Nitta Gelatin Inc.

It's a Good Time for Investing in Growth

ANNUAL REPORT 2014

For the year ended March 31, 2014

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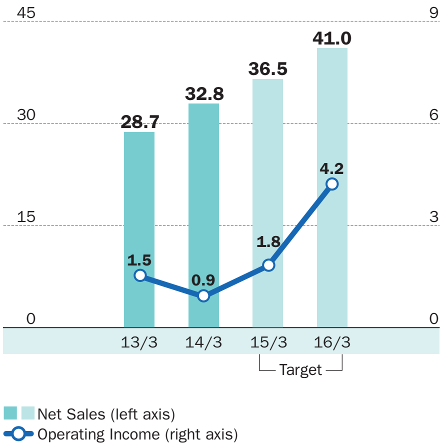
The earnings forecasts in this Annual Report are forward-looking statements

The earnings forecasts in this Annual Report are forward-looking statements made on the basis of information available at the time they were made 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.

OUR COMPASS STRATEGY

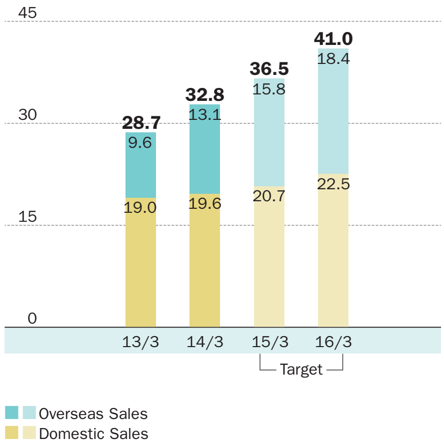
Net Sales and Operating Income Results and Targets

(Billions of yen)



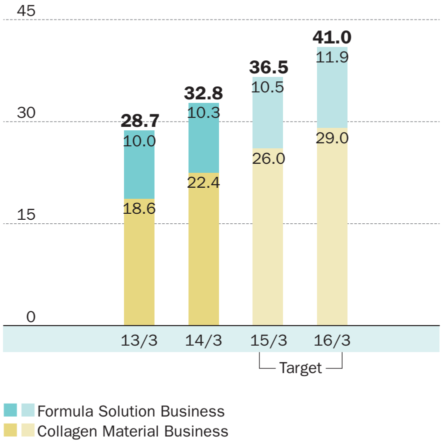
Domestic and Overseas Sales Results and Targets

(Billions of yen)



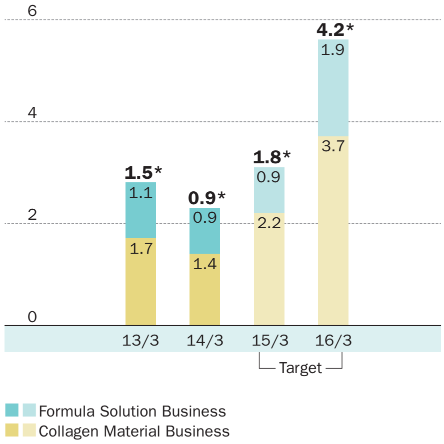
Sales by Segment Results and Targets

(Billions of yen)



Segment Profit Results and Targets

(Billions of yen)



* Consolidated operating income after adjustment for segment profit

Given the upcoming 100th anniversary of its founding in 2018, Nitta Gelatin decided to formulate a new long-term management vision, 100th Year Vision, and a medium-term management plan based on it covering the 3-year period from the year ending March 2014 to the year ending March 2016. The slogan for Nitta Gelatin's 100th Year Vision is to "Amaze the World!" Under this slogan, the Company's basic strategy is to "Win out!! in growing Asian market." The Company will supply products and services that are one step ahead of customer expectations, develop new products and cultivate new markets in order to expand earnings. By doing so, we aim to increase our corporate value and continue contributing to society for many more years to come. This medium-term management plan sets ¥41 billion in net sales and ¥4.2 billion in operating income as consolidated targets for the year ending March 2016, the plan's final year.

PERFORMANCE HIGHLIGHTS

	Millions of yen			Thousands of U.S. dollars
	73rd term From April 1, 2011 to March 31, 2012	74th term From April 1, 2012 to March 31, 2013	**75th term From April 1, 2013 to March 31, 2014**	**75th term From April 1, 2013 to March 31, 2014**
For the year:				
Net sales	¥27,763	¥28,772	**¥32,814**	**$318,954**
Operating income	2,015	1,595	**955**	**9,282**
Net income	1,375	1,525	**665**	**6,463**
Comprehensive income	986	1,913	**1,227**	**11,926**
Research and development expenses	895	1,026	**1,004**	**9,758**
Capital expenditure	769	1,426	**3,102**	**30,151**
Depreciation and amortization	841	825	**914**	**8,884**
Net cash provided by operating activities	568	2,050	**(692)**	**(6,726)**
Net cash used in investing activities	(733)	(1,557)	**(3,105)**	**(30,180)**
Net cash provided by (used in) financing activities	713	(376)	**3,875**	**37,665**
Cash and cash equivalents at end of period	2,078	2,258	**2,406**	**23,386**
At year-end:				
Property, plant and equipment	¥ 5,387	¥ 6,287	**¥ 8,804**	**$ 85,575**
Net assets	8,108	9,724	**13,781**	**133,952**
Noncurrent liabilities	6,087	5,828	**7,528**	**73,172**
Total assets	23,371	25,190	**31,389**	**305,103**
Per share information (yen, U.S. dollar):				
Net assets per share (BPS)	¥509.41	¥607.31	**¥742.20**	**$ 7.21**
Net income per share (EPS)	99.87	96.72	**37.90**	**0.36**
Other:				
Equity ratio (%)	34.4	38.0	**43.4**	
Return on equity [ROE] (%)	19.4	17.3	**5.7**	
Return on assets [ROA] (%)	5.9	6.1	**2.1**	
Payout ratio (%)	10.0	14.5	**31.7**	

Note 1: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥102.88 = U.S. $1, the prevailing exchange rate at March 31, 2014.

Note 2: Net income per share for the year ended March 31, 2012 was calculated based on net income after deducting the difference between the redemption amount and the issued amount of preferred stock.

Note 3: Effective April 1, 2011, the Group has applied the “Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2, issued on June 30, 2010), the “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4, issued on June 30, 2010) and the “Practical Solution on Accounting for Earnings Per Share” (Practical Issue Task Force No. 9, issued on June 30, 2010).

Note 4: Certain overseas affiliate companies started applying IAS 19 Employee Benefits from the year ended March 31, 2014. This change in accounting policy was also applied retroactively to restate results for the fiscal year ended March 31, 2013.

The cumulative impact on the fiscal year ended March 31, 2012 was reflected in adjustments made to the opening balance of net assets for the fiscal year ended March 31, 2013.

NITTA GELATIN WORKS

Amaze the World!

Acquisition of FSSC 22000

In March 2014, Nitta Gelatin's Osaka Plant acquired the FSSC 22000 Food Safety Management System certification. With this certification, food safety and reliability at the Osaka Plant will be verified by a third-party institution. Having also acquired this certification at four plants in the U.S., Canada, China and India, Nitta Gelatin has enhanced its competitiveness in the global market.

Collagenaid® Receives the Monde Selection's Grand Gold Quality Award for the Third Straight Year

In April 2014, Collagenaid® received the Monde Selection's Grand Gold Quality Award in the Diet & Health Products category for the third straight year.

Participation in the 43rd INTERNEPCON JAPAN Exhibition

Nitta Gelatin exhibited its **G-zain**™ sealant material at the 43rd INTERNEPCON JAPAN exhibition held in January 2014. We displayed an ultraviolet curing gasket system that can be used as a sealant in smartphones and tablet PCs for waterproofing and dust-proofing purposes.

Healthy Long Life and Anti-Aging Seminar

In March 2014, Nitta Gelatin held a Healthy Long Life and Anti-Aging seminar at the Tennoji Miyako Hotel in Osaka to inform general consumers about the health benefits of collagen peptide. Professor Yoshikazu Yonei of the Doshisha University Graduate School of Life and Medical Sciences gave a lecture on ways of leading youthful lives well into old age. The TV personality Yoko Haruka also shared some of her secrets on being yourself and leading an enjoyable, vibrant life.

