cash provided by (used in) operating activities	568	2,050	(692)	2,074	<b>2,385</b>	<b>21,177</b>
Net cash used in investing activities	(733)	(1,557)	(3,105)	(2,505)	<b>(1,860)</b>	<b>(16,516)</b>
Net cash provided by (used in) financing activities	713	(376)	3,875	544	<b>(473)</b>	<b>(4,200)</b>
Cash and cash equivalents at end of period	2,078	2,258	2,406	2,602	<b>2,536</b>	<b>22,518</b>
<b>At year-end:</b>						
Property, plant and equipment	¥ 5,387	¥ 6,287	¥ 8,804	¥10,848	<b>¥13,724</b>	<b>\$121,861</b>
Net assets	8,108	9,724	13,781	15,373	<b>16,876</b>	<b>149,849</b>
Noncurrent liabilities	6,087	5,828	7,528	8,283	<b>9,644</b>	<b>85,633</b>
Total assets	23,371	25,190	31,389	33,932	<b>37,597</b>	<b>333,839</b>
<b>Per share information (yen, U.S. dollars):</b>						
Net assets per share (BPS)	¥ 509	¥ 607	¥ 742	¥ 831	<b>¥ 815</b>	<b>\$ 7.24</b>
Net income per share (EPS)	100	97	38	33	<b>26</b>	<b>0.23</b>
<b>Other (%):</b>						
Equity ratio	34.4	38.0	43.4	45.0	<b>39.8</b>	
Return on equity (ROE)	19.4	17.3	5.7	4.2	<b>3.2</b>	
Return on assets (ROA)	5.9	6.3	2.4	1.9	<b>2.7</b>	
Dividend (yen)	10.00	14.00	12.00	12.00	<b>12.00</b>	
Payout ratio	10.0	14.5	31.7	36.1	<b>46.2</b>	

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥112.62 = U.S.\$1, the prevailing exchange rate at March 31, 2016.

## About Nitta Gelatin

# Nitta Gelatin Group History

Note: The company names used are the current ones.

1918



**Started production of gelatin and animal glue**

Started production of animal glue and industrial gelatin for the first time in Japan with industrial production methods introduced from the West

1935



Completed the Osaka Plant

1971



**Started an adhesive business**

Commenced an adhesive business by developing high-speed, hot-melt-type adhesive as a replacement for animal glue

1974



**Started a food material business**

Began marketing various food products containing natural polysaccharides and other ingredients, in addition to gelatin

1979



**Established Nitta Gelatin NA Inc. (U.S.)**

Sales of gelatin and other items

1990



**Established Nitta Gelatin Canada, Inc. (Canada)**

Production of gelatin

1918

1970

1980

1990

1930

**Succeeded in producing thin leaf gelatin**

Began producing high-quality edible thin leaf gelatin

1968

**Established Hikone Gelatin Inc.**

Production of gelatin

1937

**Started production of photographic gelatin**

After having relied on imports, research yielded Japan's first domestically made photographic gelatin

1982

**Established Bostik-Nitta Co., Ltd.**

Sales of adhesives

1975



**Established Nitta Gelatin India Ltd. (India)**

Production of raw materials for gelatin



1996



Established Nitta Casings Inc. (U.S.)



Established Nitta Casings (Canada) Inc. (Canada)  
Production and sales of collagen casings

2004



Established Nitta Gelatin USA, Inc. (U.S.)  
Production of gelatin

2014



Started production of collagen peptide in the U.S.

2001



Moved into the consumer products business

Began marketing Collagenaid®, a collagen food supplement, to general consumers

2018  
100th anniversary

2018

2004  
Established Nitta Biolab Inc.  
Sales of dietary supplements and cosmetics

2004  
Established Nitta Gelatin Foods Inc.  
Sales of food materials

1996  
Started a casing business  
Commercialized a collagen casing business in North America, after many years of research

2010

2016

2000  
Started a peptide business  
Fully entered the collagen peptide business in response to new applications, including as a health food



Established Nitta Gelatin Vietnam Co., Ltd. (Vietnam)  
Production and sales of gelling agents

1999



Began production of gelatin in India  
Started production of gelatin in India in response to the demand in Asia

2010



Established Guangdong Baiwei Bio Material Co., Ltd. (China)  
Production of collagen peptides

2011



Established Shanghai Nitta Gelatin Co., Ltd. (China)  
Sales of collagen peptides, gelatin and other items

2012



Established Beijing Qiushi Collagen Casing Co., Ltd. (China)  
Production and sales of collagen casings

# Vision & Strategy

## Top Management Interview

The Nitta Gelatin Group's Growth Strategies and Future Prospects

### Operating Performance for the Fiscal Year Ended March 31, 2016

During the fiscal year ended March 31, 2016, the Nitta Gelatin Group companies worked as one to bring about a recovery in earnings by adopting a new management structure and focusing on the production and sale of gelatin, collagen peptides and collagen casings, mainly in Japan, North America and Asia.

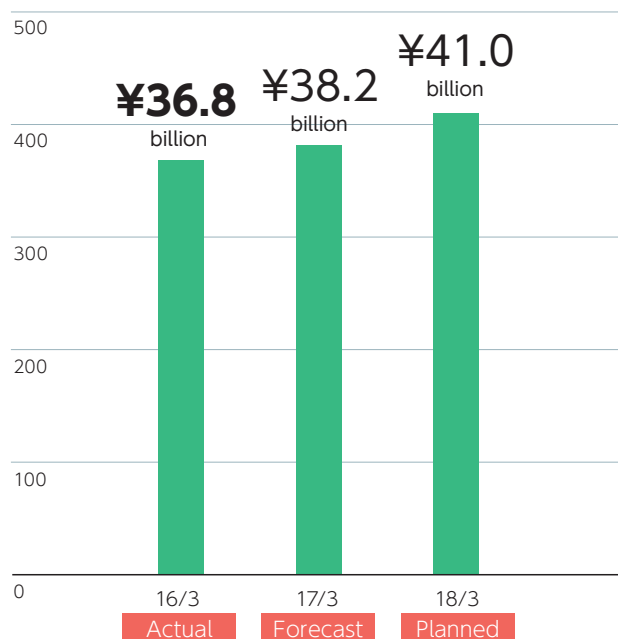
In Japan, the Collagen Material business experienced favorable demand for edible gelatin, mainly for use in confectionery and delicatessen items. Demand for gelatin for capsules was also robust, underpinned by strong demand from inbound travelers and the launch of Labeling System of Foods with Function Claims.

Overseas, demand for use in foods was firm in North America. As a base for procuring raw material for gelatin and supplying halal-certified products, Nitta Gelatin India Ltd. and its two local affiliates in India were consolidated as subsidiaries of Nitta Gelatin Inc. in April 2016.

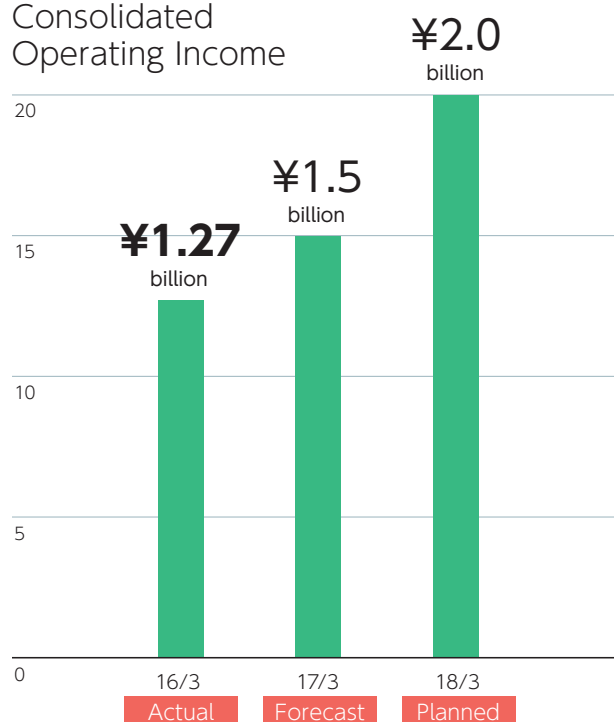
In the Formula Solution business, sales were strong thanks to successful efforts to cultivate new customers.

As a result, net sales rose 15.6% year on year to ¥36,885 million; operating income surged 224.2% to ¥1,273 million; and ordinary income increased 1.2% to ¥979 million. As a consequence of consolidating the three companies in India as subsidiaries and converting a subsidiary in China into an equity-method affiliate, the Group reported ¥727 million in extraordinary income and ¥666

### Consolidated Net Sales



### Consolidated Operating Income





million in extraordinary loss. After allowing for net income attributable to non-controlling interests, net income attributable to owners of the parent decreased 21.7% year on year to ¥477 million.

## Progress on the Medium-Term Management Plan

(For the Fiscal Year Ended March 31, 2016 to the Fiscal Year Ending March 31, 2018)

This year was the first of our three-year medium-term management plan. Here, we report progress on our strategic priorities.

### 1 Develop High-Value-Added Products

▶ Continuing to Differentiate Ourselves from Other Companies

I believe it is important to take up the challenge of developing new high-value-added products that provide customers with new value. Particularly in the field of regenerative medicine, we are pursuing research and development and contributing to society through the use of synthetic tissue and

bones (bone prosthetic materials). In collagen peptides, I believe room for growth exists, notably in Japan, China, North America and Asia. We conducted sufficient research on the functionality of collagen peptides and acquired a great deal of evidence. These efforts are sources of pride for us around the world. By moving ahead through sufficient research and development, we plan to strengthen the Company further by converting this research to global sales.

### 2 Ensure Optimal Production, Optimal Sales

▶ Promoting Local Production for Local Consumption

We export gelatin produced in Japan to North America and import approximately the same amount of pig-skin gelatin from North America. Going forward, we plan as far as possible to produce in Japan and India for consumption locally and in other parts of Asia, and to sell products made in North America within the continent.



## Vision & Strategy

### Top Management Interview

#### 3 Strengthen Global Business Foundations

##### ▶ Fostering Diversity in the Management Team and Interaction among Human Resources

We are encouraging human resources, particularly young employees, to gain experience through residence in North America, India and China. Our objective is to help them to acquire skills and grow as global human resources. For instance, employees from Japan are acquiring skills related to the production of pig-skin gelatin and casings at our production facilities in North America. In March 2016, we established an International Business Division. Canadian director of the Company, Raymond Merz, has been put in charge of this division. Going forward, the International Business Division will handle the management of our overseas subsidiaries.

During the first year of our medium-term management plan, we succeeded in posting a recovery in earnings. We expect to maintain this positive momentum in the upcoming year.

#### Medium- to Long-Term Management Strategies and Issues Facing the Company

Guided by our basic strategy, "Pursue Quality," under the slogan "New Vision, New Direction," we plan to boost quality in all aspects of our operations, including sales, production, quality assurance, and R&D. Furthermore, we will proactively implement the strategic priorities outlined below.

##### Collagen Material Business

In the gelatin field, Nitta Gelatin plans to raise competitiveness by achieving global cost-



competitiveness through increased production efficiency and a strengthened supply chain of raw materials. In addition, the Company will sell the products of its Group companies in growing markets and optimal regions. In collagen peptide, Nitta Gelatin will open up highly profitable new markets by launching products with enhanced functional properties, while expanding business globally in Asia and North America.

In collagen casings, the Group intends to enhance its sales and earnings by increasing productivity at its production facilities in North America and upgrading its production and sales framework in China.

In the life science field, based on R&D activities focused on materials for use in research and medicine, Nitta Gelatin will popularize the application of these materials in the field of regenerative medicine as it works to nurture future business.

## Formula Solution Business

In the food material business, Nitta Gelatin will expand business through food solutions with new value for customers that leverage its application technologies. In the adhesives field, Nitta Gelatin will continue to increase production, as it anticipates rising demand for their use in hygiene products. As for high-performance gaskets, the Company will strive to increase its sales by finding new uses and developing new products.

## Earnings Forecasts for the Fiscal Year Ending March 31, 2017

Nitta Gelatin will mark its 100th founding anniversary in 2018, and has formulated a new three-year medium-term management plan, started in the fiscal year ended March 31, 2016, in time for this milestone. Our targets are to attain net sales of ¥41.0 billion and operating income of ¥2.0 billion in the final fiscal year of the plan, ending March 31, 2018.

Nitta Gelatin is positioning the fiscal year ending March 31, 2017 as an important year for achieving

progress toward these targets. To this end, the Company will strive to raise the quality of its products and all business activities, from sales and production to quality assurance and R&D. At the same time, it will rigorously cut costs, mainly by producing and selling products in optimal locations, and reducing the cost of raw materials.

In Japan, the Company foresees the continuation of a robust business trend in edible gelatin and pharmaceutical gelatin and expects deregulation of the functional labeling of foods to breathe new life into its markets. Furthermore, despite the challenges faced by an appreciating dollar and intensifying competition in North America, the Company projects growing demand in Asia for gelatin, collagen peptide, collagen casing and high-performance gaskets. Eyeing this demand, the Company will work to expand sales globally, centered on Asia as a growing market.

With regard to capital investment, the Company will invest in projects that realize products and services of high added value in Japan. Overseas, the Company will invest in projects aimed at enhancing productivity to increase production capacity, as well as in response to the environment.

Based on these assumptions, in the fiscal year ending March 31, 2017, the Company forecasts consolidated net sales of ¥38.2 billion, up 3.6% year on year; consolidated operating income of ¥1.5 billion, up 17.8%; consolidated ordinary income of ¥1.4 billion, up 42.9%; and net income attributable to owners of the parent of ¥0.8 billion, up 67.5%.

## In Conclusion

Nitta Gelatin has grown by drawing on the characteristics of collagen and gelatin. By creating new technologies, we believe that ample room for further expansion exists in the years to come.

I would like to ask our stakeholders for your ongoing support and encouragement as the Nitta Gelatin Group works to achieve new breakthroughs.

# Special Feature

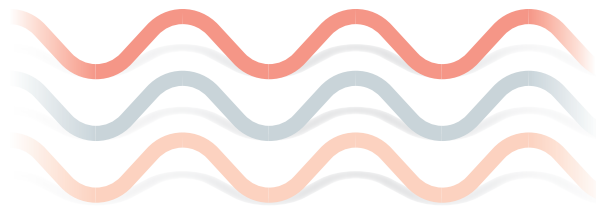
## Pursuing the Potential of the Collagen Material Business

Collagen is the protein most common in animals' bodies, typically making up around 30% of all proteins. It is the main constituent of connective tissues, such as the skin, bones, cartilage and tendons.

Collagen molecules in the body form a regular triple-helical structure. Although insoluble in water, if subjected to heat over a long period, collagen's triple-strand structure comes undone at a certain temperature, and collagen can then be melted in hot water. After collagen has been denatured by heat and melted in hot water, it is called "gelatin."

Collagen peptide is a lower molecular form of gelatin that has been processed through the hydrolysis of gelatin using proteolytic enzymes.

### Gelatin



**Solidify**  
Gummies



**Retain foam**  
Marshmallows



**Create films**  
Capsules



**Produce a gloss**  
Sugar-coated tablets



**Change the texture of food**  
Cream croquettes



**Retain moisture**  
Dumplings



**Solidify, dissolve**  
Ready-to-eat meals for convenience stores



**Add richness to food**  
Ramen

### Collagen



**Moisturize**  
Cosmetics



**Create films**  
Sausage casings



# Collagen Peptide



Maintain bodily functions  
(skin, bones, joints)

Health foods, nutritional supplements



## Brand Development

**Wellnex**<sup>®</sup>  
ウェルネックス

Wellnex is the global brand for the highly functional collagen peptide Nitta Gelatin has developed. Collagen peptide, produced by fragmenting gelatin into smaller peptide chains, is known to be effective in maintaining the functional health of skin, joints, bones and muscles. Collagen peptide is used in the food products sector, in nutritional foods and dietary supplements. Please be sure to have a look at "Wellnex-Collagen.com," our informational site that describes the functions of Wellnex.

**G-zain**<sup>®</sup>  
ジザイン

G-zain is used to make smartphones, digital cameras and other electronic devices airtight. G-zain is our brand of high-performance gaskets that enable the process of attaching gaskets to products to be fully automated, and this was generated through a patented technology developed during research into adhesives. The new Adhesive Innovation Center, located within our Osaka Plant, is pursuing further possibilities for G-zain.