Participation in 18th Food Ingredients China Exhibition

In March 2014, Nitta Gelatin exhibited the **Wellnex**™ collagen peptide brand at the 18th Food Ingredients China Exhibition held in Shanghai, China. In conjunction with this event, Nitta Gelatin also hosted a seminar on the functional properties of collagen peptide by Kenji Sato, currently a professor at Kyoto University.

Completion of New Collagen Peptide Plant

In May 2014, Nitta Gelatin completed a new collagen peptide plant at Nitta Gelatin USA, Inc. With this move, Nitta Gelatin has put in place a production system consisting of four bases in Japan, China, India and the U.S., paving the way for accelerated global business expansion.

MESSAGE FROM A NEWLY APPOINTED DIRECTOR

Raymond Merz
Director and Executive Officer
General Manager, Gelatin Division

1995	Joined Nitta Gelatin Canada, Inc.
2005	Executive Officer of the Company (to present)
2006	CEO of Nitta Gelatin Canada, Inc., CEO of Nitta Gelatin USA, Inc.
2014	General Manager, Gelatin Division of the Company (to present)
	Director of the Company (to present)

It's a Good Time—OUR MARKET

When I joined Nitta Gelatin 19 years ago, the vast majority of production and sales were in Japan. Today, things are much different. In the fiscal year ended March 31, 2014, our overall sales ratio outside of Japan was 40% and two-thirds of our property, plant and equipment were based outside the country. By the fiscal year ending March 2016, the final year of our current medium-term management plan, most of our production and sales will be overseas. Nitta Gelatin's primary markets are indeed outside of Japan.

The World Bank is projecting continuous growth in Asia, with East Asia projected to grow by 7.1%, China by 7.6% and the rest of Asia by 5.1%. Given the strong correlation between GDP growth and the consumption of meat, Asia is gathering a lot of attention in the gelatin industry as the region continues to undergo sustained economic growth. Nitta Gelatin has a geographical advantage because it is based in Japan, and in the heart of Asia. Since gelatin is derived from many different sources such as pigs, cattle, and fish, it allows us to serve many and varied customer needs, while mitigating the risks in our business. These factors will also work in our favor as we develop new markets in Asia.

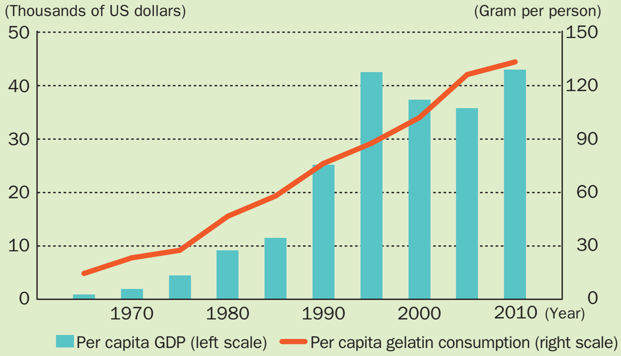
The global gelatin market is growing at an annual rate of around 1–2%. The raw materials for gelatin are bone and skin which are by-products of the meat industry which means that gelatin manufacturers cannot influence the quantity of raw materials they need. In developed countries, the production of meat is stable or may even be declining, so developing new sources of raw materials is now a key challenge for us.

Pig Skin Gelatin: Growth Accompanied by Supply-Demand Imbalances

Pig skin, a perishable raw material for gelatin, is purchased and delivered refrigerated which necessitates our plants being close to the source of procurement. Pig skins are also used for snack foods in North America and are also exported. This means that we need to compete with not only other gelatin manufacturers but also other industries in order to procure pig skin. If viruses or natural disasters such as droughts come into play, the number of hogs can decrease sharply. In fact, a virus is currently responsible for a significant decline in the number of pigs in North America. Since demand for gelatin continues to grow, the imbalance in supply and demand has led directly to the recent surge in raw material prices.

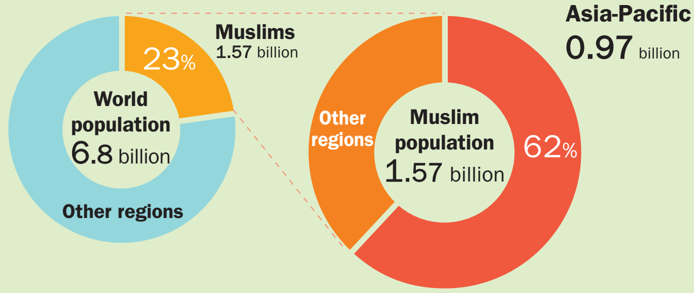
The gelatin market is generally considered a steadily growing market. In reality, however, as has been mentioned earlier, market growth is accompanied by imbalances in supply and demand. In North America, negotiations for pig skin raw materials are conducted every three months. The resulting changes in raw material costs form the basis for our price negotiations with our own North American customers. In Japan, it is difficult to pass on any changes in raw material prices to customers. However as with our

Per Capita GDP and Gelatin Consumption in the Japanese Market



Source: IMF-World Economic Outlook
Estimated based on reports prepared by the Gelatin Manufacturers Association of Japan

Muslim Population Data



Source: Pew Research Religion & Public Life Project, Mapping the Global Muslim Population, 2009

overseas customers, we will work to encourage our client companies in Japan to accept price revisions that are linked to raw material contracts.

In Nitta Gelatin's case, the pig skin gelatin business in Japan relies mostly on imports from our North American plants. With a weaker yen, high raw material prices and delays in price increases, we are seeing a lot of pressure on margins in the pig skin gelatin business in Japan. In fact it has started to become more profitable in some instances to sell pig skin gelatin in the North American market than to export it to Japan.

Nitta Gelatin's investments outside of Japan are concentrated in North America. At first glance, it might seem as if these investments in North America are unrelated to our drive to increase our market share in Asian markets. However, one-third of the pig skin gelatin produced in our North American plants is exported to Japan, with exports to Asia to be added in the future. Currently, North America is the only place where Nitta Gelatin makes pig skin gelatin. And therefore, investments there are crucial in ensuring we retain a competitive edge in supporting our strategy in Asia and also to ensure we continue to supply high-quality products around the world.

The quality of porcine collagen peptide produced in our new North Carolina plant is unequaled. Up until now, we have used a third party to produce collagen peptide. Producing this product in our own facility allows for a more efficient process and a significant increase in quality, both of which enhance our competitiveness, which paves the way and allows us to develop collagen peptide into a strategic product for the Japanese and the Asian markets.

The Potential of Bovine Bone Gelatin in Asian Markets

In addition to pig skin, bovine bones are also used as raw materials for gelatin. We have and continue to focus on Asia as a source for procuring bovine bones. We entered the Indian market for bone many years ago and continue to be active there—it now has the world's largest cattle population. As with pig skin, manufacturers of bovine bone gelatin are not the only players we must compete with for the raw material. Our main competitors are businesses that blend meat-and-bone meal into poultry and animal feeds. Entering into business and equity-based alliances with suppliers is an effective means to ensure a stable procurement of bovine bones for our gelatin operations. Nitta Gelatin India Ltd. was set up as part of such an alliance. Looking ahead, bovine bone gelatin is bound to become more popular in Asia as an edible gelatin, as it already has done in Japan. Indeed, people living in Islamic countries in Asia have begun to embrace bovine bone gelatin as a new Halal certified food ingredient.

Nitta Gelatin is well positioned to meet the growing demands for high quality porcine and bovine gelatins in the Asian market and we will strive to do everything possible to ensure our customer expectations are fully met.

MESSAGE FROM A NEWLY APPOINTED EXECUTIVE OFFICER

Juergen Gallert
Executive Officer

1991	Joined Nitta Gelatin NA Inc.
2006	CEO of Nitta Gelatin NA Inc. (to present)
2014	CEO of Nitta Gelatin Canada, Inc. (to present)
	CEO of Nitta Gelatin USA, Inc. (to present)
	Executive Officer of the Company (to present)

It's a Good Time—OUR STRENGTH

In essence, Nitta Gelatin's core strength lies in its ability to convert challenges into opportunities. This strength is borne out by the Company's long history of nearly 100 years. In recent years, the emergence of the digital camera caused the market for bovine bone gelatin for photographic use to contract sharply. This type of gelatin was previously a major source of the Company's sales and earnings. To develop alternative markets, Nitta Gelatin focused on promoting wider use of bovine bone gelatin in the food and pharmaceutical sectors. However, BSE became a major public health concern just as the Company was pursuing these efforts. The BSE issue hurt the reputation of bovine bone gelatin, leading to a major crisis: operations at Nitta Gelatin's Osaka Plant were suspended for around 100 days in just one year. To survive in the market, we fundamentally overhauled our strategy for procuring raw materials. We diversified our raw materials to include pig skin, fish scales and other sources, shifting away from gelatin manufacturing centered on bovine bones. In the process, we made business investments in North America to ensure an adequate supply of pig skin gelatin. These investments served as a catalyst for significant growth in our overseas business.

Nitta Gelatin's mainstay bovine bone gelatin has the property of being almost completely odorless. We determined that this virtually odorless gelatin would be well suited to the Japanese palate, so we intensively developed new food product applications for bovine bone gelatin. We also worked to popularize bovine bone gelatin in Islamic countries in Asia, where products derived from bovine raw materials are easier to be accepted. In practice, these options were our only avenues of growth. Today, edible gelatin and capsule-use gelatin have become Nitta Gelatin's core products. We have also established a solid position in the market as a Halal-certified gelatin manufacturer.

In these and other ways, we have converted the challenges we faced unexpectedly and in rapid succession into prime opportunities to reinvent and reposition Nitta Gelatin for our next century in business.

Well Positioned for Leadership in Asia

The world's top three gelatin firms are from Europe, where gelatin was invented. The three European gelatin majors moved quickly to acquire local North American gelatin companies to increase their production output. They also entered the Chinese market at an early stage. Nitta Gelatin's strength lies in its dominant share of the Japanese market for gelatin. And by capturing a greater share of the Asian market, Nitta Gelatin is well positioned to aim for leadership in Asia.

Nitta Gelatin entered the North American and Indian markets more than 30 years ago, and has production, sales and R&D bases in each market. The Company has built strong relationships with customers through sales channels leveraging its local operating bases. Considering that Asia is home to many different countries, we have taken our first step to enter the region in Vietnam. Here, we established Nitta Gelatin Vietnam Co., Ltd. as a foothold for future business expansion in the region.

The Asian market has significant growth potential, but it is also a very competitive market and there are many companies who want to enter this market. Therefore, we must be truly cost competitive to succeed. Nitta Gelatin is strong in terms of quality, but capsule-use gelatin is still the only market where we stand to generate a premium that would justify our quality. The food market is fiercely competitive. In this market too, Nitta Gelatin is confident of prevailing against the competition, as we are starting to see trends from Japan make inroads into Asian countries. The popularity of Japanese convenience stores in Asia is a case in point. Going forward, we will also strive to export trends from Japan to the North American market in order to expand our business.

Prospects for Sustainable Growth Make Nitta Gelatin Attractive

Under the current medium-term management plan, Nitta Gelatin aims to grow consolidated net sales by around 1.5-fold and to roughly double operating income, compared with the fiscal year ended March 2012. These figures alone may suggest that we are a fast-growing company, but that would not be the whole story. More precisely, Nitta Gelatin is a company that is well positioned to achieve steady, sustainable growth by capturing demand from the rapidly growing Asian market.

Nitta Gelatin has found a unique niche within the gelatin industry. In addition to its mainstay gelatin business, Nitta Gelatin conducts a collagen peptide business and a collagen casing business, along with an adhesives business and a food ingredient business. Looking at the group as a whole, we have businesses that are complement each other, and this business portfolio helps us to manage risks. As I have discussed so far, Nitta Gelatin is a comprehensive enterprise centered on gelatin that can convert challenges into opportunities and seize on global opportunities for growth.

MESSAGE FROM THE GENERAL MANAGER OF THE SALES & MARKETING DIVISION

Koichi Ogata
Director and Executive Officer
General Manager, Sales & Marketing Division

2005	Joined the Company
2010	Executive Officer of the Company (to present)
2012	Director of the Company (to present)
2013	General Manager, Sales & Marketing Division of the Company

It's a Good Time—OUR STRATEGY

In the fiscal year ended March 31, 2014, the first year of our current medium-term management plan, we targeted consolidated net sales of ¥32.7 billion and consolidated operating income of ¥1.7 billion. Net sales were ¥32.8 billion, largely in line with plan. This result reflected the growth from price revisions and higher sales volume overseas along with a boost from foreign exchange effects. On the other hand, operating income was substantially below the plan at ¥0.9 billion. This was due to several negative factors, including a rise in purchasing costs in Japan due to the yen's depreciation, delays in price increases and the quality issues of casings. We thus got off to a bumpy start in our current plan's initial year.

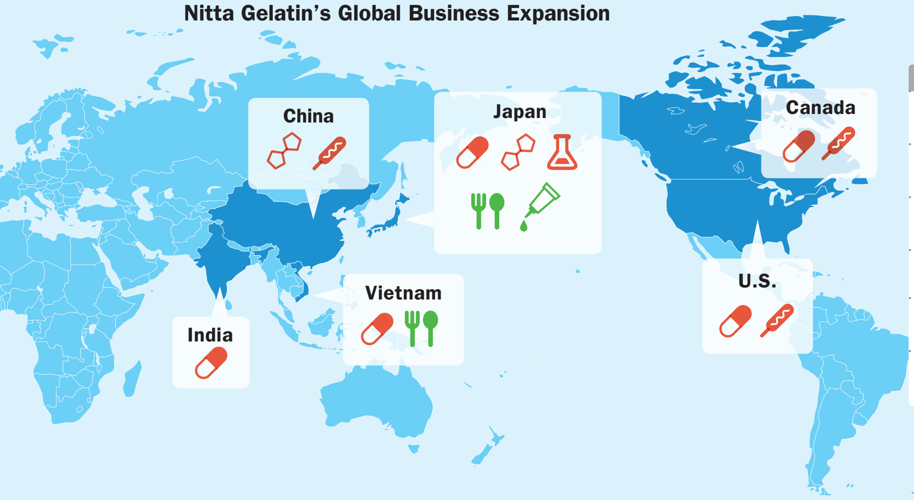
On the strategy front, capital investments supporting the global expansion of collagen peptide business and reinforcement of global competitiveness and supply capacities in the gelatin business generally progressed as initially planned. In May 2014, we built a new collagen peptide plant on the premises of our pig skin gelatin production facility in North America. With this, we aim to leverage global quality excellence to grow sales in Japanese and Asian collagen peptide markets where demand is robust.

Regarding casing, we upgraded the North American plant's manufacturing equipment to raise its production capacity. We had expected this to contribute to the earnings in the fiscal year ended March 31, 2014, but we encountered quality issues in the early days of operations. Plans are now on track with stable production and quality, and we anticipate a contribution in the fiscal year ending March 31, 2015.

In the summer of 2014, we started operations of Nitta Gelatin Vietnam Co., Ltd. in order to manufacture and sell gelling agents and other food agents in Southeast Asia. We also implemented the introduction of adhesive manufacturing facilities and establishment of a sealants application center proceeded on schedule.

In the fiscal year ended March 31, 2014, we executed capital investments of ¥3.1 billion against the planned capital investments of ¥3.4 billion. Capital investments were up sharply from the previous fiscal year's ¥1.5 billion.