**beMatrix**<sup>®</sup>

Nitta Gelatin is proactively making inroads in the field of medicine. As collagen has a close affinity with biological tissue, it is used as a biomaterial in synthetic tissue and bones, which promote self-regeneration and restoration of tissue. beMatrix collagen was used in the world's first operation to transplant retinal pigment epithelial tissue derived from induced pluripotent stem cells to treat geriatric onset blindness, a major cause of age-related macular degeneration.

# Performance

## Business Activities

### Collagen Material Business

In the Collagen Material Business, we manufacture and sell gelatin, collagen peptide, collagen casings, collagen and other products made from animal bones and skin or fish scales and skin.

#### Gelatin Business

Besides its gelling ability, gelatin has a variety of functions such as water-binding, foaming, film-forming, glossing, texturizing, thickening and adhesion. For this reason, gelatin has a range of applications, from food to pharmaceuticals and photosensitized materials. In the gelatin business, we manufacture and sell gelatin for applications in such industrial sectors.

#### Peptide Business

We manufacture and sell collagen peptide, a lower molecular form of gelatin. Collagen peptide is produced through hydrolysis of gelatin using proteolytic enzymes. As collagen peptide is recognized as a bioactive compound and a material that has bioregulatory functions, it is used in foodstuffs such as nutritional agents and supplements that advertise functional benefits for the skin, bones and joints.

#### Collagen Casing Business

We manufacturer and sell edible collagen casings. Collagen casings are tubular materials that are filled with meat in the sausage production process. Collagen casings are marketed to the livestock food processing sector as an alternative to natural casings made from sheep and pig intestine.

#### Life Science Business

Collagen is extracted and refined from animal skin and tendons using acid solutions and enzymes, while preserving its triple spiral molecular structure. As collagen has a close affinity with biological tissue, it is used as a biomaterial for artificial skin and bone, which promote self-regeneration and restoration of human tissue, in addition to use as a research reagent for cell culture. Collagen for all of these applications is marketed to medical device manufacturers and university research institutes. We have also developed a highly refined medical gelatin as a biomaterial that induces self-repair and regeneration of human tissue in tissue engineering. This gelatin is marketed to medical device manufacturers and other entities that are pursuing research into the commercialization of this technology.

### Formula Solution Business

We manufacture and sell high-value-added food formulations through formulation technologies for a variety of materials. Our goal is to provide the product proposals and applications required by customers as we help them to solve the issues they face.

#### Food Material Business

We sell various food formulations, such as gelling agents and stabilizers for ham. Gelling agents are food formulations consisting of plant-based polysaccharides such as carrageenan, agar, pectin, and natural gum, as well as gelatin and collagen peptide, and are used for instance in jelly and desserts, dairy products, and frozen food. Stabilizers for ham consist of plant-based polysaccharides such as carrageenan and natural gum, and animal-based materials such as collagen-derived proteins. We also manufacture and sell consumer products such as collagen beverages, food and cosmetics.

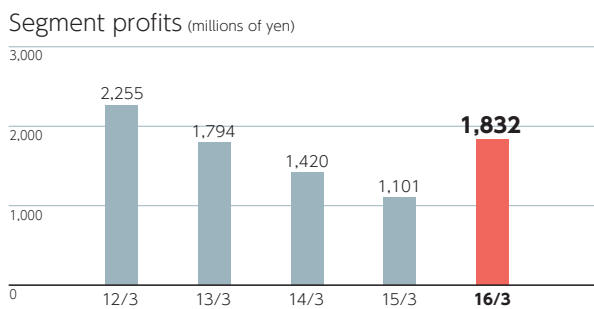
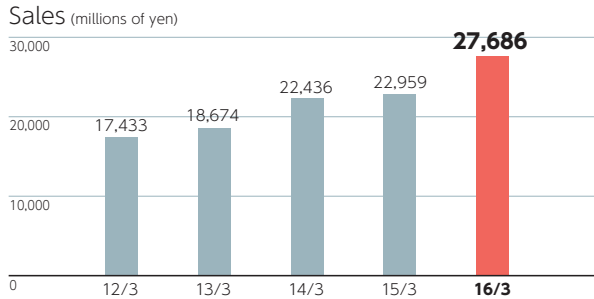
#### Adhesive Business

In the adhesive business, we supply various types of hot-melt adhesives and animal glue adhesives. The biggest advantage of hot-melt adhesives, which are applied after heating to melt and then adhere as they cool and solidify, is their high-speed adhesion. Accordingly, hot-melt adhesives are used widely not only in packaging applications, but also in the hygienic goods, bookbinding, construction and woodwork, electrical, housing and other sectors. In other areas, high-performance gaskets hardened with ultraviolet exposure are used as a sealant for instance in electronic goods and home appliances.



# Segment Performance

## Collagen Material Business



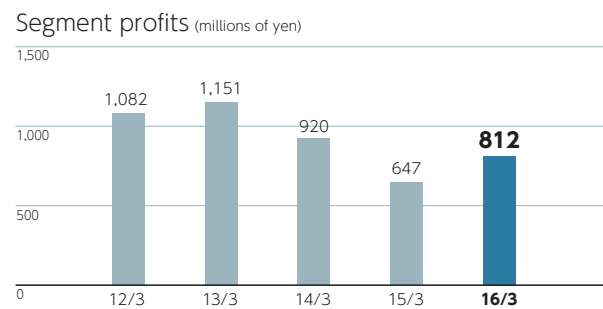
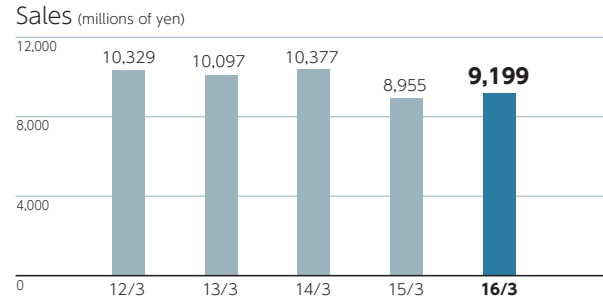
### Japan

- ▶ Demand for gelatin for use in confectionery and delicatessen items remained steady.
- ▶ Sales of gelatin for production of capsules used in health foods increased.
- ▶ Sales of collagen peptides were robust as its functionality was reacknowledged.

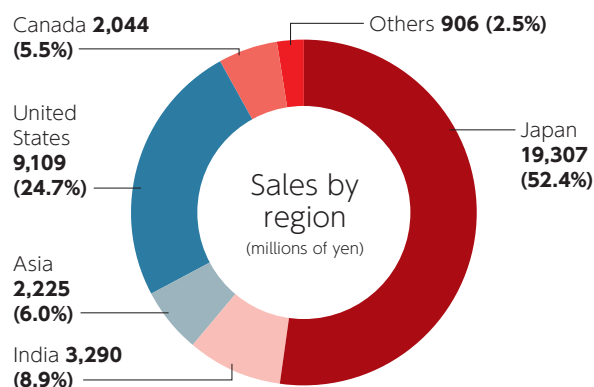
### Overseas

- ▶ We converted three subsidiaries in India into consolidated subsidiaries.
- ▶ Revenues declined due to more intense competition for collagen casings.

## Formula Solution Business



- ▶ Gelling agents used in confectionery and desserts attracted new customers, resulting in higher sales.
- ▶ Sales of adhesives used for bookbinding applications declined because of the shrinking market, while sales of adhesives used for packaging remained firm. Sales of adhesives used in sanitary materials increased.



# Fundamentals

## Corporate Governance

### Basic Stance on Corporate Governance

Nitta Gelatin's Corporate Philosophy is "Based on a spirit of empathy and sincerity, we, the members of the Nitta Gelatin Family are dedicated to the development of our business and contributions to the global community. We will lead prosperous and fulfilling lives through our competence and utmost efforts." To this end, the Nitta Gelatin Group, as a world leading gelatin manufacturer, uses its proprietary technology to quickly and efficiently provide superior products and services to global customers. Our stance is also to produce healthy, functional and valuable products in multinational facilities that are safe, reliable and environmentally friendly. We aim to continue satisfying our customers with our products and services, and to leverage this as our means to sustain and secure growth, and ultimately enhance our corporate value.

It is therefore imperative that each and every director, executive officer and employee of the Group is a person trusted by all stakeholders; whether shareholders, customers, business partners or communities and society at large. To achieve this, we recognize that nothing is more important than to strengthen and enhance our corporate governance, ensure the transparency of our management and raise our business efficiency.

### Corporate Governance System

#### Reasons for Adopting Corporate Governance System

Nitta Gelatin believes that an effective corporate governance system comprises directors, a Board of Directors, Audit & Supervisory Board members and Audit & Supervisory Board that perform management supervisory and oversight functions.

We introduced an executive officer system in January 2005 to enhance management efficiency. We have also taken steps to separate business execution and supervisory functions, improve management transparency, accelerate the management decision-making process, and strengthen management oversight functions.

#### Functions of Each Body

##### Board of Directors and Executive Structure

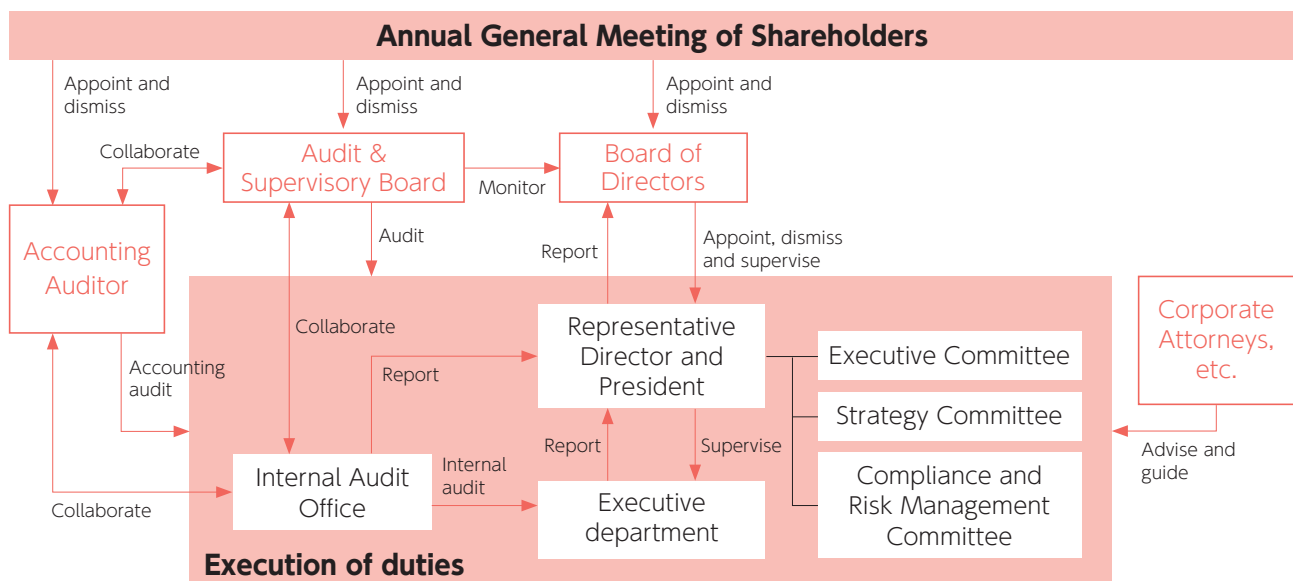
As a rule, Nitta Gelatin's Board of Directors meets once a month in its role as the Company's highest authority regarding management decisions. It formulates management guidelines, proposes management strategies, and votes to resolve important issues regarding business operations, as well as approve matters prescribed by laws and regulations and the Company's Articles of Incorporation. The Board of Directors, moreover, supervises and monitors the conduct of the executive officers to ensure that management guidelines and strategies are followed.

##### Audit & Supervisory Board and Audit & Supervisory Board members

Nitta Gelatin has adopted an Audit & Supervisory Board System that consists of three Audit & Supervisory Board members (two of whom are outside Audit & Supervisory Board members) who provide management oversight.

##### Executive Committee

A Executive Committee is held twice a month to discuss matters of importance related to the Company's business execution. This Executive Committee is made up of the



Company's standing directors, standing Audit & Supervisory Board members, standing executive officers in Japan, and other members appointed by the Company's president. In a further addition, a Strategy Committee meets once a month to discuss individual issues of particular importance to the Company and offer its support to enable the Company's president and Board of Directors to make decisions promptly. This Strategy Committee is made up of members appointed by either the president or the Board of Directors.

Corporate Governance System and Internal Control Organization Chart (p14)

### Internal Control System

Having created documentation and checklists for a company-wide internal control system, an internal business practices control system, an IT internal control system and an internal control system for subsidiaries, Nitta Gelatin launched the systems in fiscal 2012 following inspection and evaluation of their operation and correction of deficiencies.

Furthermore, in accordance with the Companies Act, we resolved at a Board of Directors meeting to devise a Basic Policy on Building an Internal Control System.

### Risk Management Structure

Nitta Gelatin believes that improving the enforcement of its compliance regulations is the optimal method to reduce business risks. We devised the Basic Policy on Building an Internal Control System in line with this fundamental stance. Furthermore, the Company's Compliance Bylaws and Risk Management Bylaws were formulated in accordance with this basic policy.

We established the Compliance and Risk Management Committee as an organization that provides oversight for the overall Nitta Gelatin Group. The committee is chaired by the Company's president. As a general rule, the committee meets once every two months to review the latest compliance issues, and to examine measures to prevent potential risks and manage risks that have emerged.

We also devised the Principles of Business Conduct in November 2010 and disseminated the new principles throughout the Group. These principles require all Group directors, executive officers and employees to rigorously comply with all relevant laws and regulations, conduct business operations with fairness and integrity, and recognize that as members of society they must act as both good corporate citizens and individual members of society.

Moreover, we receive advice and guidance concerning compliance and risk management issues from attorneys and other consultants as required.

### Framework to Ensure That Subsidiaries Perform Their Duties Appropriately

The Nitta Gelatin Group disseminates and discusses the business activities and financial status of subsidiaries, in addition to other material information, at Board of Directors and Executive Committee meetings. The Company's directors

and employees are also appointed to director positions at our subsidiaries. This facilitates information sharing throughout the Group and encourages subsidiaries to execute business operations correctly, ensuring that the business operations of the Group are appropriate. Furthermore, our company has created a set of Management Bylaws for Affiliated Companies, and developed a management structure based on a reporting system. We are also drafting a principles of business conduct that is applicable throughout the Group and establishing and operating a compliance and risk management structure.

### Agreements Concerning Limited Liability

Based on Article 427, Paragraph 1 of the Companies Act, pursuant to Article 423, Paragraph 1 of the Act, the Company has entered into agreements with outside directors and outside Audit & Supervisory Board members that limit liability for damages. As prescribed by the agreement, compensation for damages by outside directors shall be limited to the minimum liability amount stipulated by Article 425, Paragraph 1, of the Companies Act, for outside directors, and compensation for damages by outside Audit & Supervisory Board members shall be limited to the minimum liability amount stipulated by Article 425, Paragraph 1, for outside Audit & Supervisory Board members. This limited liability agreement is restricted to compensation for damages that arise when outside directors and outside Audit & Supervisory Board members act in good faith and are not grossly negligent.

## Internal and Corporate Audits

The Internal Audit Division, comprising three members, conducts Nitta Gelatin's internal audits. The division performs inspections to verify that the business operations of each department are in compliance with relevant laws and regulations and executed appropriately and effectively, and that the Company's assets are safeguarded. The Internal Audit Office collaborates with the Company's accounting auditor, Ernst & Young ShinNihon LLC, to plan and implement internal audits that are reported to the Company's management. Input from the accounting auditors is used to improve the execution of duties of the Internal Audit Office and the Audit & Supervisory Board members.

In addition to one standing Audit & Supervisory Board member, two part-time Audit & Supervisory Board members attend Board of Directors meetings, and provide appropriate oversight over the directors in the execution of their duties. The standing Audit & Supervisory Board member also attends the Executive Committee and other important meetings within the Company to further monitor the execution of duties by the directors. This auditor also conducts in-house audits of various organizational entities within the Group, interviewing the people in charge to make assessments, and collaborates with the Internal Audit Office and accounting auditors to inspect the execution of the Group's business operations.

## Fundamentals

### Corporate Governance

#### Outside Directors and Outside Audit & Supervisory Board members

Nitta Gelatin has appointed two outside directors and two outside Audit & Supervisory Board members. Our management practices seek to leverage the objectivity, wealth of experience and knowledge of these outside executives, and their oversight strengthens our corporate governance.