Nitta Gelatin's Global Business Expansion



Business	Main Products
Gelatin	Gelatin
Peptide	Collagen peptide
Casing	Collagen casing
Life Science	Collagen, gelatin
Food Material	Edible gelling agents, stabilizers and consumer products
Adhesive	Sealant materials, hot-melt adhesives

Winning in Asia, a Growth Market

Considering that Asia encompasses numerous countries, a "one size fits all" policy is not enough to take on the market. This is where we have an edge over the competition. Looking at Japanese products using gelatin in Japan, for example, there are variety of taste, color and texture of gummy candy in Japan, and they are ever changing. Product lifecycles are short and are continuously changing, so we must keep developing new formulations and new products for our customers. Our ability to meet individual needs will work to our advantage in the Asia market. There is a mix of cultures, politics, and religions in Asia, so being in tune with those respective markets' needs will be key. Thanks to our experience tailoring products to the market in Japan, we can respond in a proper way.

Also in Asia, openings continue for convenience stores, which have become a fixture in Japan. We can supply gelatin matching the local preferences for development of ready-to-eat delicatessen items and meals which are the key commodities of convenience store.

Strategic Fields: Food and Capsules

Our core markets are food and capsules. For capsules, we have adopted a consistent operation system for manufacturing sites no matter where they are located in the world. This ensures consistent quality and traceability.

Our main customers—companies in Europe, the United States, and Japan—emphasize traceability. Even in developing nations in Asia and China, increasing market sophistication is generating demand from people to know where their food came from. Our strength is that we can trace back the origin of all raw materials used in our gelatin. To garner acceptance from the numerous people living in Islamic countries in Asia, we manufacture Halal certified gelatin in Japan and India. This is also backed by the reliability of our traceability.

Our regional focus will be on Asia, with food and capsules as our priority fields. We will also work to develop gelatin and collagen for medical care, with an eye to expanding business and enhancing added value. With gelatin as our core competence, we aim to be the leader in Asia and a globally unique enterprise.

MESSAGE FROM THE PRESIDENT

To lead Asia and be globally unique, we will bolster global management, develop global brands, and create new business to enhance corporate value.

Norimichi Soga
Representative Director and President

"Amaze the World!" —Heading for Sustainable Medium-Term Growth—

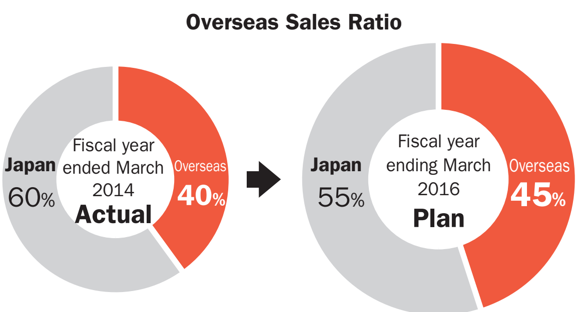
We seek to strengthen global management, develop global brands, and create new business in order to enhance our corporate value. To that end, we formulated a medium-term management plan ending March 31, 2016. Marking the plan's start, the fiscal year ended March 31, 2014 was an important year. We achieved record-high consolidated net sales. Nevertheless, income declined as a result of higher import purchase prices in Japan due to the yen's sharp depreciation, and lower profitability as globally soaring raw material costs were not sufficiently passed on to product prices. From the fiscal year ending March 31, 2015, we will return to a growth trajectory by improving profitability in Japan and continuing to grow business overseas, and advance to become the leader in Asia and a globally unique enterprise.

Our Growth Story

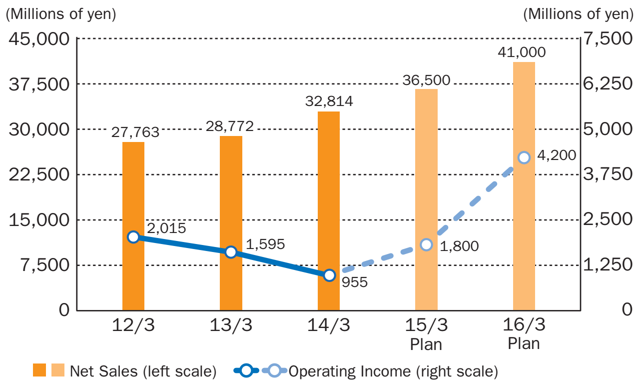
The gelatin industry is often said to be maturing, but we beg to differ. We have lots of growth potential left from an overseas perspective. In fact, our growth over the past two decades has been driven by our North American business. The region's contribution to sales and profit has been especially large over the past five years. We have built an extremely robust customer base through many years of business development, and our operations are growing as our client companies grow. The United States market's vast scale compared with Japan means that a seemingly small percentage of growth is quite large in terms of volumes and earnings. North American operations will remain a growth area for us.

The Asian market's dynamism will also be added to the mix moving ahead. Gelatin consumption has shown correlation with GDP per capita in Japan, and we believe the same phenomenon will arise throughout Asia in the future. While the westernization of diets has been instrumental to increased gelatin consumption in Japan, a shift towards Japanese food is boosting gelatin consumption in Asia. Japan's convenience stores have entered markets across Asia. They offer many products that are essentially the same as those in Japan, and Japanese food's great taste has made it very popular. Also, prepared food sold at the convenience stores uses gelatin as in Japan. While frozen food is the major player in places like Europe and the United States, chilled food (delicatessen items) is primary in Japan. This backdrop translates to business opportunities for us with our track record in Japan. If Japan's convenience stores increase in Asia, the need for gelatin will be that much greater.

Key Performance Indicators for Overseas Growth Strategy



Performance



Ability to Adapt to Business Climate Change

We have faced sales and income declines numerous times due to damage from misinformation including about BSE and changes in applications for mainstay products. We have overcome many hurdles to adapt to such business climate change. We believe this is a result of our devotion to providing revolutionary products and services that are a step ahead of customers' expectations not only in Japan but worldwide.

In addition to an advance in global demand for gelatin, raw material prices are also climbing internationally, with procurement competition from other applications such as snacks for pig skin, and feed like meat-and-bone meal for beef bones. Moreover, headway is not being made passing on this rise in raw material costs to product prices in Japan. In this tough business environment, we are advancing global management. Specifically, this means to produce locally at an appropriate cost and sell products at prices that allow for adequate profit. We believe we will need experts on overseas markets to pursue global management. Against this backdrop, we are promoting human resource diversity.

Raymond Merz and Juergen Gallert, introduced on the previous page, have both been appointed as Executive Officers at Nitta Gelatin. Mr. Merz has engaged in gelatin manufacturing operations overseas during his 19 years at the Company. Mr. Gallert has worked on gelatin sales overseas during his 23 years with the Company. We see our corporate culture embracing such diversity in human resources as an achievement made possible by our adaptation to changes in the business environment to date. We look for both Mr. Merz and Mr. Gallert to leverage their extensive gelatin business experience overseas gained over many years at the Company and insight into market trends to create innovative products and grow sales of those products globally.

Transformation to a High Added-Value Company

We will drive forward with our current business strategy and become a world-class, high value-added enterprise upon the 100th anniversary of our establishment in 2018. This will include creating new high-performance products and global brand development to popularize such products not only in Japan but also in markets abroad. We are currently advancing the global brands Wellnex®, G-zain™, and beMatrix®.

Business Opportunities in Asia

	Growing Markets		Nitta Gelatin Products
India	Global Pharmaceutical Manufacturing Sites	Capsules	**Gelatin**
China	Westernization of Diets	Processed Food (Sausage)	**Collagen Casing**
China	Strong Consumer Interest in Health and Beauty	Health Food	**Collagen Peptide**
Vietnam	Popularization of Refrigerators	Western Confectionery	**Gelatin, Food Materials**

Wellnex®

Wellnex® is a highly functional collagen peptide that helps to regulate body processes—the so-called third function of food. Our independent research on collagen peptide's functional properties has shown it helps keep skin, bones, joints, and muscles healthy. Collagen peptide's beauty benefits are widely recognized in Japan, but are not that well known overseas. This is especially true in the United States where nutritional supplements abound, but the collagen peptide market has yet to come to the fore, with its use nearly nonexistent in the beauty and health category. We will communicate collagen peptide's high-performance benefits and effects based on scientific evidence, looking to have consumers experience those benefits first-hand.