Outside director Mayumi Ishihara brings a wealth of experience and knowledge as an attorney. We believe that she strengthens management transparency and compliance and further enhances oversight functions relating to business operations. Ms. Ishihara also works as an attorney at Oh-Ebashi LPC & Partners, and serves as an outside Audit & Supervisory Board member at Morishita Jintan Co., Ltd. and as an outside director at both Morito Co., Ltd. and OS Co., Ltd. Nitta Gelatin receives legal consultations from Oh-Ebashi LPC & Partners, where Ms. Ishihara is currently an attorney, and sells products to Morishita Jintan Co., Ltd. However, she satisfies the independence standards required to serve as an outside director and outside Audit & Supervisory Board member of Nitta Gelatin. There are no conflicts of interest between Nitta Gelatin and Morito Co., Ltd. or OS Co., Ltd.

Outside director Hisayuki Suekawa has developed significant experience and insight over several years as a manager. We believe that these skills enable him to appropriately perform his responsibilities as an outside director, including deciding important management issues and supervising the execution of business operations. Mr. Suekawa also currently serves as a consultant for Shiseido Company, Limited. There are no conflicts of interest between Nitta Gelatin and Shiseido Company, Limited.

Outside Audit & Supervisory Board member Shigeoki Tougou has a wealth of experience, most notably as a manager. We believe that this experience will allow him to take a comprehensive approach to ensuring management practices are appropriate and impartial. Mr. Tougou also serves as president of Higashi Nippon Gakuen University and as an outside director of JAC Recruitment Co., Ltd. There are no conflicts of interest between Nitta Gelatin and these entities.

Outside Audit & Supervisory Board member Tamon Tsuda is a certified public accountant. We believe that the knowledge and experience he has developed over his long career as an accountant will enable him to utilize his role to ensure that our management practices are appropriate and fair. Mr. Tsuda previously belonged to the accounting firm of Ernst & Young ShinNihon LLC, and has provided auditing services to our company. However, he left his position at Ernst & Young ShinNihon LLC three years ago and satisfies the independence standards required to serve as an outside director and outside Audit & Supervisory Board member of

Nitta Gelatin. Mr. Tsuda also serves as the head of the Tsuda Certified Public Accountant Office, and as an outside director of Techno Associe Co., Ltd., Tatsuta Electric Wire & Cable Co., Ltd. and Daihatsu Diesel Mfg. Co., Ltd. There are no conflicts of interest between Nitta Gelatin and these companies.

Outside directors Mayumi Ishihara and Hisayuki Suekawa, and outside Audit & Supervisory Board members Shigeoki Tougou and Tamon Tsuda, have been designated independent directors as prescribed by the Tokyo Stock Exchange. We have submitted "Independent Directors/Auditors Notifications" to confirm compliance with the relevant codes of conduct.

Note that information regarding monitoring and audits performed by outside directors and outside Audit & Supervisory Board members, collaboration between internal audits, auditor's audits and accounting audits, and the relationship with the Internal Control Department may be found in the Internal and Corporate Audits section. This information is also reported and opinions are exchanged at Board of Directors and Audit & Supervisory Board meetings.

#### Executive Remuneration and Other Compensation

##### Total remuneration by executive classification, total amount by type of remuneration, and number of target executives

Executive classification	Total remuneration and other compensation (millions of yen)	Total amount by type of remuneration (millions of yen)				No. of qualifying officers
		Basic remuneration	Stock options	Bonus	Retirement benefits	
Directors (excluding outside directors)	102	102	—	—	—	6
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	14	14	—	—	—	1
Outside executives	19	19	—	—	—	4

##### Policy on Determining the Calculation Method and Amount of Total Executive Officer Remuneration and Other Compensation

Basic remuneration aims to incentivize executive officers to improve the Company's medium- to long-term performance and is primarily based on each officer's role and position. After evaluating the overall factors, including the Company's performance and management environments, remuneration amounts are determined within the limits approved at the Annual General Meeting of Shareholders, and based on discussions at the Board of Directors meeting with regard to remuneration for directors, and discussions at Audit & Supervisory Board meetings with regard to remuneration for Audit & Supervisory Board members.

# Outside Director Interview

Outside Director Mayumi Ishihara presents her views on the Nitta Gelatin Group



## An Objective View of Nitta Gelatin

Nitta Gelatin, as suggested by its name, mainly manufactures and sells gelatin. When the Company was founded about 100 years ago, it got its start in the manufacture and sale of glue. However, to respond flexibly to changing market conditions and customer needs, Nitta Gelatin has gradually taken up new challenges. Today, it sells gelatin for applications in fields such as photography, foods and pharmaceuticals. In recent years, our advanced technologies have also made contributions in the field of regenerative medicine, including treatments related to induced pluripotent stem cells. Reflecting on this sustainability, it can be said that Nitta Gelatin “detects subtle changes as time evolves, and responds by creating advanced technologies for each age.” In a positive sense, the Company may be called “unyielding.”

Another of Nitta Gelatin’s defining characteristics is its willingness to aggressively pursue business opportunities overseas. Following its first foray overseas into India in 1975, the Company has gone on to establish operations in North America, China, Vietnam and other countries. This development has produced a wealth of opportunities for employees to become familiar with English, and English is commonly used within the Company. The global capabilities possessed by individual employees are a remarkable attribute.

Nitta Gelatin’s corporate culture is based on a strong spirit of dedication, authenticity and perseverance. Our original DNA, the ability to create quality products, lives on today. This spirit is evident in the tenacity and curiosity of its employees, who are fully engaged in creating high-quality products. That said, despite harnessing our combined efforts to create quality products, the reality is that many people remain unaware of the quality of our products and our technical capabilities. I believe that going forward it will be necessary to take more aggressive steps to appeal to customers; that is, to strategically reach out to them in a manner that highlights our quality.

## Role of Outside Directors

As I am an attorney, at Board of Directors meetings, I actively provide a legal perspective on issues of corporate law, our

approach to M&A and other projects, and legal risks stemming from such transactions. I also frequently raise simple questions and express my views on everyday things I notice as both a consumer and a woman.

Certain things that appear reasonable to a company or particular industry are sometimes irrational from the perspective of society and the consumer—this is true of all companies. Consequently, as an outside director, I believe that I am a litmus test for the Company.

During Board of Directors meetings, outside directors and outside Audit & Supervisory Board members express numerous points of view, which allows for lively discussions. The management team provides sincere answers, showing that they listen carefully to ideas and are willing to incorporate them into management practices, which is a testament to the effectiveness of our corporate governance functions.

## Message for the Management Team

Mr. Ogata took office as the new president one year ago, and I look forward to seeing his unique “footprint” gradually taking shape. The marks left by a number of presidents over the 100 years since our founding have made us the company we are today. I am therefore excited to see the new footprint that will become a part of our legacy.

Furthermore, we must undertake the major task of cultivating the next generation of employees and managers to sustain our company and growth. Nitta Gelatin only has a few women in management positions, so I believe that it is important to cultivate more. I would like to see more women in the management team in the near future. To bring more women into its ranks, the management team itself must adopt human resource measures that aggressively appoint women. Although it is important to be patient, I hope that we tackle this problem quickly and carefully to avoid reverse discrimination and hurting motivation in the workplace.

Moreover, from a global perspective, Nitta Gelatin also has an international component, demonstrated by the fact that the present Board of Directors and executive committee include one U.S. and one Canadian citizen. Going forward, from a diversity perspective, I hope that we appropriately select management team members who meet the needs of each age.

I have always valued the “circle” that binds each one of us, including at work and in our daily lives. It has been seven years since I was appointed as an outside director, and now that I have been given the opportunity to express my views on the status of Nitta Gelatin, I believe that everything springs from the circle that binds us. I sense that this company, in its management practices, also effectively utilizes this circle. Even when we entered the Indian market, even when we develop global business opportunities, such as in North America and China, synergy springs from the circle that binds different peoples.

Let me close by saying that as the Nitta Gelatin Group leaps onto the global stage, I am excited about its future.



## Fundamentals

# Board of Directors, Audit & Supervisory Board Members and Executive Officers

(As of June 28, 2016)



**Back row from the left:** Raymond Merz, Director and Executive Officer; Yoshihisa Sugimoto, Director and Executive Officer; Hiroshi Nitta, Director and Executive Officer; Hiroshi Takase, Standing Audit & Supervisory Board Member; Shigeoki Tougou, Outside Audit & Supervisory Board Member; Tamon Tsuda, Outside Audit & Supervisory Board Member

**Front row from the left:** Hisayuki Suekawa, Outside Director; Norimichi Soga, Director and Chairman, Executive Officer; Koichi Ogata, Representative Director and President, Executive Officer; Toru Tamaoka, Director and Executive Officer; Mayumi Ishihara, Outside Director

## Board of Directors

### Norimichi Soga

Director and Chairman, Executive Officer

Apr. 1971 Joined Kobe Kiito Co., Ltd.  
July 1973 Joined the Company  
July 1991 General Manager, Overseas Sales and Marketing Division of the Company  
July 1992 General Manager, Sales & Marketing Department, Gelatin Division of the Company  
Nov. 1996 Director of the Company  
July 1997 General Manager, Sales & Marketing Division and General Manager, Tokyo Branch of the Company  
June 1999 Managing Director of the Company  
Sep. 1999 General Manager, Operating Division of the Company  
June 2003 Senior Managing Director of the Company  
June 2004 Representative Director, Senior Managing Director of the Company  
June 2006 Representative Director and President of the Company  
Apr. 2015 Director and Chairman of the Company (to present)  
July 2015 Executive Officer of the Company (to present)

### Koichi Ogata

Representative Director and President, Executive Officer

Apr. 1981 Joined Kanebo Foods, Ltd. (currently Kracie Foods, Ltd.)  
Dec. 2005 Joined the Company  
Mar. 2008 General Manager, R&D Department, Sales & Marketing Division of the Company  
June 2010 Executive Officer of the Company  
June 2012 Director of the Company  
Mar. 2013 General Manager, Sales & Marketing Division of the Company  
Apr. 2015 Representative Director and President of the Company (to present)  
July 2015 Executive Officer of the Company (to present)



## Directors

### Toru Tamaoka

Director and Executive Officer, General Manager, Adhesives Division

- Apr. 1984 Joined the Company
- Mar. 2008 General Manager, Planning and Management Department, Gelatin Division of the Company
- July 2010 General Manager, Adhesives Division of the Company (to present)
- June 2012 Executive Officer of the Company (to present)
- June 2014 Director of the Company (to present)

### Raymond Merz

Director and Executive Officer, General Manager, International Business Division

- Sep. 1984 Joined Alcan Aluminium Limited (Canada)
- Jan. 1995 Joined Cangel Inc. (currently Nitta Gelatin Canada, Inc.)
- Jan. 1996 General Manager, Production Division of Nitta Gelatin Canada, Inc.
- Jan. 2000 Director and Vice President of Nitta Gelatin Canada, Inc.
- May 2002 Chief Operating Officer (COO) of Nitta Gelatin Canada, Inc.
- Dec. 2004 Director and CEO of Nitta Gelatin USA, Inc.
- Apr. 2006 Director and CEO of Nitta Gelatin Canada, Inc.
- June 2013 Executive Officer of the Company (to present)
- Mar. 2014 General Manager, Gelatin Division of the Company (to present)
- June 2014 Director of the Company (to present)
- Mar. 2016 General Manager, International Business Division of the Company (to present)

### Yoshihisa Sugimoto

Director and Executive Officer, General Manager of Sales & Marketing Division

- Apr. 1986 Joined Nitta Corporation
- Sep. 2006 General Manager, Sales Department, Sales & Marketing Division of the Company
- June 2012 General Manager, Sales & Marketing Division of the Company
- Mar. 2013 General Manager, Sales Department, Sales & Marketing Division of the Company
- June 2014 Executive Officer of the Company (to present)
- Mar. 2015 General Manager, Sales & Marketing Division of the Company (to present)
- June 2016 Director of the Company (to present)

### Hiroshi Nitta

Director and Executive Officer, General Manager, Food Division

- Apr. 2003 Joined Nitta Corporation
- Apr. 2003 Dispatched to Nitta Haas Inc.
- June 2009 Director of the Company (to present)
- Jan. 2011 Deputy General Manager, Gelatin Division of the Company
- Mar. 2011 Deputy General Manager, Manufacturing Division of the Company
- July 2015 Executive Officer of the Company (to present)
- Nov. 2015 General Manager, Food Division (to present)

### Mayumi Ishihara

Outside Director

- Apr. 1986 Worked at the Kobe District Court
- Oct. 1994 Passed the bar exam
- Apr. 1997 Registered as an attorney-at-law
- Apr. 1997 Joined Oh-Ebashi Law Offices (currently Oh-Ebashi LPC & Partners) (to present)
- June 2010 Outside Director of the Company (to present)

### Hisayuki Sukekawa

Outside Director

- Apr. 1982 Joined Shiseido Company, Limited
- Feb. 2007 General Manager of the Business Planning Department of Shiseido Company, Limited
- Apr. 2008 Corporate Officer, General Manager of the Corporate Planning Department of Shiseido Company, Limited
- June 2009 Director of Shiseido Company, Limited
- Apr. 2011 Representative Director, President & CEO of Shiseido Company, Limited
- Apr. 2013 Senior Adviser of Shiseido Company, Limited (to present)
- June 2014 Outside Director of the Company (to present)

## Audit & Supervisory Board Members

### Hiroshi Takase

Standing Audit & Supervisory Board Member

- Apr. 1978 Joined the Company
- Mar. 2004 Team Leader (General Manager), Finance Department, General Administration Division of the Company
- Nov. 2005 General Manager, in charge of the North America business
- Mar. 2006 Dispatched to Nitta Gelatin Holding, Inc.
- July 2006 Director and CEO of Nitta Gelatin Holding, Inc.
- July 2011 General Manager, Finance Division of the Company
- Mar. 2013 General Manager, Finance Department, General Administration Division of the Company
- June 2013 Executive officer, in charge of casing business in China
- June 2016 Standing Audit & Supervisory Board Member (to present)

### Shigeoki Tougou

Outside Audit & Supervisory Board Member

- Apr. 1966 Joined the Bank of Japan
- July 1993 General Manager, Secretariat of the Policy Board of Bank of Japan
- Apr. 1995 General Manager, International Department of the Bank of Japan
- June 1996 Managing Director of The Nippon Credit Bank, Ltd. (currently Aozora Bank, Ltd.)
- Aug. 1997 President of Aozora Bank, Ltd.
- June 2000 President and Representative Director of Osaka Shipbuilding Co., Ltd. (currently Daizo Corporation)
- June 2010 President of Nippon RAD Inc.
- June 2011 Chief Executive Officer of Nippon RAD Inc.
- June 2012 Outside Audit & Supervisory Board Member of the Company (to present)

### Tamon Tsuda

Outside Audit & Supervisory Board Member

- Apr. 1975 Joined The Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation)
- Oct. 1981 Joined Arthur Andersen, LLP
- Mar. 1985 Registered as a certified public accountant
- Dec. 1994 Partner of Century Audit Corporation (currently Ernst & Young ShinNihon LLC)
- Nov. 2000 Representative Partner of Century Ota Showa & Co. (currently Ernst & Young ShinNihon LLC)
- July 2008 Senior Partner of Ernst & Young ShinNihon LLC
- July 2012 Head of Tsuda Certified Public Accountant Office (to present)
- June 2014 Outside Audit & Supervisory Board Member of the Company (to present)

## Managing Executive Officer

### Takeo Yamaki

In charge of Nitta Gelatin India Ltd.

## Executive Officers

### Hidenori Takemiya

General Manager, Peptide Division

### Yuji Yamamoto

Plant Manager of Gelatin Division

### Yoshitaka Oda

Nitta Biolab Inc. President

### Seiichi Nishikawa

General Manager, Gelatin Division

### Shoichi Takagi

Dispatched to Nitta Casings Inc.

### Norifumi Nagaoka

Deputy General Manager, International Business Division and General Manager, Collagen Casings Department, International Business Division

### Juergen Gallert

Director and CEO of Nitta Gelatin NA Inc.

Director and CEO of Nitta Gelatin Canada, Inc.

Director and CEO of Nitta Gelatin USA, Inc.

# Data Section

## Corporate Information

### Company Outline (As of March 31, 2016)

Headquarters	4-26, Sakuragawa 4-chome, Naniwa-ku, Osaka 556-0022, Japan	
Establishment	January 1918	
Incorporation	February 1945	
Capital	¥3,144 million	
Net Sales	Non-consolidated: ¥22.7 billion <small>(year ended March 31, 2016)</small>	Consolidated: ¥36.8 billion <small>(year ended March 31, 2016)</small>
Employees	Non-consolidated: 261 <small>(as of March 31, 2016)</small>	Consolidated: 1,192 <small>(as of March 31, 2016)</small>
Main Businesses	Production and sales of edible gelatin, pharmaceutical gelatin and photographic gelatin Production and sales of collagen peptides Production and sales of collagen casings Production and sales of collagen for cosmetics, biomaterials and biochemical products, manufacture and sales of cell-culture collagen Production and sales of edible gelling agents, stabilizers and other food materials Production and sales of adhesives for packaging, bookbinding, building materials and hygiene products	
Operating Facilities	10 locations in Japan, 15 locations overseas	

### Affiliates (As of March 31, 2016)

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**Domestic**

- Nitta Gelatin Foods Inc.
- Nitta Biolab Inc.
- Hikone Gelatin Inc.
- Bostik-Nitta Co., Ltd.
- Shinju Service Co., Ltd.

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**Overseas**

Nitta Gelatin NA Inc. (U.S.A.)	Nitta Gelatin India Ltd. (India)
Nitta Gelatin Canada, Inc. (Canada)	Bamni Proteins Ltd. (India)
Nitta Gelatin USA, Inc. (U.S.A.)	Reva Proteins Ltd. (India)
Nitta Casings Inc. (U.S.A.)	Shanghai Nitta Gelatin Co., Ltd. (China)
Nitta Casings (Canada) Inc. (Canada)	Guangdong Baiwei Bio Material Co., Ltd. (China)
Nitta Gelatin Holding, Inc. (U.S.A.)	Beijing Qiushi Collagen Casing Co., Ltd. (China)
	Nitta Hong Kong Ltd. (China)
	Nitta Gelatin Vietnam Co., Ltd. (Vietnam)

# Shareholder and Investor Information

## Stock Information (As of March 31, 2016)

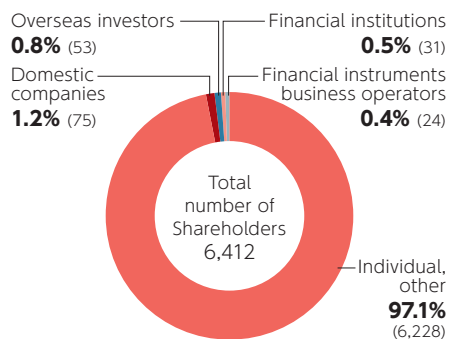
Number of Shares Authorized	50,000,000
Number of Shares Issued	18,373,974
Number of Shareholders	6,412

### Major Shareholders (Top 10)

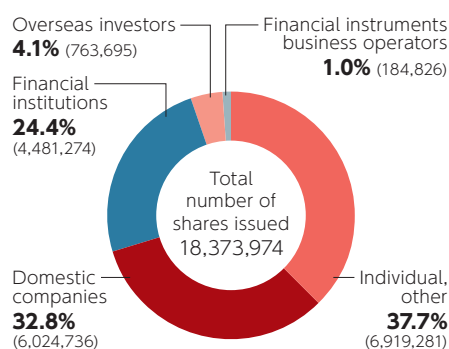
Shareholder name	Number of shares	Shareholding percentage
IBP Co., Ltd.	2,966,516	16.15
Nitta Corporation	840,014	4.57
The Master Trust Bank of Japan, Ltd. (trust account)	701,000	3.82
Sumitomo Mitsui Banking Corporation	630,286	3.43
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	621,074	3.38
Iwaki Co., Ltd.	533,600	2.90
Nitta Gelatin Employees Shareholding Association	502,600	2.74
Japan Trustee Services Bank, Ltd. (trust account)	406,800	2.21
Ishizuka Corporation	382,014	2.08
Resona Bank, Limited	334,672	1.82

## Share Distribution (As of March 31, 2016)

### Breakdown of Shareholding by Investor Type



### Breakdown of Shareholding by Number of Shares Held



# Management's Discussion and Analysis

## Business Performance Summary for the Fiscal Year Ended March 31, 2016

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In the fiscal year ended March 31, 2016, the global economic situation remained uncertain, clouded by low oil prices, turmoil in the financial markets and a Chinese economic slowdown, among other factors. On the other hand, the United States, Europe and Southeast Asia continued to record moderate growth. Meanwhile, the Japanese economy continued to experience a gradual recovery, spurred primarily by an increase in corporate earnings and inbound tourism demand. However, this trend in Japan could falter due to factors such as the sharp yen appreciation and dramatic declines in the stock market since the beginning of 2016, as well as the earthquakes in Kumamoto.

Amid these circumstances, the Nitta Gelatin Group worked as one to bring about a recovery in earnings by adopting a new management structure in April 2015 and focusing efforts on the marketing of gelatin and collagen peptide mainly in Japan, North America and Southeast Asia.

In addition, as a base for procuring raw material for gelatin and supplying halal-certified products, equity-method affiliate Nitta Gelatin India Ltd. and its two local affiliates in India were consolidated as subsidiaries of Nitta Gelatin in April 2015.

As a result, in the fiscal year ended March 31, 2016, net sales increased 15.6% year on year, to ¥36,885 million. Operating income rose 224.2%, to ¥1,273 million, but ordinary income expanded only 1.2%, to ¥979 million, mainly due to foreign exchange losses. As a consequence of consolidating the three companies in India as subsidiaries and converting a subsidiary in China into an equity-method affiliate, the Group reported ¥727 million in extraordinary income and ¥666 million in extraordinary losses. After allowing for net income attributable to non-controlling interests, net income attributable to owners of the parent decreased 21.7% year on year to ¥477 million.

## Consolidated Business Performance for the Fiscal Year Ended March 31, 2016

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### ► Net Sales and Earnings

In the fiscal year ended March 31, 2016, despite lackluster sales of collagen casings, sales of gelatin and

collagen peptide remained steady, thanks mainly to firm demand from the food market and the contribution from the conversion of Nitta Gelatin India Ltd. and two other companies into consolidated subsidiaries.

As a result, sales increased ¥4,970 million, or 15.6%, year on year, to ¥36,885 million.

### ► Gross Profit

Consolidated gross profit increased ¥1,718 million, or 28.8%, year on year to ¥7,689 million.

### ► Selling, General and Administrative Expenses

Selling, general and administrative expenses increased ¥838 million, or 15.0%, year on year to ¥6,416 million.

### ► Operating Income

As a result of the foregoing, operating income rose ¥880 million, or 224.2%, year on year to ¥1,273 million.

### ► Net income Attributable to Owners of Parent

Net income attributable to owners of the parent decreased ¥132 million, or 21.7%, year on year, to ¥477 million.

Due mainly to the conversion of three companies in India into consolidated subsidiaries and the conversion of a subsidiary in China into an equity-method affiliate, the Company booked extraordinary income of ¥727 million and extraordinary losses of ¥666 million.

## Segment Performance

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### ► Collagen Material Business

In the gelatin field, demand for edible gelatin in Japan, which is mainly in confectionery and delicatessen items, remained steady. Demand for gelatin for making capsules was also robust, driven by strong demand for dietary supplements from inbound travelers and for food products that claim to have proven efficacies following the deregulation of such products. As a result, gelatin sales increased in Japan. In North America, the nutritional supplement market is still recovering from negative press coverage of health foods since 2014, in contrast to buoyant demand for edible gelatin. However, the Company's overall sales of gelatin rose substantially, owing to a ¥3,489 million contribution to sales from the consolidation of Nitta Gelatin India Ltd. and two affiliates into subsidiaries.

Following re-acknowledgement by the market of the benefits of collagen peptide, including for regulating bodily functions, sales expanded on strong

demand for use in health foods, and further adoption for use in general food products. Collagen casing sales fell and profits declined substantially following fiercer competition and a drop in exports from North America due to the appreciation of the U.S. dollar.

As a result, net sales in the Collagen Material business increased 20.6% year on year to ¥27,686 million. Segment profit (operating income) was up 66.3% to ¥1,832 million.

#### ▶ **Formula Solution Business**

The Company saw robust sales of food materials for use in desserts and confectionery, partly as a result of efforts to cultivate new customers. However, profits were largely unchanged year on year due to a rise in the price of raw materials.

Adhesives sales for use in packaging were robust, and increased year on year for use in hygiene products, reflecting the resumption of the customers' procurement from Nitta Gelatin. However, adhesive sales for bookbinding declined due to the shrinking market. Profit, on the other hand, expanded in line with efforts to cut costs.

As a result, net sales in the Formula Solution business increased 2.7% year on year to ¥9,199 million. Segment profit (operating income) grew 25.5% to ¥812 million.

## Cash Flows

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#### ▶ **Net Cash Provided by Operating Activities**

Operating activities generated net cash of ¥2,385 million (¥2,074 million in the previous period). Main contributing factors were income before taxes and minority interests of ¥1,040 million, depreciation and amortization expenses of ¥1,562 million, an increase in trade notes and accounts payable of ¥724 million, a loss on step acquisitions of ¥620 million, and a gain on negative goodwill of ¥502 million.

#### ▶ **Net Cash Used in Investing Activities**

Net cash used in investing activities came to ¥1,860 million (¥2,505 million in the previous period). The main cash used was ¥1,548 million for the purchase of property, plant and equipment and ¥222 million for the purchase of shares in affiliates.

#### ▶ **Net Cash Used in Financing Activities**

Net cash used in financing activities totaled ¥473 million (against ¥544 million in net cash provided in the previous period). This mainly reflected a net decrease in short-term loans payable of ¥544 million and proceeds from long-term loans payable of ¥2,821 million, which were partly offset by ¥2,502 million in repayment of long-term loans payable.

## Financial Position

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#### ▶ **Assets**

Total assets amounted to ¥37,597 million at March 31, 2016, ¥3,665 million higher than at March 31, 2015.

This increase was primarily due to increases in trade notes and accounts receivable, inventories (including merchandise and finished goods), and property, plant and equipment, despite a decrease in investment securities.

#### ▶ **Liabilities**

Total liabilities stood at ¥20,720 million at March 31, 2016, ¥2,162 million higher than at March 31, 2015.

This rise was primarily due to increases in trade notes and accounts payable, short-term loans payable, long-term loans payable (including the current portion), and deferred tax liabilities.

#### ▶ **Net Assets**

Net assets stood at ¥16,876 million at March 31, 2016, ¥1,503 million higher than at March 31, 2015. This change was mainly attributable to a rise in the portion attributable to non-controlling interests.

As a result, the equity ratio stood at 39.8% at March 31, 2016 compared to 45.0% as of March 31, 2015.

## Dividend Policy

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Our basic policy on profit distribution is to continuously pay steady dividends, while securing the internal reserves needed to develop future businesses and strengthen our operating structure.

Furthermore, our basic policy is to pay dividends twice every fiscal year, with interim and year-end dividends determined by the Board of Directors and the Annual General Meeting of Shareholders, respectively.

Regarding dividends for the fiscal year ended March 31, 2016, in accordance with the aforementioned policies, management has decided to pay a year-end dividend of ¥6.00 per common share. Combined with the interim dividend of ¥6.00, the annual dividend per common share is ¥12.00.

Regarding funds set aside as internal reserves, we intend to effectively invest these funds in enhancing cost competitiveness further still, bolstering our technology and product development structure in response to market needs, as well as implementing global strategies. These investments will help us to address anticipated changes in the business environment going forward.

# Business Risks

This section provides information about the principal business risks concerning the Nitta Gelatin Group's operations and related matters that may have a material impact on the decisions of investors. Matters that do not necessarily constitute such risks but are considered to have a material impact on the investment decisions of investors are also disclosed below in the interest of actively disclosing information to investors. Recognizing the possibility of such risks, we endeavor to prevent their occurrence and to respond properly if they do occur. This section includes forward-looking statements determined based on information available to us as of the date of the publication of this report.

## 1 Product Development

As the Group prides itself on the ability to quickly offer products and services that match changing market and customer needs, it actively conducts R&D and capital investment. However, there is no guarantee that we can successfully develop new products. In addition, even if a new product is successfully developed, it may not match customer needs and may thus fail to gain their acceptance. In regard to products for medical applications, customers using our products require an extensive lead time to develop and launch medical products. During this period, the customer may suspend product development or face protracted development delays, among other contingencies, mainly on account of shifting market conditions, changes in operating performance, or delays in obtaining approval from regulatory authorities. In the event that we face delays or are unable to recover R&D expenses and capital investment as a result, our operating results and financial position may be negatively impacted.

## 2 Overseas Markets

Ever since the establishment of our first overseas sales subsidiary in the U.S. in July 1979, we have been actively working to expand sales in overseas markets. In the fiscal year ended March 31, 2016, sales in overseas markets accounted for 47.7% of our net sales. In the North American market, our primary region for business development so far, our sales expansion may be negatively impacted by competition arising between our products and those of our competitors in the same industry. In addition, in the future strategic Chinese, Indian and Southeast Asian markets, our sales expansion may be negatively impacted by even greater competition than in North America between our products and those of our competitors in the same industry. The Group is working to enhance its competitiveness, mainly by reducing costs, improving quality, developing unique new products, and conducting production in optimal locations. However, if these measures prove ineffective, sales growth could stagnate. This could have a negative impact on our operating results and financial position.

## 3 Exchange Rate Movements

When selling products to overseas customers either directly or through a subsidiary, we export products on a U.S. dollar-denominated basis. On the procurement front, we purchase raw materials for gelatin, such as bovine bones and ossein, primarily using U.S. dollars. We also import pig-skin gelatin from overseas on a Canadian dollar-denominated basis. For this reason, we hedge our foreign exchange risk by concluding foreign exchange forward contracts with financial institutions with respect to U.S. dollar-denominated exports, as well as U.S. dollar- and Canadian dollar-denominated imports. Through these measures, we reduce our exposure to foreign exchange risk related to operating transactions. However, in the event of unforeseeable foreign exchange rate movements, our operating results and financial position could be negatively impacted. Furthermore, gains and losses arising from foreign currency-denominated transactions, as well as the translation into Japanese yen of foreign currency-denominated receivables and payables and the financial statements of overseas consolidated subsidiaries prepared in foreign currencies, are subject to foreign exchange rate movements. This could have a negative impact on our operating results and financial position.

## 4 Price Fluctuations for Primary Raw Materials

Raw material costs accounted for 57.5% of our cost of manufacturing in

the fiscal year ended March 31, 2016. Raw material prices fluctuate for a variety of reasons. In the Collagen Material business, primary raw materials such as bovine bones and hides, pig skin and fish scales are all byproducts of the livestock and fishery industries. The raw material price may fluctuate depending on changes in meat consumption reflecting global economic conditions, as well as changes in supply-demand dynamics driven by regulations governing food processing and distribution in response to various animal epidemics and other factors. In the Formula Solution business, prices of natural polysaccharides, the primary raw material in the food material divisions, may fluctuate due to changes in the climate of growing regions and other factors. Prices of petroleum resins, the key raw material for adhesives, may fluctuate due to changes in commodity prices and supply-demand dynamics for heavy oil and naphtha. Meanwhile, in some cases the market environment and other factors can make it difficult to transfer the impact of price fluctuations for these key raw materials to the selling price of our products. Accordingly, fluctuations in raw materials prices could have a negative impact on our operating results and financial position.

## 5 Animal Diseases

Our primary products, including gelatin, collagen peptide, collagen casing and collagen, are made from animal byproducts derived from livestock and fishery production, such as bovine bones and hides, pig skins, and fish scales. Accordingly, these materials are subject to the risk of animal diseases. We therefore procure these materials only after confirming that they are free from any animal infectious diseases, while working to diversify the sourcing region of raw materials in order to ensure their safety. Despite these efforts, in the event that an extensive outbreak of animal disease occurs in a region from which we procure raw materials, the supply of raw material bones and skins may decline or stop due to a suspension or stoppage of meat production, or may cause us to switch to an alternative region for sourcing raw materials. These and other related factors may have a negative impact on the stable procurement of raw materials. In addition, our product sales may be affected by the outbreak of an animal disease in countries in which raw materials are produced or products are manufactured. Specifically, product sales may stagnate due to import restrictions and other measures imposed on animal products made from raw materials originating from or products manufactured in these countries. As a result of the foregoing, the Group may be impacted by higher raw material procurement costs, reduced revenue due to lower product sales, higher inventories and so forth. This could negatively affect our operating results and financial position.