G-zain™

G-zain™ is a sealant enabling full automation of waterproof gasket assembly in devices such as smartphones, digital cameras, and smart meters. This UV curable sealant fundamentally changes customers' manufacturing process. It will therefore take time to catch on with customers, but we are confident that G-zain™ will gradually gain ground and eventually be used widely for smartphones.

beMatrix®

beMatrix® is a line of gelatin and collagen for medical care. Its high degree of safety enabling use in the human body was realized with our patented technology. The material is indispensable in regenerative medicine, a field that is expected to grow, and in developing practical applications for medical devices. Further, research and development towards practical applications for iPS cells and so on in regenerative medicine is advancing worldwide. In addition to artificial bone and artificial skin materials that have already been commercialized, we will work to commercialize medical-use gelatin and collagen ensuring the high level of safety required in medicine and to step up global development.

In closing

Global gelatin market growth continues at an annual rate of 1–2%. The key to steadily producing gelatin on an industrial scale is to procure large amounts of raw materials of a consistent quality. That is why it is imperative for us to ensure the stable procurement of raw materials.

Under these conditions in the gelatin business, we aim to employ our global orientation, active capital investments and M&As, comprehensive abilities from material supply to application development, and collagen peptides from Japan with global potential to generate consolidated net sales of ¥41 billion and operating income of ¥4.2 billion in the fiscal year ending March 31, 2016 and "Amaze the World!" We ask shareholders for their continued support as we forge ahead.

Norimichi Soga
Representative Director and President
Nitta Gelatin Inc.

BUSINESS ACTIVITIES/OVERVIEW OF OPERATIONS

Collagen Material Business

In the Collagen Material business, we manufacture and sell high value-added gelatin, collagen peptide, collagen casing, collagen and other products made from byproducts of the meat industry, such as animal bones and skin. In the process, we aim to propose products and applications demanded by customers and solve the issues they face.

Gelatin	Collagen Peptide	Collagen Casing	Life Science
■ For food ■ For capsules ■ For photographic films and papers	■ For dietary food supplements ■ For protein drinks and foods ■ For cosmetics	■ Sausage casings	■ Testing reagent for laboratory research ■ Biomaterial

■ Gelatin Business

Besides its ability to solidify, gelatin has a variety of functions such as water retention, foaming, adhesive and emulsifying properties. For this reason, gelatin has a range of applications, from food to pharmaceuticals and photography. In the gelatin business, we sell gelatin for applications in such industrial sectors.

Edible gelatin is marketed as a food material primarily to the bakery and confectionery and dairy product sectors, as well as to the beverage manufacturing industry. In other areas, edible gelatin is marketed to the delicatessen item and frozen food manufacturing industries to maintain the quality of convenience store delicatessen items and frozen foods and to improve food texture. The main applications for pharmaceutical gelatin are hard and soft capsules. Pharmaceutical gelatin is marketed not only to the pharmaceutical manufacturing sector, but also to the nutritional supplement, health food and other food product manufacturing industries. Photographic gelatin is marketed to the photosensitive material production industry, as a binding agent for photosensitive materials, such as photographic film and paper.

■ Peptide Business

In the peptide business, we manufacture and sell collagen peptide, a lower molecular form of gelatin that has been processed through the hydrolysis of gelatin using proteolytic enzymes. The defining property of collagen peptide is that it does not solidify into jelly. As a high-quality protein that can be readily ingested, collagen peptide is marketed to the dairy product sector, as well as the beverage manufacturing industry and the bakery and confectionery sector. Furthermore, collagen peptide has been found to have the ability to activate biological functions and regulate bodily functions. As such, collagen peptide is actively used in nutritional supplements, health supplements and other food products that provide health benefits related to the skin, bones and joints.

■ Collagen Casing Business

In the collagen casing business, we 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 production sector as an alternative to natural casings made from sheep and pig intestines.

■ 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. Collagen has a close affinity with biological tissue. In addition to applications as research reagents for cell cultures, collagen is used as a bio-material in synthetic tissue and bones, which promote self-regeneration and restoration of tissue. We have also developed a highly refined medical gelatin (beMatrix®) as a bio-material to promote the self-regeneration and restoration of human tissue in the field of regenerative tissue engineering. Collagen for all of these applications is manufactured by the Company and is marketed to medical equipment manufacturers, as well as universities and other research institutes.

■ Performance for the Fiscal Year Ended March 31, 2014 and Outlook for the Fiscal Year Ending March 31, 2015

In the gelatin field, sales of edible gelatin and gelatin for capsules increased in the Japanese market. Profit margins declined, however, as a result of increased import procurement costs due to the yen's sharp depreciation, and insufficient progress in passing along higher costs driven by rising raw material prices worldwide. In the North American and Asian markets, sales increased owing to sales volume growth backed by buoyant demand for edible gelatin and gelatin for capsules and price revisions. Earnings also grew steadily in the North American and Asian markets. Collagen peptide sales posted strong growth in Japan and Asia overall, but profitability declined because of the rise in raw material prices. Collagen casing sales were lackluster and a loss was incurred due to quality issues that arose during the first six months of the fiscal year in connection with collagen casing manufactured and sold by a U.S. subsidiary. As a result, net sales in the Collagen Material business increased 20.1% year on year to ¥22,436 million. Segment profit (operating income) was down 20.8% to ¥1,420 million.

In the fiscal year ending March 31, 2015, the Collagen Material business is targeting net sales of ¥26,000 million and segment profit (operating income) of ¥2,270 million.

Formula Solution Business

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

Food Material

- Gelling agents
- Stabilizers for meat products
- Stabilizers and quality enhancers for heat-and-serve meals
- Consumer products for mail-order sales

Adhesive

- Hot-melt adhesives
- Sealant material (High-performance gaskets)

Food Material Business

In the food material business, we sell edible formulations, such as gelling agents and stabilizers for meat products, to the food manufacturing industry. Leveraging properties such as their jelly forming ability, water retention, binding, thickening and emulsion stability, these food agents are used mainly to add value to food and maintain food quality, by contributing to food shape retention and texture enhancement, and so forth. These edible formulations are also used to improve work efficiency and production yield during food processing. Our food agents are custom made according to their purpose of use. Edible gelling agents are marketed mainly to the bakery and confectionery, dairy product, beverage and frozen food manufacturing sectors. Stabilizers for meat products are marketed mainly to the meat product and livestock food manufacturing sectors. We also manufacture and sell consumer products such as collagen beverages and food, and cosmetics, as well as collagen for cosmetics use. These consumer products are planned and developed by the Company, manufactured by partner companies and sold by our subsidiary Nitta Biolab Inc. Collagen for cosmetics use is manufactured and sold by the Company.

Adhesive Business

As with the food material business, the adhesive business proposes adhesives applications that are optimized for client production lines, with the view to developing adhesive functions that fit customer needs and applications. Examples include hot-melt adhesives, which are formulated with multiple materials, and animal glue adhesives. Hot-melt adhesives are formulated with such materials as petroleum-based synthetic resins and natural resins such as rosin. They are heated and melted before application. Because they provide bonding after cooling and solidifying from a molten state, hot-melt type adhesives feature a fast bonding speed. Accordingly, hot-melt adhesives are used widely not only in packaging applications for sectors like the food and beverage industry, but also in the sanitary material, bookbinding, construction and woodwork, electrical, housing and other sectors. Moreover, animal glue adhesives are marketed mainly to the paper processing sectors, such as the bookbinding industry, and the paper product and craft sectors, due to their superior adhesive properties with respect to paper. In recent years, we have been marketing a new sealant material based on our adhesives technology that cures with ultraviolet exposure, mainly to the electric machinery and tool manufacturing sector.

Performance for the Fiscal Year Ended March 31, 2014 and Outlook for the Fiscal Year Ending March 31, 2015

In food materials, performance was sluggish on the whole, with sales increasing only slightly. Profit declined despite efforts to curtail advertising expenses. In adhesives, overall sales increased only slightly due to delays in the adoption of new sealants by customers, despite strong sales of hot-melt adhesives due to increased demand pending the consumption tax rate increase. Profit declined as selling, general and administrative expenses increased due to stronger efforts to develop new customers. As a result, net sales in the Formula Solution business increased 2.8% year on year to ¥10,377 million. Segment profit (operating income) declined 20.1% to ¥920 million.