## 6 Laws and Regulations

In the execution of its business activities is subject to Japanese laws and regulations, including the Food Sanitation Law, the Japanese Agricultural Standard and the Pharmaceutical and Medical Device Act as well as directives issued by the competent authorities. In the event that these laws and regulations are amended or abolished, or if new laws and regulations are established, we may incur additional costs and other outlays to address these developments, or face restrictions in terms of the scope of our business activities. Furthermore, the Group is subject to various laws and regulations in overseas countries where it conducts business. Our operating results and financial position could be negatively impacted by changes to these laws and regulations and our status of legal compliance. In regard to the environment, gelatin production requires large amounts of water in the whole process, from raw materials to gelatin. For this reason, our plants are supplied with



and release large amounts of water, and are subject to the laws and regulations of each country and region in regard to wastewater volume and water quality. Efforts are made at each plant to recycle and reuse water and to upgrade production processes so as to reduce the volume of water supplied and released and to maintain water quality. In the event of a major amendment to national or regional laws and regulations, we may incur costs associated with addressing such new legislative changes. The foregoing impacts could negatively affect our operating results and financial position.

## 7 Religious Rules

Gelatin is an animal-derived product that is widely used in food, pharmaceutical capsules and other items. However, due to religious injunctions, consumption of some of these items may be forbidden, depending on the animal species and the manufacturing method. The main examples of such religious rules include the halal (Islam) and kosher (Judaism) codes. Followers of these religions are forbidden from consuming pig-derived products. In order to sell proper gelatin to business customers who manufacture products for these consumers, we produce gelatin by procuring raw materials derived from permissible animal species and by using appropriate manufacturing methods in line with religious rules. To make certain that our products conform to religious rules, we obtain certification through audits by the certifying entities of each religion. In this context, we strictly manage our raw materials and manufacturing. However, in the event that our certification is revoked as a result of a breach of a religious rule due to a management deficiency, we will lose sales opportunities, which could have a negative impact on our operating results and financial position.

## 8 Natural Disasters, Accidents, Terrorism, War and Other Contingencies

In the event of natural disasters such as earthquakes, storms and floods, accidents, problems with local communities, regional terrorism, wars and other contingencies at our business locations, the procurement of raw materials and the production and sale of products could be disrupted, which could have a negative impact on our operating results and financial position. Our business locations include our main offices and major outsourcing partners (including Japan, Canada, U.S.A., India, China and Vietnam), regions from which primary raw materials are procured (including India, Canada, U.S.A., New Zealand, Thailand, Pakistan and China), and primary regions where products are sold (including Japan, North America, India, China and various other Asian countries).

## 9 Product Quality

We endeavor to put quality first in order to earn our customers' trust. To this end, we develop products focused on customer needs, and manufacture products under an internationally accepted quality assurance system. One particular focus lies in ensuring traceability from raw materials to finished products in an effort to market safe products. We have enrolled in product liability insurance policies, among other safeguards. However, in the event that a customer suffers damages as a result of defects in our products, there is no guarantee that our liability for damages will be covered within the compensation limits of these insurance policies. Accordingly, in the event of a serious quality problem, the ensuing claims for damages, loss of public trust in the Group and other factors could negatively impact our operating results and financial position.

## 10 Alternative Products

There is a growing trend to switch the raw materials used in certain pharmaceuticals, cosmetics and food from animal to plant-derived materials. In the capsule market, one of our core markets for gelatin, this trend has given impetus to the development of plant-derived (starch and cellulose derivative) capsule products. Certain pharmaceutical and health food manufacturers have adopted these capsules as an alternative to gelatin capsules. We believe that the popularization of plant-derived capsules has been limited to certain segments of the market. Nevertheless, in the event of new regulations on animal derived products or a change in consumer sentiment, the rapid popularization of plant-derived capsules could reduce demand for gelatin capsules, and have a negative impact on our operating results and financial position.

## 11 Interest Rate Fluctuations

We primarily borrow funds from financial institutions to finance capital investments. The percentage of interest bearing liabilities relative to total assets was 27.9% (including lease obligations) in the fiscal year ended March 31, 2016. We endeavor to reduce borrowings and other interest-bearing liabilities. However, in the event of an increase in market interest rates going forward, our operating results and financial position could be negatively impacted.

## 12 Taxation

In Japan, a 17% tariff is levied on gelatin imported other than for photographic use.

However, we expect to see tariffs gradually reduced and eventually eliminated following the conclusion of the Trans-Pacific Strategic Economic Partnership Agreement (TPP) negotiations in October 2015. This situation could result in lower sales prices for imports.

A price difference may arise between imports such as South American bovine hide gelatin and Indian bovine bone gelatin, and bovine bone gelatin produced at the Company's Osaka Plant. In such an event, our operating results and financial position could be negatively affected. Moreover, the Group conducts production and sales activities on a global scale, and materials, semi-finished goods and other items are mutually supplied within the Group. Each Group business entity complies with the tax laws to follow the proper procedures for calculating and paying taxes in the country of its jurisdiction. While the Group pays close attention to international taxation risks such as the transfer pricing taxation applicable in each country, additional taxes may be imposed in the event that the Group's views on this matter conflict with those of the tax authorities.

## 13 Information Security

We have established an information system that enables us to obtain and analyze necessary information in real time in various processes, including purchasing, production, sales and management. We put particular emphasis on the strict management of access rights to the system for the purpose of ensuring stable system operation and preventing any leaks of sales data, including client data and personal information stored on the system. These efforts notwithstanding, in the event of difficulty in maintaining the stable operation of the information system due to a software malfunction, unauthorized external access or other factors, our business activities could be disrupted. In the event that sales or client data are leaked outside our Group, we could face consequences such as claims for damages from customers, and a loss of public trust in our Group. As a result, our operating results and financial position could be negatively affected.

## 14 Infringement of Intellectual Property Rights

We protect our intellectual property rights through such means as obtaining patents on proprietary technology and other innovations we have developed. Efforts are also made in the product development process to prevent any infringement of rights held by third parties, including intellectual property rights. These efforts notwithstanding, we cannot completely rule out the possibility of allegations and claims by third parties concerning the ownership or infringement of intellectual property and other rights. In the event that we are subject to claims for damages or cease-and-desist orders as a result, our operating results and financial position could be negatively affected.

## 15 Legal Disputes and Litigation

In the course of our business activities, we endeavor to enhance our internal control system and strengthen compliance, encompassing legal compliance and observance of social norms, while reducing our exposure to various forms of risk. At the same time, the Group receives advice from lawyers and other experts as necessary. These efforts notwithstanding, the Group may be subject to lawsuits in the course of business activities, irrespective of whether there is a breach of laws or regulations. In such an event, our operating results and financial position could be negatively affected.

# Consolidated Balance Sheets

Nitta Gelatin Inc. and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2016	Fiscal 2016
<b>Assets</b>			
<b>Current assets:</b>			
Cash and deposits (Notes 5, 9 and 18)	¥ 2,622	¥ 2,688	\$ 23,868
Notes and accounts receivable-trade (Note 9)	6,726	7,375	65,486
Merchandise and finished goods	4,821	5,262	46,723
Work in process	1,243	1,429	12,689
Raw materials and supplies	2,156	2,275	20,201
Deferred tax assets (Note 6)	139	182	1,616
Other	330	447	3,969
Allowance for doubtful accounts	(2)	(2)	(18)
Total current assets	18,038	19,657	174,543
<b>Noncurrent assets:</b>			
Buildings and structures (Note 5)	9,700	10,267	91,165
Machinery, equipment and vehicles (Note 5)	13,028	15,937	141,511
Land (Note 5)	781	2,542	22,571
Lease assets (Note 8)	1,195	1,188	10,549
Construction in process	435	957	8,498
Other	1,339	1,362	12,094
Accumulated depreciation	(15,632)	(18,531)	(164,544)
Total property, plant and equipment	10,848	13,724	121,861
<b>Intangible assets:</b>			
Other	69	357	3,170
Total intangible assets	69	357	3,170
<b>Investments and other assets:</b>			
Investment securities (Notes 4, 5, and 9)	3,984	2,919	25,919
Long-term loans receivable	5	136	1,208
Deferred tax assets (Notes)	185	189	1,678
Net defined benefit assets (Note 7)	689	421	3,738
Other	109	191	1,696
Total investments and other assets	4,974	3,858	34,257
Total noncurrent assets	15,893	17,940	159,297
<b>Total assets</b>	¥ 33,932	¥ 37,597	\$ 333,839

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥112.62 = U.S.\$1, the prevailing exchange rate at March 31, 2016.

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2016	Fiscal 2016
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Notes and accounts payable-trade (Note 9)	¥ 3,768	¥ 4,252	\$ 37,755
Short-term loans payable (Note 5)	1,705	2,186	19,410
Current portion of long-term loans payable (Notes 5 and 9)	2,127	2,215	19,668
Lease obligations (Notes 5 and 8)	232	230	2,042
Accounts payable-other (Note 9)	1,435	1,261	11,197
Income taxes payable	206	145	1,288
Provision for bonuses	173	213	1,891
Other	626	569	5,052
Total current liabilities	10,274	11,076	98,348
<b>Noncurrent liabilities:</b>			
Long-term loans payable (Notes 5 and 9)	4,867	5,380	47,771
Lease obligations (Notes 5 and 8)	475	469	4,164
Deferred tax liabilities	189	769	6,828
Net defined benefit liability (Note 7)	2,661	2,938	26,088
Provision for directors' retirement benefits	38	—	
Other	50	85	755
Total noncurrent liabilities	8,283	9,644	85,633
Total liabilities	18,558	20,720	183,982
<b>Net Assets</b>			
<b>Shareholders' equity:</b>			
Capital stock	3,144	3,144	27,917
Capital surplus	2,966	2,966	26,336
Retained earnings	9,312	9,569	84,967
Treasury stock	(0)	(0)	(0)
Total shareholders' equity	15,423	15,680	139,229
Accumulated other comprehensive income (loss):			
Valuation difference on other available-for-sale securities	1,121	1,024	9,093
Deferred gains (losses) on hedges	33	(38)	(337)
Foreign currency translation adjustments	601	466	4,138
Remeasurements of defined benefit plans (Note 7)	(1,908)	(2,160)	(19,180)
Total accumulated other comprehensive loss	(152)	(707)	(6,278)
Non-controlling interests	102	1,904	16,906
Total net assets	15,373	16,876	149,849
<b>Total liabilities and net assets</b>	¥ 33,932	¥ 37,597	\$ 333,839

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥112.62 = U.S.\$1, the prevailing exchange rate at March 31, 2016.

# Consolidated Statements of Income

Nitta Gelatin Inc. and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2016	Fiscal 2016
<b>Net sales</b>	¥ 31,914	<b>¥ 36,885</b>	<b>\$327,517</b>
<b>Cost of sales (Note 3)</b>	25,944	<b>29,196</b>	<b>259,243</b>
<b>Gross profit on sales</b>	5,970	<b>7,689</b>	<b>68,274</b>
<b>Selling, general and administrative expenses (Note 12)</b>	5,577	<b>6,416</b>	<b>56,970</b>
<b>Operating income</b>	392	<b>1,273</b>	<b>11,303</b>
<b>Non-operating income:</b>			
Interest income	0	<b>27</b>	<b>240</b>
Dividend income	23	<b>29</b>	<b>258</b>
Rent income	36	<b>44</b>	<b>391</b>
Equity in earnings of affiliates	112	<b>29</b>	<b>258</b>
Foreign exchange gains	578	—	—
Other	53	<b>69</b>	<b>613</b>
Total non-operating income	805	<b>202</b>	<b>1,794</b>
<b>Non-operating expenses:</b>			
Interest expenses	151	<b>315</b>	<b>2,797</b>
Foreign exchange losses	—	<b>151</b>	<b>1,341</b>
Commissions paid	66	<b>13</b>	<b>115</b>
Other	11	<b>14</b>	<b>124</b>
Total non-operating expenses	230	<b>495</b>	<b>4,395</b>
<b>Ordinary income</b>	967	<b>979</b>	<b>8,693</b>
<b>Extraordinary gains:</b>			
Gain on sales of noncurrent assets	—	<b>67</b>	<b>595</b>
Gain on negative goodwill (Note 13)	—	<b>502</b>	<b>4,457</b>
Gain on change in equity (Note 14)	—	<b>157</b>	<b>1,394</b>
Total extraordinary gains	—	<b>727</b>	<b>6,455</b>
<b>Extraordinary losses:</b>			
Loss on retirement of noncurrent assets	34	<b>45</b>	<b>400</b>
Loss on stepped acquisitions (Note 13)	—	<b>620</b>	<b>5,505</b>
Total extraordinary losses	34	<b>666</b>	<b>5,914</b>
<b>Income before income taxes and minority interests</b>	933	<b>1,040</b>	<b>9,235</b>
Income taxes (Note 6)	376	<b>425</b>	<b>3,774</b>
Income taxes—deferred	(23)	<b>3</b>	<b>27</b>
Total income taxes	353	<b>428</b>	<b>3,800</b>
<b>Net income</b>	580	<b>612</b>	<b>5,434</b>
<b>Net income (loss) attributable to non-controlling interests</b>	(29)	<b>134</b>	<b>1,190</b>
<b>Net income attributable to owners of the parent (Note 17)</b>	¥ 610	<b>¥ 477</b>	<b>\$ 4,235</b>

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥112.62 = U.S.\$1, the prevailing exchange rate at March 31, 2016.

# Consolidated Statements of Comprehensive Income

Nitta Gelatin Inc. and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2016	Fiscal 2016
<b>Net income</b>	¥ 580	¥ 612	<b>\$5,434</b>
<b>Other comprehensive income (loss) (Note 19):</b>			
Valuation difference on other available-for-sale securities	498	(96)	(852)
Deferred gains (losses) on hedges	18	(68)	(604)
Foreign currency translation adjustments	638	(731)	(6,491)
Pension liability adjustment	(370)	(255)	(2,264)
Share of other comprehensive income of associates accounted for using equity method	165	402	3,570
Total other comprehensive income (loss)	950	(748)	(6,642)
<b>Total comprehensive income (loss)</b>	¥ 1,530	¥ (136)	<b>\$(1,208)</b>
Comprehensive income (loss) attributable to:			
Owners of the parent	¥ 1,555	¥ (100)	\$ (888)
Non-controlling interests	(24)	(35)	(311)

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥112.62 = U.S.\$1, the prevailing exchange rate at March 31, 2016.

# Consolidated Statements of Changes in Net Assets

Nitta Gelatin Inc. and Consolidated Subsidiaries

Years ended March 31, 2016 and 2015

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of fiscal year	¥3,144	¥2,966	¥9,312	¥(0)	¥15,423
Changes during the fiscal year					
Dividends from surplus			(220)		(220)
Net income attributable to owners of the parent			477		477
Gain (loss) in non-controlling interests due to increase in consolidated subsidiaries					—
Net changes of items other than shareholders' equity					—
Total changes during fiscal year	—	—	257	—	257
<b>Balance at the end of fiscal year</b>	<b>¥3,144</b>	<b>¥2,966</b>	<b>¥9,569</b>	<b>¥(0)</b>	<b>¥15,680</b>

	Millions of yen						
	Other accumulated comprehensive income					Non-controlling 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 other accumulated comprehensive income		
Balance at the beginning of fiscal year	¥1,121	¥ 33	¥601	¥(1,908)	¥(152)	¥ 102	¥15,373
Changes during the fiscal year							
Dividends from surplus							(220)
Net income attributable to owners of the parent							477
Gain (loss) in non-controlling interests due to increase in consolidated subsidiaries						1,848	1,848
Net changes of items other than shareholders' equity	(96)	(71)	(135)	(252)	(555)	(46)	(602)
Total changes during fiscal year	(96)	(71)	(135)	(252)	(555)	1,801	1,503
<b>Balance at the end of fiscal year</b>	<b>¥1,024</b>	<b>¥(38)</b>	<b>¥466</b>	<b>¥(2,160)</b>	<b>¥(707)</b>	<b>¥1,904</b>	<b>¥16,876</b>

	Thousands of U.S. dollars				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of fiscal year	\$27,917	\$26,336	\$82,685	\$0	\$136,947
Changes during the fiscal year					
Dividends from surplus			(1,953)		(1,953)
Net income attributable to owners of the parent			4,235		4,235
Gain (loss) in non-controlling interests due to increase in consolidated subsidiaries					—
Net changes of items other than shareholders' equity					—
Total changes during fiscal year	—	—	2,282	—	2,282
<b>Balance at the end of fiscal year</b>	<b>\$27,917</b>	<b>\$26,336</b>	<b>\$84,967</b>	<b>\$0</b>	<b>\$139,229</b>

	Thousands of U.S. dollars						
	Other accumulated comprehensive income					Non-controlling 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 other accumulated comprehensive income		
Balance at the beginning of fiscal year	\$9,954	\$ 293	\$5,337	\$(16,942)	\$(1,350)	\$ 906	\$136,503
Changes during the fiscal year							
Dividends from surplus							(1,953)
Net income attributable to owners of the parent							4,235
Gain (loss) in non-controlling interests due to increase in consolidated subsidiaries						16,409	16,409
Net changes of items other than shareholders' equity	(852)	(630)	(1,199)	(2,238)	(4,928)	(408)	(5,345)
Total changes during fiscal year	(852)	(630)	(1,199)	(2,238)	(4,928)	15,992	13,346
<b>Balance at the end of fiscal year</b>	<b>\$9,093</b>	<b>\$(337)</b>	<b>\$4,138</b>	<b>\$(19,180)</b>	<b>\$(6,278)</b>	<b>\$16,906</b>	<b>\$149,849</b>

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥112.62 = U.S.\$1, the prevailing exchange rate at March 31, 2016.