In the fiscal year ending March 31, 2015, the Formula Solution business is targeting net sales of ¥10,500 million and segment profit (operating income) of ¥990 million.

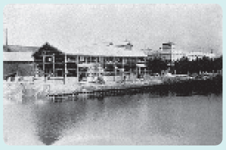
Amaze the World!

Be the Leader in Asia and a Globally Unique Enterprise

Nitta Gelatin Group History

Note: The Company name recorded is the current Company name.

1918 — 1970 — 1980 — 1990



Started production of gelatin and animal glue

1918
Started production of animal glue and industrial gelatin for the first time in Japan with industrial production methods introduced from the West

1930
Succeeded in producing thin leaf gelatin
Succeeded in producing edible thin leaf gelatin of a high quality, and began marketing it

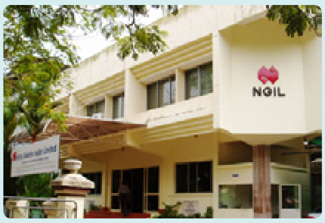
1935
Completed the Osaka Plant

1937
Started production of photographic gelatin
After having relied on imports, research yielded Japan's first domestically made photographic gelatin

1968
Established Hikone Gelatin Inc.

1971
Started an adhesives business
Commenced an adhesives business by developing high-speed, hot-melt-type adhesives 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



1975
Established Nitta Gelatin India Ltd. (India)

1979
Established Nitta Gelatin NA Inc. (U.S.)

1982
Established Bostik-Nitta Co., Ltd.

1990
Established Nitta Gelatin Canada, Inc. (Canada)

1999
Began production of gelatin in India
Started production of gelatin in India in response to the demand in Asia

2001
Moved into the consumer products business
Began marketing *Collagenaid*®, a collagen food supplement, to general consumers

2014
Started production of collagen peptide in the U.S.

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

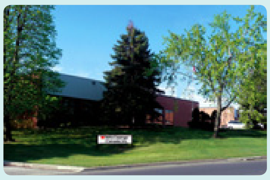
2010
Established Guangdong Baiwei Bio Material Co., Ltd. (China)

2011
Established Shanghai Nitta Gelatin Co., Ltd. (China)

2000 2010 2014

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

1996
Established Nitta Casings Inc. (U.S.)



Established Nitta Casings (Canada) Inc. (Canada)

2012
Beijing Nitta Collagen Casing Co., Ltd. (China)

2004
Established Nitta Gelatin USA, Inc. (U.S.)

2013
Nitta Gelatin Vietnam Co., Ltd. (Vietnam)

BOARD OF DIRECTORS, EXECUTIVE OFFICERS AND AUDIT & SUPERVISORY BOARD MEMBERS

(As of June 26, 2014)

Back row from left: Hisayuki Suekawa, Outside Director; Mayumi Ishihara, Outside Director; Hiroshi Nitta, Director; Yasuyuki Nakai, Standing Audit & Supervisory Board Member; Raymond Merz, Director and Executive Officer; Tamon Tsuda, Outside Audit & Supervisory Board Member

Front row from left: Toru Tamaoka, Director and Executive Officer; Tsuneo Sasaki, Director and Senior Managing Executive Officer; Norimichi Soga, Representative Director and President; Koichi Ogata, Director and Executive Officer; Shigeoki Tougou, Outside Audit & Supervisory Board Member

Board of Directors

Representative Director and President

Norimichi Soga

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
Sept. 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
Jan. 2005 Executive Officer of the Company
June 2006 Representative Director and President (to present)

Director and Senior Managing Executive Officer

Tsuneo Sasaki

Apr. 1974 Joined Mitsui Bank (currently Sumitomo Mitsui Banking Corporation)
Nov. 2002 Dispatched to the Company
Nov. 2003 Joined the Company
Mar. 2004 General Manager, Finance Department, General Administration Division of the Company
Sept. 2004 General Manager, Production Planning Department, Operating Division of the Company
Mar. 2005 General Manager, Production Management Department, Operating Division of the Company
Mar. 2006 General Manager, Finance Division, General Administration Division of the Company
June 2006 Director of the Company (to present)
June 2006 Executive Officer of the Company
Sept. 2006 General Manager, Finance Division of the Company
June 2010 Managing Executive Officer of the Company
June 2011 General Manager, General Affairs Division of the Company
June 2012 Senior Managing Executive Officer of the Company (to present)
Mar. 2013 General Manager, General Affairs Division of the Company (to present)

Board of Directors

Director and Executive Officer
Koichi Ogata
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 (to present)
June 2012 Director of the Company (to present)
Mar. 2013 General Manager, Sales & Marketing Division of the Company (to present)

Director and Executive Officer
Toru Tamaoka
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)

Director and Executive Officer
Raymond Merz
Sept. 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.
June 2002 Director of the Company
Dec. 2004 Director and CEO of Nitta Gelatin USA, Inc.
Jan. 2005 Executive Officer of the Company
Apr. 2006 Director and CEO of Nitta Gelatin Canada, Inc.
June 2011 Senior Executive Officer of the Company
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)

Director
Hiroshi Nitta
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
June 2011 Executive Officer of the Company

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

Outside Director
Hisayuki Suekawa
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 [incumbent], 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

Standing Audit & Supervisory Board Member
Yasuyuki Nakai
Apr. 1978 Joined Mitsui Bank (currently Sumitomo Mitsui Banking Corporation)
Nov. 2007 Dispatched to the Company
Mar. 2008 General Manager, Corporate Planning Division of the Company
June 2008 Joined the Company
June 2008 Executive Officer of the Company
July 2009 General Manager, GRM Division of the Company
July 2010 General Manager, Planning and Management Department, Gelatin Division of the Company
Mar. 2011 General Manager, Planning and Management Department, Manufacturing Division of the Company
Mar. 2013 General Manager, Planning and Management Department, Gelatin Division of the Company
June 2013 Standing Audit & Supervisory Board Member of the Company

Outside Audit & Supervisory Board Member
Shigeoki Tougou
Apr. 1966 Joined Bank of Japan
July 1993 General Manager, Secretariat of the Policy Board of Bank of Japan
Apr. 1995 General Manager, International Department
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 Audit & Supervisory Board Member of the Company (to present)
Oct. 2012 President of Higashi Nippon Gakuen University (to present)

Outside Audit & Supervisory Board Member
Tamon Tsuda
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

Executive Officers

Hidenori Takemiya
Yuji Yamamoto
Hiroshi Takase
Yoshitaka Oda
Yoshihisa Sugimoto
Juergen Gallert

INVESTOR INFORMATION

Stock Information (As of March 31, 2014)

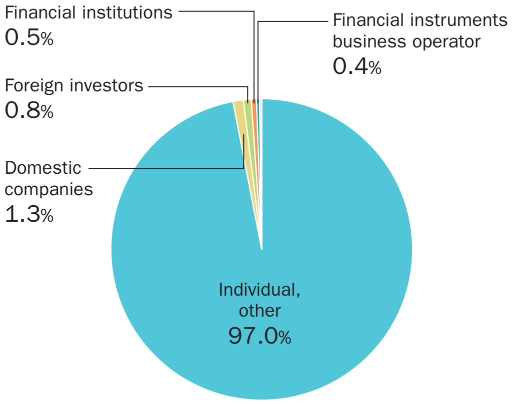
- **Number of shares authorized:** 50,000,000 shares
- **Number of shares issued:** 18,373,974 shares (including treasury stock of 162 shares)
- **Number of shareholders:** 5,781
- **Major Shareholders** (Top 10)

Shareholder Name	Number of Shares	Shareholding Percentage
IBP Co., Ltd.	2,951,316	16.06%
The Master Trust Bank of Japan, Ltd. (trust account)	1,589,900	8.65
Nitta Corporation	840,014	4.57
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
Japan Trustee Services Bank, Ltd. (trust account)	489,500	2.66
The Nomura Trust and Banking Co., Ltd. (trust account)	486,700	2.65
Nitta Gelatin Employees Shareholding Association	443,300	2.41
Ishizuka Corporation	382,014	2.08

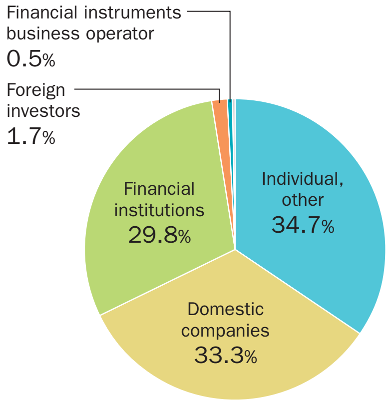
(Note) Shareholding percentage is calculated based on the total number of shares issued minus treasury stock (162 shares). Percentages are rounded to two decimal places.

Share Distribution

<Breakdown of Shareholding by Investor Type>



<Breakdown of Shareholding by Number of Shares Held>



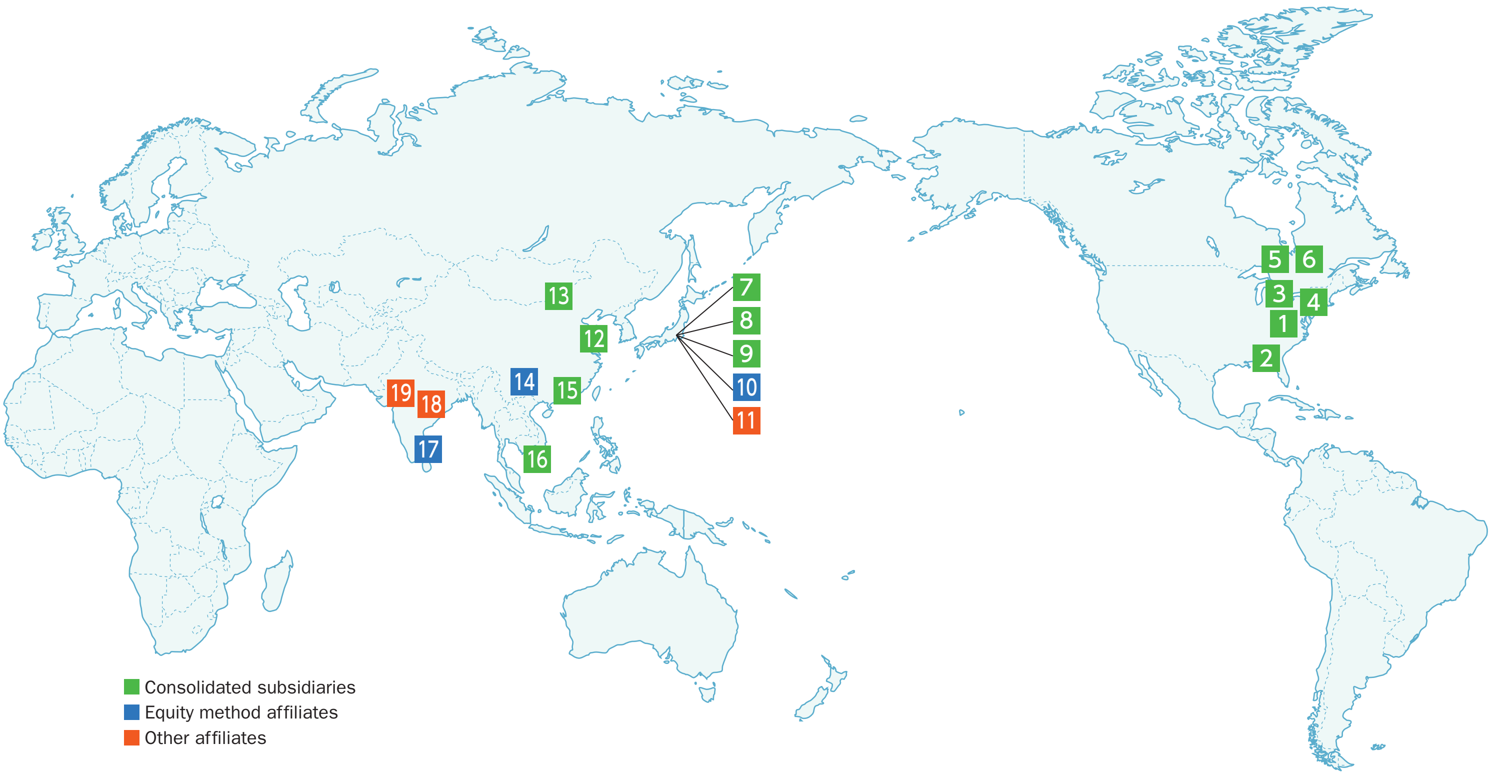
CORPORATE INFORMATION

Company Outline

Headquarters:	4-26, Sakuragawa 4-chome, Naniwa-ku, Osaka 556-0022, Japan
Establishment:	January 1918
Incorporation:	February 1945
Capital:	¥3,144,929,440
Number of shares issued:	18,373,974 shares
Net Sales:	Non-consolidated: ¥22,169 million (Year ended March 31, 2014) Consolidated: ¥32,814 million (Year ended March 31, 2014)
Employees:	Non-consolidated: 255 (As of March 31, 2014) Consolidated: 635 (As of March 31, 2014)
Main Business:	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 Production and sales of edible gelling agents, stabilizers and other food materials Production and sales of adhesives and sealants for packaging, bookbinding, building materials, hygiene products and automobiles
Operating facilities:	10 locations in Japan, 13 locations overseas

Affiliates

1. Nitta Gelatin NA Inc. (U.S.A.)
2. Nitta Gelatin USA, Inc. (U.S.A.)
3. Nitta Casings Inc. (U.S.A.)
4. Nitta Gelatin Holding, Inc. (U.S.A.)
5. Nitta Gelatin Canada, Inc. (Canada)
6. Nitta Casings (Canada) Inc. (Canada)
7. Alma Corporation (Japan)
8. Nitta Biolab Inc. (Japan)
9. Hikone Gelatin Inc. (Japan)
10. Bostik-Nitta Co., Ltd. (Japan)
11. Shinju Service Co., Ltd. (Japan)
12. Shanghai Nitta Gelatin Co., Ltd. (China)
13. Beijing Nitta Collagen Casing Co., Ltd. (China)
14. Guangdong Baiwei Bio Material Co., Ltd. (China)
15. Nitta Hong Kong, Ltd. (China)
16. Nitta Gelatin Vietnam Co., Ltd. (Vietnam)
17. Nitta Gelatin India Ltd. (India)
18. Bamni Proteins Ltd. (India)
19. Reva Proteins Ltd. (India)



Management's Discussion and Analysis

Business Performance Summary for the Fiscal Year Ended March 31, 2014

In the fiscal year ended March 31, 2014, the global economy continued to recover gradually, despite continuing uncertainty due to issues such as the tapering of quantitative easing in the United States, concerns of a slowdown among emerging economies, and the future development of the European debt problem. Meanwhile, the Japanese economy also continued to recover gradually, with the yen depreciating and stock prices rising as a result of government policies and the Bank of Japan's monetary easing. Nevertheless, the situation remains unclear, due to sluggish consumer spending following an increase in the consumption tax rate, along with concerns over the impact of a downturn in the global economy.

Amid these circumstances, Nitta Gelatin faced challenging business conditions including the increased cost of import procurements in Japan due to the yen's depreciation, rising prices for gelatin and other raw materials for the Group, and higher energy prices in Japan.

The Group worked to provide products and services a step ahead of customers' expectations, develop new products, cultivate new markets and reduce costs, under the slogan of "Amaze the World!" and a basic strategy to "Win out!! in growing Asian market."

Meanwhile, the Company issued 2,603,900 shares of common stock by way of public subscription in July and third-party allocation in August 2013. The resulting proceeds of ¥3,135 million in total were used to secure funds for capital investment and to improve the Group's financial position.