# Consolidated Statements of Cash Flows

Nitta Gelatin Inc. and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2016	Fiscal 2016
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 933	¥1,040	\$ 9,235
Depreciation and amortization	1,115	1,562	13,870
Increase (decrease) in provision for directors' retirement benefits	1	(38)	(337)
Increase (decrease) in provision for bonuses	(8)	42	373
Decrease in allowance for doubtful accounts	(13)	(0)	(0)
Increase in net defined benefit liability	9	21	186
Interest and dividends income	(24)	(57)	(506)
Interest expenses	151	315	2,797
Foreign exchange losses (gains)	(267)	188	1,669
Equity in earnings of affiliates	(112)	(29)	(258)
Gain on sales of property, plant and equipment	–	(67)	(595)
Loss on retirement of noncurrent assets	34	45	400
Loss on change in equity	–	(157)	(1,394)
Gain on negative goodwill	–	(502)	(4,457)
Loss on stepped acquisitions	–	620	5,505
Decrease (increase) in notes and accounts receivable-trade	1,740	(479)	(4,253)
Increase in inventories	(308)	(109)	(968)
Increase (decrease) in notes and accounts payable-trade	(802)	724	6,429
Increase in accrued consumption taxes	117	36	320
Other, net	(125)	(103)	(915)
Subtotal	2,441	3,051	27,091
Interest and dividends income received	106	125	1,110
Interest paid	(152)	(315)	(2,797)
Income taxes paid	(321)	(476)	(4,227)
Net cash provided by operating activities	2,074	2,385	21,177
<b>Cash flows from investing activities:</b>			
Payments into time deposits	(20)	(148)	(1,314)
Proceeds from withdrawal of time deposits	20	27	240
Proceeds from the sale of property, plant and equipment	–	73	648
Purchase of property, plant and equipment	(2,449)	(1,548)	(13,745)
Purchase of intangible assets	(30)	(17)	(151)
Proceeds from the sale of investment securities	–	2	18
Purchase of investment securities	(6)	(6)	(53)
Purchase of stocks of affiliates	–	(222)	(1,971)
Purchase of insurance funds	(2)	(2)	(18)
Other, net	(15)	(17)	(151)
Net cash used in investing activities	(2,505)	(1,860)	(16,516)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	454	(544)	(4,830)
Proceeds from long-term loans payable	2,495	2,821	25,049
Repayment of long-term loans payable	(2,147)	(2,502)	(22,216)
Proceeds from sale-and-leaseback transactions	214	228	2,025
Repayments of lease obligations	(235)	(254)	(2,255)
Payments from non-controlling interests	–	29	258
Repayments to non-controlling interests	–	(21)	(186)
Cash dividends paid	(220)	(220)	(1,953)
Cash dividends paid to non-controlling interests	(16)	(10)	(89)
Net cash (used in) provided by financing activities	544	(473)	(4,200)
<b>Effect of exchange rate change on cash and cash equivalents</b>	83	(103)	(915)
<b>Net increase (decrease) in cash and cash equivalents</b>	196	(51)	(453)
<b>Cash and cash equivalents, beginning of the fiscal year</b>	2,406	2,602	23,104
<b>Increase in cash and cash equivalents from newly consolidated subsidiaries</b>	–	24	213
<b>Decrease in cash and cash equivalents from exclusion of subsidiary from consolidation</b>	–	(38)	(337)
<b>Cash and cash equivalents at end of the fiscal year (Note 18)</b>	¥2,602	¥2,536	\$22,518

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥112.62 = U.S.\$1, the prevailing exchange rate at March 31, 2016.

# Notes to Consolidated Financial Statements

Nitta Gelatin Inc. and Consolidated Subsidiaries

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Nitta Gelatin Inc. (“the Company”) and its consolidated subsidiaries (together, “the Group”) have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan which are different in certain respects as to 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 2015 financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. As permitted by the regulations under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements in yen do not necessarily agree with the sums of the individual amounts.

The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto were translated from the presented Japanese yen amounts into U.S. dollar amounts at the rate of ¥112.62 = U.S. \$1, the approximate rate of exchange at March 31, 2016, and were then rounded to the nearest thousand. As a result, the totals shown in the accompanying consolidated financial statements in U.S. dollars do not necessarily agree with the sums of the individual amounts. This translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan. Such translation should not be construed as a representation that Japanese yen could be converted into U.S. dollars at that or any other rate.

## 2. Significant Accounting Policies

### (1) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements as of and for the year ended March 31, 2016 include the accounts of the Company and its 15 significant subsidiaries (14 significant subsidiaries in 2015). The fiscal year-end of two consolidated subsidiaries (December 31) is different than the consolidated fiscal year-end (March 31), and necessary adjustments are made for any significant transactions between their fiscal year-end and the consolidated fiscal year-end.

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

For the year ended March 31, 2016 three affiliates (three affiliates in 2015) are accounted for using the equity method. Investments in companies accounted for using the equity method whose fiscal year-ends are different than the consolidated fiscal year-end are accounted for on the basis of the companies' respective fiscal year-end. Investments in one unconsolidated subsidiary and two affiliates are excluded from the application of the equity method and stated at cost because the Group's share of their net income and retained earnings have only slight effects on the accompanying consolidated financial statements and are considered insignificant overall.

### (2) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at the exchange rates as of the consolidated balance sheet date, and differences arising from the translation are included in the consolidated statements of income.

The asset and liability accounts of the overseas consolidated subsidiaries are translated into yen at the exchange rates as of the consolidated balance sheet date, and revenue and expense accounts are translated into yen at the average rate during the year. Differences arising from the translation are presented under foreign currency translation adjustment and minority interests under net assets.

### **(3) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which are readily convertible into cash and are exposed to insignificant risk of changes in value.

### **(4) Investment securities**

In general, securities are classified into three categories: trading, held-to-maturity and available-for-sale securities. Securities held by the Group are all classified as available-for-sale securities. Available-for-sale securities with a determinable market value are stated at fair value, with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Cost of securities sold is determined by the moving-average method. Available-for-sale securities without a determinable market value are stated at cost determined by the moving-average method.

### **(5) Inventories**

Finished goods are mainly stated at the lower of cost determined by the gross average method or net selling value. Merchandise, semi-finished goods, work in process, raw materials and supplies are mainly stated at the lower of cost determined by the moving-average method or net selling value.

### **(6) Property, plant and equipment and depreciation (excluding lease assets)**

Depreciation of property, plant and equipment held by the Company and its domestic consolidated subsidiaries is computed by the declining-balance method, except for buildings on which depreciation is computed by the straight-line method. Depreciation of property, plant and equipment held by overseas consolidated subsidiaries is computed mainly by the straight-line method.

The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures:	7 to 50 years
Machinery, equipment and vehicles:	2 to 10 years

### **(7) Intangible assets and amortization (excluding lease assets)**

Intangible assets are amortized by the straight-line method. Internal use software is amortized by the straight-line method over the estimated useful life of five years.

### **(8) Lease assets**

Lease assets are depreciated by the straight-line method over the lease term with no residual value (residual value guarantee amount if agreed).

### **(9) Allowance for doubtful accounts**

The Company and its domestic consolidated subsidiaries provide allowance for doubtful accounts mainly to cover a loss from uncollectible receivables at an amount determined based on the historical experience of bad debt with respect to ordinary receivables and an estimated uncollectible amount based on individual collectibility of specific doubtful receivables such as doubtful accounts receivable.

The foreign consolidated subsidiaries provide allowance for doubtful accounts mainly at an estimated uncollectible amount for specific doubtful receivables.

### **(10) Provision for bonuses**

The Company and its consolidated subsidiaries recorded provision for bonuses at an amount estimated to cover the bonus payments for services rendered by employees during the year ended March 31, 2016.

### **(11) Accounting method for retirement benefits**

The retirement benefit obligation is calculated by allocating the estimated retirement benefits to period of service by the projected benefit method.

Prior service benefits and costs are recognized as income or expense by the straight-line method over a certain period (mainly 10 years) which is within the average remaining years of service of the employees at the time they arise.

Actuarial gains and losses are amortized by the straight-line method over a certain period (mainly 10 years), which is within the average remaining years of service of the employees at the time when the gains or losses arise, from the fiscal year following the fiscal year in which it arises.

## (12) Hedge accounting

In principle, deferral hedge accounting is adopted for hedge transactions. Interest rate swaps are accounted for by exceptional treatment if the interest rate swaps meet certain criteria.

The following summarizes hedging derivative instruments used by the Group and items hedged:

<u>Hedging instruments</u>	<u>Hedged items</u>
Foreign exchange forward contracts	Forecast transactions denominated in foreign currencies in connection with exports and payables denominated in foreign currencies and forecast transactions denominated in foreign currencies in connection with imports
Interest rate swaps	Loans and debt

As a policy, the Group utilizes derivative transactions within a certain range to hedge market fluctuations in connection with hedged items in accordance with internal management rules defining authorization policies and transaction limits. The Group assesses the hedge effectiveness by comparing the accumulated gains or losses on the hedging instruments and the related hedged items during the period from the commencement of the hedging transactions to the assessment of effectiveness. For interest rate swaps accounted for by exceptional treatment, however, the assessment of effectiveness is not performed.

## (13) Income taxes

Income taxes are computed based on the taxable income of each Group company.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of deferred tax assets and liabilities due to the change in tax rate is recognized in the statement of income for the period including the enacted date.

## (14) Accounting change

### (Adoption of Accounting Standard and Guidance for Business Combinations)

Starting in the year ended March 31, 2016, the Company has adopted the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013, hereinafter the "Business Combination Accounting Standard"), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013, hereinafter the "Consolidated Accounting Standard") and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013, hereinafter the "Business Divestiture Accounting Standard"). As a result, gain or loss arising from a change in the Company's equity in subsidiaries in cases where control is retained was revised to a method recognizing them as an adjustment to capital surplus, and recognizing the acquisition costs in connection with business combinations as expenses in the consolidated fiscal year in which they arise. At the same time, for business combinations that take place in or after the fiscal year ended March 31, 2016, the disclosure method was revised to restate the distribution of acquisition cost on provisional accounting recognition in the statements of the fiscal year in which the combination took place. In addition, the presentation of quarterly net income, etc., was changed, and the presentation of minority interests was changed to the presentation of non-controlling interests. To reflect the relevant changes, the consolidated financial statements for the year ended March 31, 2015 have been restated.

With regard to the adoption of the Business Combination Accounting Standard and other accounting standards, the Company has adopted these standards from April 1, 2015, the beginning of the year ended March 31, 2016, in accordance with the transitional treatment set forth in Article 58-2 (4) of the Business Combination Accounting Standard, Article 44-5 (4) of the Consolidated Accounting Standard, and Article 57-4 (4) of the Business Divestiture Accounting Standard.

There was no impact from the application of these standards on the consolidated financial statements.

### (15) New accounting standards

Revised Implementation Guidance on Recovery of Deferred Tax Assets

#### (1) Overview

The Revised Implementation Guidance on Recovery of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016, hereinafter, the "Revised Guidance on Recovery of Deferred Tax Assets") was set forth by the Accounting Standards Board of Japan (ASBJ) upon transfer of the Implementation Guidance on Tax Effect Accounting and the Audit Implementation Guidance on Tax Effect Accounting (sections on accounting treatment) from the Japanese Institute of Certified Public Accountants (JICPA) to the ASBJ. The Revised Guidance on Recovery of Deferred Tax Assets provides guidance on the recoverability of deferred tax assets when implementing the Accounting Standard on Tax Effect Accounting (Business Accounting Council), in conformity with the guidance on recoverability as set forth in JICPA Audit Committee Report No. 66, "The Auditing Treatment on Determining the Recoverability of Deferred Tax Assets," which provides a framework for dividing companies into five categories and the accounting treatment when determining the amount of deferred tax assets by each category. In order to conform to this framework, the ASBJ's guideline was revised to provide criteria for categorizing the companies and update part of the accounting treatment for determining the amount of tax-deferred assets as necessary.

#### (2) Scheduled adoption date

The Revised Guidance on Recovery of Deferred Tax Assets will be adopted effective April 1, 2016, the start of the year ending March 31, 2017.

#### (3) Impact of applying the accounting standard and guidance

The effect of the Revised Guidance on Recovery of Deferred Tax Assets on the consolidated financial statements is currently being evaluated.

## 3. Inventories

The balances of inventories as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Merchandise and finished goods	¥ 4,821	¥ 5,262	\$ 46,723
Work in process	1,243	1,429	12,689
Raw materials and supplies	2,156	2,275	20,201
Inventories, total	¥ 6,831	¥ 8,966	\$ 79,613

Inventory write-downs of ¥9 million (\$80 thousand) and ¥39 million were recorded in the cost of sales for the years ended March 31, 2016 and 2015, respectively, due to a decline in value.



## 4. Investment Securities

Information on available-for-sale securities as of March 31, 2016 and 2015 was as follows:

	Millions of yen					
	2015			2016		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 1,893	¥ 238	¥ 1,655	<b>¥ 1,710</b>	<b>¥ 230</b>	<b>¥ 1,480</b>
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	2	2	(0)	<b>11</b>	<b>15</b>	<b>(3)</b>
<b>Total</b>	<b>¥ 1,895</b>	<b>¥ 240</b>	<b>¥ 1,654</b>	<b>¥ 1,722</b>	<b>¥ 245</b>	<b>¥ 1,476</b>

	Thousands of U.S. dollars		
	2016		
	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	<b>\$15,184</b>	<b>\$ 2,042</b>	<b>\$13,142</b>
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	<b>98</b>	<b>133</b>	<b>(27)</b>
<b>Total</b>	<b>\$15,290</b>	<b>\$ 2,175</b>	<b>\$13,106</b>

Unlisted equity securities of ¥31 million (\$275 thousand) and ¥18 million as of March 31, 2016 and 2015, respectively, were not included in the above tables as there were no market prices available and it is extremely difficult to determine their fair value.

## 5. Short-Term Loans Payable, Long-Term loans payable, Bonds and Lease Obligations

	Millions of yen			Millions of yen	Thousands of U.S. dollars
	2016			2015	2016
	Amount	Weighted average interest rate (%)	Due	Amount	Amount
Short-term loans payable	<b>¥ 2,186</b>	<b>—%</b>	<b>—</b>	¥ 1,705	<b>\$ 19,410</b>
Current portion of long-term loans payable	<b>2,215</b>	<b>1.418</b>	<b>—</b>	2,127	<b>19,668</b>
Lease obligations (current portion)	<b>230</b>	<b>—</b>	<b>—</b>	232	<b>2,042</b>
Long-term loans payable excluding current portion	<b>5,380</b>	<b>1.886</b>	<b>2017 to 2023</b>	4,867	<b>47,771</b>
Lease obligations excluding current portion	<b>469</b>	<b>—</b>	<b>2017 to 2022</b>	475	<b>4,164</b>
<b>Total</b>	<b>¥ 10,483</b>			<b>¥ 9,408</b>	<b>\$ 93,083</b>

The weighted average interest rate of short-term loans payable at March 31, 2016 was 3.066%. The average interest rate on lease obligations is not provided because the balance of lease obligations includes interest equivalent that is contained in the total lease payments.

The maturities of bonds, long-term loans payable and lease obligations outstanding on April 1, 2016 were as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars	
	Long-term loans payable	Lease obligations	Long-term loans payable	Lease obligations
2017	¥ 2,186	¥ 230	\$ 19,410	\$ 2,042
2018	1,899	201	16,862	1,785
2019	1,591	134	14,127	1,190
2020	1,097	94	9,741	835
2021	744	37	6,606	329
<b>Total</b>	<b>¥ 7,517</b>	<b>¥ 696</b>	<b>\$ 66,747</b>	<b>\$ 6,180</b>

The following assets were pledged as collateral as of March 31, 2016 and 2015.

	Millions of yen		Thousands of U.S. dollars
	2015	<b>2016</b>	<b>2016</b>
Buildings and structures	¥ 1,757	<b>¥ 1,976</b>	<b>\$ 17,546</b>
Machinery, equipment and vehicles	196	<b>253</b>	<b>2,246</b>
Land	191	<b>191</b>	<b>1,696</b>
Investment securities	328	<b>279</b>	<b>2,477</b>
<b>Total</b>	<b>¥ 2,473</b>	<b>¥ 3,379</b>	<b>\$ 30,004</b>
Assets pledged as factory foundation mortgage included in the above assets:			
Buildings and structures	¥ 1,757	<b>¥ 1,686</b>	<b>\$ 14,971</b>
Machinery, equipment and vehicles	196	<b>181</b>	<b>1,607</b>
Land	191	<b>191</b>	<b>1,696</b>
<b>Total</b>	<b>¥ 2,145</b>	<b>¥ 2,058</b>	<b>\$ 18,274</b>

The obligations collateralized by the above assets as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	<b>2016</b>	<b>2016</b>
Long-term loans payable	¥ 3,302	<b>¥ 4,162</b>	<b>\$ 36,956</b>
Factory foundation mortgage included in the above liabilities: Long-term loans payable	¥ 3,021	<b>¥ 3,429</b>	<b>\$ 30,448</b>

For the purpose of effective securing of working funds, the Company and two consolidated subsidiaries have entered into overdraft agreements and loan commitment agreements amounting to ¥6,058 million (\$53,792 thousand) and ¥4,950 million in total with nine banks at March 31, 2016 and 2015, respectively. Borrowings outstanding under these agreements as of March 31, 2016 and 2015 were ¥680 million (\$6,038 thousand) and ¥400 million, respectively.

## 6. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation, inhabitants and enterprise taxes. The statutory tax rate applicable to the Company was approximately 33.1% and 35.6% for the years ended March 31, 2016 and 2015, respectively. For the years ended March 31, 2016 and 2015, reconciliations between the statutory income tax rate and the effective income tax rate as a percentage of income are as follows:

	2015	2016
Statutory tax rate	35.6%	<b>33.1%</b>
Adjustments for:		
Non-deductible expenses for income tax purposes	0.9	<b>1.1</b>
Non-taxable income	(0.1)	<b>(1.0)</b>
Inhabitants taxes—per capita levy	1.1	<b>0.9</b>
Tax credit for research and development, etc.	(5.7)	<b>(4.0)</b>
Net increase (decrease) in unrecognized tax effects of net operating losses of subsidiaries, etc.	(3.4)	<b>5.9</b>
Unrecognized tax effects pertaining to unrealized gains and losses	—	<b>4.3</b>
Difference in tax rates between the Company and subsidiaries	(2.8)	<b>0.2</b>
Downward revision of deferred tax assets at end of year due to changes in tax rates	5.5	<b>3.3</b>
Equity in earnings of affiliates	(4.3)	<b>(0.9)</b>
Gain on change in equity	—	<b>(5.0)</b>
Gain on negative goodwill	—	<b>(16.0)</b>
Loss on step acquisitions	—	<b>19.7</b>
Other	(1.4)	<b>(0.4)</b>
Effective tax rates	37.8%	<b>41.2%</b>

The significant components of deferred tax assets and liabilities at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Deferred tax assets:			
Loss on valuation of inventories	¥ 61	¥ <b>63</b>	\$ <b>559</b>
Unrealized profit	31	<b>43</b>	<b>382</b>
Provision for bonuses	64	<b>75</b>	<b>666</b>
Accrued enterprise tax	19	<b>22</b>	<b>195</b>
Loss on valuation of golf club membership	1	<b>1</b>	<b>9</b>
Loss on valuation of investment securities	225	<b>4</b>	<b>36</b>
Provision for retirement benefits	642	<b>931</b>	<b>8,267</b>
Long-term accounts payable—other	28	<b>27</b>	<b>240</b>
Impairment loss	26	<b>25</b>	<b>222</b>
Tax loss carryforward	1,221	<b>1,281</b>	<b>11,375</b>
Other	54	<b>69</b>	<b>613</b>
Subtotal	2,378	<b>2,546</b>	<b>22,607</b>
Valuation allowance	(1,067)	<b>(828)</b>	<b>(7,352)</b>
Total deferred tax assets	1,311	<b>1,718</b>	<b>15,255</b>
Deferred tax liabilities:			
Depreciation	(582)	<b>(913)</b>	<b>(8,107)</b>
Gain on valuation of land as a result of new consolidations	—	<b>(623)</b>	<b>(5,532)</b>
Valuation difference on available-for-sale securities	(533)	<b>(450)</b>	<b>(3,996)</b>
Asset for retirement benefits	(59)	<b>(129)</b>	<b>(1,145)</b>
Total deferred tax liabilities	(1,175)	<b>(2,116)</b>	<b>(18,789)</b>
Net deferred tax assets	¥ 135	¥ <b>(398)</b>	\$ <b>(3,534)</b>

Restatement of amounts of deferred tax assets and deferred tax liabilities due to changes in the corporate income tax rate, etc.

Following the promulgation of the “Act for Partial Revision of the Income Tax Act” (Act No. 15, 2016) and “Act for Partial Revision of the Local Tax Act” (Act No. 13, 2016) on March 29, 2016, the corporate income tax rate, etc., will be reduced from years beginning on or after April 1, 2016, among other revisions. In line with this change, the statutory income tax rate used to calculate deferred tax assets and deferred tax liabilities for temporary differences expected to reverse in the year beginning on April 1, 2016, as well as the year beginning on April 1, 2017 has been reduced from the previous 32.3% to 30.9%, and that for temporary differences expected to reverse in the year beginning on April 1, 2018 to 30.6%. As a result of these changes in the tax rate, the amount of deferred tax assets (less the amount of deferred tax liabilities) was reduced by ¥6 million. Deferred income taxes increased by ¥25 million, and the valuation difference on other available-for-sale securities by ¥24 million, while remeasurements of defined benefit plans decreased by ¥4 million, and deferred gains (losses) on hedges by ¥1 million.

## 7. Retirement Benefit Plans

The Company and certain consolidated subsidiaries have defined benefit plans and defined contribution plans for employees' retirement benefits. Defined benefit plans are composed of lump-sum payment plans and defined benefit corporate pension plans.

The lump-sum payment plans which certain consolidated subsidiaries have are calculated using the simplified accounting method.

### (1) Defined benefit plans including plan applied simplified method

#### (a) Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Retirement benefit obligations:			
Balance at beginning of year	¥ 8,379	¥ 8,827	\$ 78,379
Cumulative effects of changes in accounting policies	(464)	—	—
Restated balance	7,914	8,827	78,379
Increase as a result of new consolidations	—	167	1,483
Service cost	221	256	2,273
Interest cost	239	253	2,246
Prior service gains and losses	—	(7)	(62)
Actuarial gains and losses	330	170	1,510
Contributions from employees	—	2	18
Benefits paid	(460)	(485)	(4,307)
Foreign currency translation adjustment	580	(370)	(3,285)
Balance at end of year	¥ 8,827	¥ 8,814	\$ 78,263

#### (b) Plan assets

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Plan assets:			
Balance at beginning of year	¥ 6,107	¥ 6,885	\$ 61,135
Increase as a result of new consolidations	—	80	710
Expected return on plan assets	286	305	2,708
Administrative fees	(22)	(3)	(27)
Actuarial gains and losses	211	(420)	(3,729)
Contribution paid by the employer	161	163	1,447
Contribution paid by the employees	2	2	18
Benefits paid	(364)	(384)	(3,410)
Foreign currency translation adjustment	472	(300)	2,664
Balance at end of year	¥ 6,855	¥ 6,297	\$ 55,914

**(c) Reconciliation from retirement benefit obligations and assets to liability (assets) for retirement benefits**

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Funded retirement benefit obligations	¥ 7,160	¥ 6,905	\$ 61,312
Plan assets	(6,855)	(6,297)	(55,914)
	305	607	5,390
Unfunded retirement benefit obligations	1,666	1,908	16,942
Total net liability (asset) for retirement benefits	¥ 1,972	¥ 2,516	\$ 22,341
Liability for retirement benefits	¥ 2,661	¥ 2,938	\$ 26,088
Asset for retirement benefits	(689)	(421)	(3,738)
Total net liability (asset) for retirement benefits	¥ 1,972	¥ 2,516	\$ 22,341

**(d) Retirement benefit costs**

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Service cost	¥ 221	¥ 256	\$ 2,273
Interest cost	239	253	2,246
Expected return on plan assets	(286)	(305)	(2,708)
Administrative fees	22	3	27
Amortization of actuarial gains and losses	92	95	844
Amortization of prior service benefit and cost	(13)	(21)	(186)
Retirement benefit expenses for defined benefit plan	¥ 276	¥ 281	\$ 2,495

**(e) Adjustments for retirement benefits**

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Adjustments for retirement benefits:			
Prior service cost	¥ (13)	¥ (13)	\$ (115)
Actuarial gains and losses	(277)	(358)	(3,179)
Total	¥ (290)	¥ (372)	\$ (3,303)

**(f) Accumulated adjustments for retirement benefits**

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Accumulated adjustments for retirement benefits:			
Unrecognized prior service costs	¥ 41	¥ 27	\$ 240
Unrecognized actuarial gains and losses	(1,950)	(2,308)	(20,494)
Total	¥ (1,908)	¥ (2,280)	\$ (20,245)

**(g) Plan assets**

Plan assets comprise:	2015	2016
Bonds	50%	48%
Equity securities	45	41
Cash and deposits	1	8
Other	4	3
Total	100%	100%

Current and target asset allocations and current and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.



#### (h) Actuarial assumptions

	2015	2016
Discount rate:		
The Company and domestic consolidated subsidiaries	1.0%	0.2%
Overseas consolidated subsidiaries	4.2%~4.4%	3.7%~8.0%
Long-term expected rate of return		
The Company and domestic consolidated subsidiaries	2.1%	2.1%
Overseas consolidated subsidiaries	4.3%~6.5%	2.5%~8.7%

#### (2) Defined contribution plans

Certain consolidated subsidiaries that have defined contribution plans are expected to contribute ¥117 million (\$1,039 thousand) and ¥76 million to the defined contribution plans for the years ended March 31, 2016 and 2015, respectively.

## 8. Leases

#### (1) Finance leases (lessee)

The Company leases production facilities (machinery, equipment and vehicles) in connection with the collagen material business as a lessee through finance lease transactions that do not transfer ownership of the leased property to the lessee. Depreciation of leased assets is calculated using the straight-line method over the useful lives of the respective leased assets with zero residual value (guaranteed amount if it is specified in the lease contract).

#### (2) Operating leases

Future minimum lease payments subsequent to March 31, 2016 for non-cancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥ 58	\$ 515
2018 and thereafter	170	1,510
Total	¥ 229	\$ 2,033

## 9. Financial Instruments

#### (1) Overview

##### (a) Policy for financial instruments

In consideration of plans for capital investment, the Group raises necessary funds mainly through bank borrowings. The Group invests temporary surplus funds mainly in highly liquid financial assets and raises short-term operating capital through bank borrowings. The Group uses derivatives to avoid after-mentioned risks and does not enter into derivatives for speculative purposes.

##### (b) Descriptions of financial instruments and related risk

Trade receivables such as notes and accounts receivable are exposed to customer credit risk. Trade receivables denominated in foreign currencies arising from overseas operations are exposed to foreign currency risk.

Investment securities are mainly composed of equity securities of business partner companies and are exposed to market risk.

Substantially all trade payables such as notes and accounts payable have payment due dates within five months. Certain payables denominated in foreign currencies are exposed to foreign currency risk.

Long-term loans payable, bonds and lease obligations under finance leases are principally for the purpose of making capital investments and due up to eight years from the balance sheet date. Although certain of these are exposed to interest rate fluctuation risk, such risk is hedged by derivatives (interest rate swaps).

As for derivatives, the Group has entered into foreign exchange forward contracts to hedge the foreign currency risk arising from trade payables denominated in foreign currencies and interest rate swap transactions to hedge fluctuation risk deriving from interest payments of long-term loans payable.

Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy and assessment of hedge effectiveness is disclosed in Note 2. "Significant Accounting Policies (12) Hedge accounting."

### (c) Risk management for financial instruments

#### *Credit risk management (risk of default by customers or counterparties)*

In accordance with the credit management rules of the Nitta Gelatin Group, for trade receivables and long-term loans receivable, the sales departments of each division monitor the creditworthiness of their main customers periodically and manage due dates and outstanding balances by customer. In addition, the Group is working to identify uncollectibility at an earlier stage and mitigate the risks of bad debts from customers in financial difficulty.

The Group believes that the credit risk of derivatives is insignificant as it has entered into derivative transactions only with financial institutions with a sound credit rating.

#### *Market risk management (risks of fluctuations in foreign exchange rates, interest rates and others)*

For trade payables and forecast transactions denominated in foreign currencies, the foreign currency risk of the Nitta Gelatin Group identified by currency on a monthly basis is hedged by foreign exchange forward contracts. In addition, to mitigate the interest rate risk for interest payments of long-term loans payable, the Group has entered into interest rate swap transactions.

For investment securities, the Group periodically monitors the fair values and the financial position of the issuers (business partner companies) and continuously reviews the holding status, taking into account market conditions and relationships with the issuers.

Derivative transactions are conducted and managed by the responsible division with the approval of authorized personnel in accordance with the internal management rules which define the authorization policies and transaction limits.

Consolidated subsidiaries have not entered into derivative transactions.

#### *Management of liquidity risk in funding (risk of default at due dates)*

Based on reports from each division, the responsible division of the Nitta Gelatin Group prepares and updates its cash flow plan on a timely basis and manages liquidity risk by maintaining liquid funds.

### (d) Supplementary explanation of the fair value of financial instruments

The fair value of financial instruments is based on their market price if available. When there is no market price available, fair value is reasonably calculated. Since various assumptions and factors are reflected in the calculation of fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 10. "Derivative Transactions" are not indicative of the market risk involved in the derivative transactions.

## (2) Fair value of financial instruments

The carrying value and the fair value of financial instruments on the consolidated balance sheets as of March 31, 2016 and 2015, fair value and the difference between them are shown in the table below. Financial instruments whose fair value is extremely difficult to determine are not included in the table.

	Millions of yen		
	2016		
	Carrying value	Fair value	Difference
Cash and deposits	¥ 2,688	¥ 2,688	—
Notes and accounts receivable	7,375	7,375	—
Investment securities	1,722	1,722	—
Total assets	¥ 11,785	¥ 11,785	—
Notes and accounts payable	4,252	4,252	—
Other payable	1,261	1,261	—
Short-term loans payable	2,186	2,186	—
Long-term loans payable (including current portion)	7,596	7,620	23
Total liabilities	¥ 15,297	¥ 15,321	¥ 23
Derivative transactions (*)	¥ 3	¥ 3	—

(\*) The value of assets and liabilities arising from derivative transactions is shown at net value.

	Millions of yen		
	2015		
	Carrying value	Fair value	Difference
Cash and deposits	¥ 2,622	¥ 2,622	–
Notes and accounts receivable	6,726	6,726	–
Investment securities	1,895	1,895	–
Total assets	¥ 11,245	¥ 11,245	–
Notes and accounts payable	3,768	3,768	–
Other payable	1,435	1,435	–
Short-term loans payable	1,705	1,705	–
Long-term loans payable (including current portion)	6,995	7,005	10
Total liabilities	¥ 13,904	¥ 13,915	¥ 10
Derivative transactions (*)	¥ 20	¥ 20	–

(\*) The value of assets and liabilities arising from derivative transactions is shown at net value.

	Thousands of U.S. dollars		
	2016		
	Carrying value	Fair value	Difference
Cash and deposits	<b>\$ 23,868</b>	<b>\$ 23,868</b>	–
Notes and accounts receivable	<b>65,486</b>	<b>65,486</b>	–
Investment securities	<b>15,290</b>	<b>15,290</b>	–
Total assets	<b>\$ 104,644</b>	<b>\$ 104,644</b>	–
Notes and accounts payable	<b>37,755</b>	<b>37,755</b>	–
Other payable	<b>11,197</b>	<b>11,197</b>	–
Short-term loans payable	<b>19,410</b>	<b>19,410</b>	–
Long-term loans payable (including current portion)	<b>67,448</b>	<b>67,661</b>	<b>204</b>
Total liabilities	<b>\$ 135,828</b>	<b>\$ 136,042</b>	<b>\$ 204</b>
Derivative transactions (*)	<b>\$ 27</b>	<b>\$ 27</b>	–

(\*) The value of assets and liabilities arising from derivative transactions is shown at net value.

## Note 1. Methods to calculate the fair value of financial instruments and other matters related to securities and derivative transactions

### Assets:

#### *Cash and deposits and Notes and accounts receivable*

Since these items are settled in a short period of time, their carrying value approximates fair value.

#### *Investment securities*

The fair value of equity securities is based on quoted market prices. Information on securities classified by holding purpose is disclosed in Note 4. "Investment Securities."

### Liabilities:

#### *Notes and accounts payable and Other payable*

Since these items are settled in a short period of time, their carrying value approximates fair value.

#### *Short-term loans payable and Long-term loans payable*

The fair value of long-term loans payable is based upon the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into.

### Derivative transactions:

Information on derivative transactions is disclosed in Note 10. "Derivative Transactions."

## Note 2. Financial instruments whose fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Carrying value:			
Unlisted equity securities	¥ 18	<b>¥ 31</b>	<b>\$ 275</b>

These are not included in investment securities in the above table because there was no quoted market price available and it is extremely difficult to determine the fair value.

(3) As of March 31, 2016 and 2015, monetary receivables with maturities were deposits of ¥2,684 million (\$23,832 thousand) and ¥2,617 million and notes and accounts receivable of ¥7,375 million (\$65,486 thousand) and ¥6,726 million, respectively. These were all due within one year.

## 10. Derivative Transactions

Hedge accounting has been applied to all derivative transactions held by the Group as of March 31, 2016 and 2015, and their fair value information is stated below. Fair value is measured based on quotes and prices provided by counterparty financial institutions.

### Currency related:

	Millions of yen					
	2015			2016		
	Contract or notional amount	Maturing after one year	Fair value	Contract or notional amount	Maturing after one year	Fair value
Deferral hedge accounting						
Foreign exchange forward contracts						
Buy: USD and CAD	¥ 620	¥ –	¥ 20	¥ 881	¥ –	¥ (37)
Forecast transactions Sell: USD				¥ 1,894	¥ –	¥ 41
				Thousands of U.S. dollars		
				2016		
				Contract or notional amount	Maturing after one year	Fair value
Deferral hedge accounting						
Foreign exchange forward contracts						
Buy: USD and CAD				\$ 7,823	\$ –	\$ (329)
Forecast transactions Sell: USD				\$ 16,818	\$ –	\$ 364

### Interest related:

	Millions of yen					
	2015			2016		
	Contract or notional amount	Maturing after one year	Fair value	Contract or notional amount	Maturing after one year	Fair value
Exceptional treatment						
Interest rate swaps						
Receive/floating and pay/fixd	¥ 750	¥ 175	(*)	¥ 550	¥ 266	(*)
				Thousands of U.S. dollars		
				2016		
				Contract or notional amount	Maturing after one year	Fair value
Exceptional treatment						
Interest rate swaps						
Receive/floating and pay/fixd				\$ 4,884	\$ 2,362	(*)

(\*) Interest rate swaps to which the exceptional treatment is applied are accounted for together with long-term loans payable designated as a hedged item. Therefore, their fair value is included in the fair value of long-term loans payable.

## 11. Contingent Liabilities

As of March 31, 2016 and 2015, the Group was contingently liable for the assignment of receivables with recourse in the amount of ¥200 million (\$1,776 thousand) and ¥292 million, respectively.

## 12. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Packing and freightage expenses	¥ 805	¥ 956	\$ 8,489
Salaries	1,394	1,559	13,843
Bonuses	224	232	2,060
Provision for bonuses	54	69	613
Retirement benefit costs	94	86	764
Provision for directors' retirement benefits:	1	1	9
Provision of allowance for doubtful accounts	(14)	(2)	(18)
Depreciation	95	112	994
Research and development expenses	753	802	7,121

## 13. Gain on Negative Goodwill and Loss on Step Acquisitions

For the year ended March 31, 2016 the Group recorded a ¥502 million (\$4,457 thousand) gain on negative goodwill and a ¥620 million (\$5,505 thousand) loss on step acquisitions as a result of the conversion of Nitta Gelatin India Ltd., Bamni Proteins Ltd., and Reva Proteins Ltd. into consolidated subsidiaries.

## 14. Gain on Change in Equity

A gain on change in equity was the result of a third-party allotment of shares of Beijing Qiushi Collagen Casing Co., Ltd.

## 15. Information on Related Party Transactions

### (1) Related party transactions

There were no transactions of the Company with affiliates for the year ended March 31, 2016.

Transactions of the Company with affiliates for the year ended March 31, 2015 were as follows:

Name	Paid in capital	Principal business	Ownership ratio	Description of transaction	Millions of yen	Thousands of U.S. dollars
<b>Nitta Gelatin India Ltd. (Kerala, India)</b>	<b>(Thousands of rupees) 90,791</b>	<b>Manufacture and sales of gelatin and ossein</b>	<b>Direct 43.0%</b>	<b>Purchase of raw materials</b>	<b>¥ 2,109</b>	<b>¥ 18,727</b>

### (2) Notes to affiliates

No items to report

## 16. Information Related to Consolidated Statements of Changes in Net Assets

### (1) Number of issued shares for the years ended March 31, 2016 and 2015

As of March 31	2014	Change	2015	Change	2016
Number of issued shares:					
Common shares	18,373,974	—	18,373,974	—	<b>18,373,974</b>
Total	18,373,974	—	18,373,974	—	<b>18,373,974</b>
Treasury stock:					
Common shares	162	—	162	—	<b>162</b>

### (2) Dividends paid to shareholders

2016							
Resolution	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. dollars)	Record date	Effective date
<b>June 25, 2015 Annual general meeting of shareholders</b>	<b>Common stock</b>	<b>¥ 110</b>	<b>\$ 977</b>	<b>¥ 6.00</b>	<b>\$ 0.05</b>	<b>March 31, 2015</b>	<b>June 26, 2015</b>
<b>November 6, 2015 Board of Directors meeting</b>	<b>Common stock</b>	<b>110</b>	<b>977</b>	<b>6.00</b>	<b>0.05</b>	<b>September 30, 2015</b>	<b>December 4, 2015</b>

2015							
Resolution	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. dollars)	Record date	Effective date
June 26, 2014 Annual general meeting of shareholders	Common stock	¥ 110		¥ 6.00		March 31, 2014	June 27, 2014
November 6, 2014 Board of Directors meeting	Common stock	110		6.00		September 30, 2014	December 5, 2014

### (3) Dividends with a record date during the fiscal year but an effective date subsequent to the fiscal year

2016								
Resolution	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Paid from	Amount per share (Yen)	Amount per share (U.S. dollars)	Record date	Effective date
<b>June 28, 2016 Annual general meeting of shareholders</b>	<b>Common stock</b>	<b>¥ 110</b>	<b>\$ 977</b>	<b>Retained earnings</b>	<b>¥ 6.00</b>	<b>\$ 0.05</b>	<b>March 31, 2016</b>	<b>June 26, 2016</b>

2015								
Resolution	Type of shares	Amount (Millions of yen)		Paid from	Amount per share (Yen)		Record date	Effective date
June 26, 2015 Annual general meeting of shareholders	Common stock	¥ 110		Retained earnings	¥ 6.00		March 31, 2015	June 26, 2015



## 17. Amounts per Share

Net assets per share is computed based on net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at the year-end.

	Yen		U.S. dollars
	2015	2016	2016
Net assets per share	¥ 831.15	¥ <b>814.90</b>	\$ <b>7.24</b>
Net income per share	33.20	<b>26.00</b>	<b>0.23</b>

Diluted net income per share is not disclosed due to the absence of dilutive shares for the years ended March 31, 2016 and 2015.

## 18. Cash Flow Information

Reconciliations between cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2016 and 2015 and cash and deposits in the consolidated balance sheets as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash and deposits	¥ 2,622	¥ <b>2,688</b>	\$ <b>23,868</b>
Time deposits with a maturity in excess of three months	(20)	<b>(151)</b>	<b>(1,341)</b>
Cash and cash equivalents	¥ 2,602	¥ <b>2,536</b>	\$ <b>22,518</b>

## 19. Comprehensive Income

Reclassification adjustments and income tax benefit (expense) on components of other comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Valuation difference on available-for-sale securities:			
Losses arising during the period	¥ 689	¥ (180)	\$ (1,598)
Reclassification adjustments	0	0	0
Pre-tax amount	689	(179)	(1,589)
Income tax benefit	(191)	83	737
Valuation difference on available-for-sale securities	498	(96)	(852)
Deferred gains or losses on hedges:			
Losses arising during the period	89	(132)	(1,172)
Adjustments to acquisition cost of assets	(61)	54	479
Pre-tax amount	28	(77)	(684)
Income tax expense	(9)	9	80
Deferred gains or losses on hedges	18	(68)	(604)
Foreign currency translation adjustment:			
Losses arising during the period	638	(704)	(6,251)
Reclassification adjustments	–	(26)	(231)
Pre-tax amount	638	(731)	(6,491)
Income tax expense	–	–	–
Foreign currency translation adjustments	638	(731)	(6,491)
Pension liability adjustment:			
Losses arising during the period	(369)	(457)	(4,058)
Reclassification adjustments	78	84	746
Pre-tax amount	(290)	(372)	(3,303)
Income tax expense	(79)	117	10,389
Pension liability adjustment	(370)	(255)	(2,264)
Share of other comprehensive income of associates accounted for using equity method:			
Losses arising during the period	166	(41)	(364)
Reclassification adjustments	(1)	443	3,934
Share of other comprehensive income of associates accounted for using equity method	165	402	3,570
Total other comprehensive income	¥ 950	¥ (748)	\$ (6,642)

## 20. Segment Information

### (1) Overview of reportable segments

Reportable segments are defined as a component of the Group for which separate financial information is available and whose operating results are regularly evaluated by the Board of Directors to make decisions about how resources are allocated among the Group members and assess its performance.

The Group plans comprehensive domestic and overseas strategies for its products and services and develops business activities based on business segments by product and service.

Accordingly, the Group consists of two segments by product and service based on the business activities as follows:

“Collagen material business” produces gelatin, collagen peptide, collagen casings and others.

“Formula solution business” produces various materials for foods, adhesives and others.

## (2) Basis of measurement for the amounts of net sales, profit, assets and other items by reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2. "Significant Accounting Policies." Segment profit is based on operating income, and intersegment sales and transfers are based on actual market prices.

## (3) Information about net sales, profit, assets and other items by reportable segment

	Millions of yen				
	2015				
	Collagen material business	Formula solution business	Total	Reconciliation (Note 1)	Amounts on consolidated financial statements (Note 2)
Net sales:					
Sales to third parties	¥ 22,959	¥ 8,955	¥ 31,914	¥ –	¥ 31,914
Intersegment sales and transfers	1,430	–	1,430	(1,430)	–
Total	24,390	8,955	33,345	(1,430)	31,914
Segment profit	1,101	647	1,749	(1,356)	392
Segment assets	25,698	5,310	31,009	2,922	33,932
Other items:					
Depreciation and amortization	981	98	1,079	36	1,115
Increase in property, plant and equipment and intangible assets	1,759	5,629	2,322	59	2,381

	Millions of yen				
	2016				
	Collagen material business	Formula solution business	Total	Reconciliation (Note 1)	Amounts on consolidated financial statements (Note 2)
Net sales:					
Sales to third parties	¥ 27,686	¥ 9,199	¥ 36,885	¥ –	¥ 36,885
Intersegment sales and transfers	1,911	8	1,920	(1,920)	–
Total	29,598	9,207	38,805	(1,920)	36,885
Segment profit	1,832	812	2,645	(1,371)	1,273
Segment assets	29,907	5,474	35,381	2,216	37,597
Other items:					
Depreciation and amortization	1,420	100	1,520	42	1,562
Increase in property, plant and equipment and intangible assets	1,362	37	1,399	62	1,462

	Thousands of U.S. dollars				
	2016				
	Collagen material business	Formula solution business	Total	Reconciliation (Note 1)	Amounts on consolidated financial statements (Note 2)
Net sales:					
Sales to third parties	\$ 245,836	\$ 81,682	\$ 327,517	\$ –	\$ 327,517
Intersegment sales and transfers	16,969	71	17,048	(17,048)	–
Total	262,813	81,753	344,566	(17,048)	327,517
Segment profit	16,267	7,210	23,486	(12,174)	11,303
Segment assets	265,557	48,606	314,163	19,677	333,839
Other items:					
Depreciation and amortization	12,609	888	13,497	373	13,870
Increase in property, plant and equipment and intangible assets	12,094	329	12,422	551	12,982

**Note 1.** "Reconciliation" included the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Segment profit:			
Intersegment elimination	¥ 2	¥ 0	\$ 0
Corporate expense (*)	(1,358)	(1,372)	(12,183)
Total	¥ (1,356)	¥ (1,371)	\$ (12,174)

(\*) "Corporate expense" presents mainly general and administrative expenses that are not allocated to reportable segments.

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Segment assets:			
Intersegment elimination	¥ (524)	¥ (718)	\$ (6,375)
Corporate expense (*)	3,447	2,934	26,052
Total	¥ 2,922	¥ 2,216	\$ 19,677

(\*) "Corporate assets" presents mainly cash and deposit, property, plant and equipment and investment securities that are not allocated to reportable segments.

**Note 2.** Segment profit is reconciled to operating income on the consolidated statements of income.

**Note 3.** Related information for the years ended March 31, 2016 and 2015

**(a) Information by geographical area**

Net sales:

Millions of yen						
2015						
Japan	India	Asia	U.S.	Canada	Other	Total
¥ 18,435	¥ 150	¥ 18,661	¥ 8,084	¥ 2,550	¥ 827	¥ 31,914
Millions of yen						
2016						
Japan	India	Asia	U.S.	Canada	Other	Total
¥ 19,307	¥ 3,290	¥ 2,225	¥ 9,109	¥ 2,044	¥ 906	¥ 36,885
Thousands of U.S. dollars						
2016						
Japan	India	Asia	U.S.	Canada	Other	Total
\$ 171,435	\$ 29,213	\$ 19,757	\$ 80,883	\$ 18,150	\$ 8,045	\$ 327,517

Property, plant and equipment:

Millions of yen						
2015						
Japan	India	Asia	U.S.	Canada	Total	
¥ 3,514	—	¥ 181	¥ 6,328	¥ 824	¥ 10,848	
Millions of yen						
2016						
Japan	India	Asia	U.S.	Canada	Total	
¥ 3,324	¥ 3,718	¥ 34	¥ 5,892	¥ 754	¥ 13,724	
Thousands of U.S. dollars						
2016						
Japan	India	Asia	U.S.	Canada	Total	
\$ 29,515	\$ 33,014	\$ 302	\$ 52,318	\$ 6,695	\$ 121,861	

**(b)** Information by major customer has been omitted since there were no sales to a single external customer accounting for 10% or more of the consolidated sales.

**(Supplementary Note)**

As stated in Note 1. "Basis of Presenting Consolidated Financial Statements," the Company, by its own judgment, has prepared the accompanying consolidated financial statements by making reclassification and rearrangements to the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. These financial statements have not been audited by independent auditors.

The Group's consolidated financial statements for the years ended March 31, 2016 and 2015, which were included in the Annual Securities Report, have been prepared in thousands of yen and audited by Ernst & Young ShinNihon LLC in accordance with Article 193-2 (1) of the Financial Instruments and Exchange Act of Japan.