As a result, net sales increased 14.0% year on year to ¥32,814 million in the fiscal year ended March 31, 2014. Operating income declined 40.1% to ¥955 million, mainly due to delays in passing along higher costs in Japan. Ordinary income decreased 43.6% to ¥1,115 million on account of a decrease in equity in earnings of affiliates due to a decline in the performance of an Indian affiliate. Net income decreased 56.4% to ¥665 million, mainly reflecting the booking of an extraordinary loss in line with a reduction in the Company's shareholding in an Indian affiliate due to Indian shareholding regulations.

Consolidated Business Performance for the Fiscal Year Ended March 31, 2014

Net Sales and Earnings

» Net sales

Overseas, the Group posted strong sales owing to sales volume growth and price revisions backed by buoyant demand in the North American and Asian markets. The Group's performance was strong in the Japanese market, as well. As a result, in the fiscal year ended March 31, 2014, net sales increased ¥4,041 million, or 14.0% year on year to ¥32,814 million.

» Gross Profit

Consolidated gross profit declined ¥187 million, or 2.8% year on year to ¥6,484 million, mainly due to surging gelatin raw material prices worldwide, higher energy cost in Japan, and higher procurement costs of imports as a result of the yen's depreciation.

» Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased ¥452 million, or 8.9%, year on year to ¥5,528 million.

» Operating income

As a result of the foregoing, operating income decreased ¥640 million, or 40.1%, year on year to ¥955 million.

» Net income

We booked a gain on compensation income of ¥89 million as other income, and a loss on retirement of noncurrent assets of ¥29 million, and a loss on change in equity of ¥104 million as other expenses. Consequently, net income decreased ¥859 million, or 56.4%, year on year to ¥665 million.

Segment Performance

» Collagen Material Business

In the gelatin field, sales of mainly edible gelatin and gelatin for capsules increased in the Japanese market. Profit margins declined, however, as a result of increased import procurement costs due to the yen's sharp depreciation, and insufficient progress in passing along higher costs driven by rising raw material prices worldwide. In the North American and Asian markets, sales increased owing to sales volume growth and price revisions backed by buoyant demand for edible gelatin and gelatin for capsules. Earnings also grew steadily in the North American and Asian markets.

Collagen peptide sales posted strong growth in Japan and Asia overall, but profitability declined because of the rise in raw material prices.

Collagen casing sales were lackluster and a loss was incurred due to quality issues that arose during the first six months of the fiscal year in connection with collagen casing manufactured and sold by a U.S. subsidiary.

As a result, net sales in the Collagen Material business increased 20.1% year on year to ¥22,436 million. Segment profit (operating income) was down 20.8% to ¥1,420 million.

» Formula Solution Business

In food materials, performance was sluggish on the whole, with sales increasing only slightly. Profit declined despite efforts to curtail advertising expenses.

In adhesives, overall sales increased only slightly due to delays in the adoption of new sealants by customers, despite strong sales of hot-melt adhesives due to increased demand pending the consumption tax rate increase. Profit declined as selling, general and administrative expenses increased due to stronger efforts to develop new customers for sealants.

As a result, net sales in the Formula Solution business increased 2.8% year on year to ¥10,377 million. Segment profit (operating income) declined 20.1% to ¥920 million.

Research and Development

"As a world leading gelatin manufacturer, the Group uses its proprietary technology to quickly and efficiently provide superior products and services to global customers. The Group produces healthy, functional and valuable products in multinational facilities that are safe, reliable and environmentally friendly." Guided by this vision, we are advancing both the Collagen Material and Formula Solution businesses with the aim of establishing Nitta Gelatin as a global brand that is chosen first by customers.

The markets we face are constantly evolving and diversifying on a daily basis. True to our slogan, Amaze the World!, our basic R&D policy is to quickly and efficiently develop products and services that are a half step or a whole step ahead of customer expectations in order to enhance the Company's brand value and contribute to sustained business expansion and growth. We have organized a product development structure that is as close to customers as possible in an effort to energize R&D activities and identify shifts in market and customer needs with a constantly positive mindset. In other words, we have stationed sales, development and production personnel across the R&D organization to ensure that requests from the customer, markets and others are directly conveyed to technology, service, product development and production technology development units, so that timely responses are made. While the internal research personnel are focused on product development and customer service, we also actively conduct joint research with and commission research to external research institutes, universities and other entities, for the purpose of promoting basic research into food ingredients, obtaining new fundamental technologies and meeting other priorities.

Since 2007, we have held TPM (Technology, Product, Market) Presentations under the guidance of external consultants, in an initiative to promote and encourage R&D activities. These presentations are based on the "TPM cycle" approach of obtaining market recognition through product development driven by technology. Group R&D Information Meetings have been held since 2010, to share information about R&D within our Group by introducing examples of development projects, as well as new technologies and products.

The following is a breakdown of R&D activities by division in each business during the fiscal year ended March 31, 2014. Total R&D expenses were ¥1,004 million.

» Collagen Material Business

Gelatin

- Improve and upgrade production technology for raw material and gelatin processes
- Develop new gelatin (new materials, new functions)
- Provide optimal quality for each application

Collagen Peptide

- Develop collagen peptide production technology (peptide synthesis, refining technology)
- Research functional characteristics of collagen peptide

Collagen Casing

- Improve and upgrade collagen casing production
- Develop new markets and products

Life Science

- Research and development of collagen for biomaterials and cell cultures
- Research and development of gelatin and collagen for advanced medical care

R&D expenses in the Collagen Material business were ¥561 million.

» Formula Solution Business

Food Material

- Develop applications utilizing application laboratories
- Develop novel products (for delicatessen items and food products for seniors, such as medical foods)
- Plan and develop consumer products (collagen supplements, collagen-added cosmetics)

Adhesive

- Develop high-performance polymers (sealants)
- Environmentally friendly hot-melt adhesives

R&D expenses in the Formula Solution business were ¥442 million.

Cash Flows

▪ Net cash used in operating activities

Net cash used in operating activities was ¥692 million, compared with ¥2,050 million provided in the previous fiscal year. The main contributing factors were an increase in notes and accounts receivable of ¥2,147 million and inventories of ¥624 million. These outflows were partly offset by income before income taxes and minority interests of ¥1,070 million and depreciation and amortization of ¥914 million.

The increase in notes and accounts receivable reflects a temporary curtailment of the liquidation of receivables due to the fund procurement by way of public subscription and third-party offering.

▪ Net cash used in investing activities

Net cash used in investing activities was ¥3,105 million, compared with ¥1,557 million in the previous fiscal year. The main use of cash was the purchase of property, plant and equipment of ¥2,949 million.

Net cash provided by financing activities

Net cash provided by financing activities was ¥3,875 million, compared to ¥376 million used in the previous fiscal year. This mainly reflected ¥3,222 million in proceeds from long-term debt and ¥3,135 million in proceeds from issuance of common stock, which were partly offset by ¥2,165 million in repayment of long-term debt.

As a result, cash and cash equivalents were ¥2,406 million as of March 31, 2014, an increase of 6.5% from a year earlier.

Capital Investment

Based on business strategies under our medium-term management plan, we executed capital investment of ¥3,102 million centered on the Collagen Material business, mainly to achieve global cost competitiveness in gelatin products, strengthen collagen peptide supply capability, and enhance collagen casing productivity.

In the Collagen Material business, we invested ¥1,120 million to construct a new factory (completed in May 2014) as a new collagen peptide manufacturing base at Nitta Gelatin USA, Inc., ¥717 million to buy out leased assets such as gelatin manufacturing plant and equipment at Nitta Gelatin USA, Inc., and ¥596 million to introduce and renew collagen casing manufacturing plant and equipment at Nitta Casings Inc. and Beijing Nitta Collagen Casing Co., Ltd. We also spent ¥400 million on renewing plant and equipment and introducing facilities for saving energy at our Osaka plant and subsidiary, Hikone Gelatin Inc., and at Nitta Gelatin Canada, Inc. to maintain production capacity and enhance quality.

In the Formula Solution business, we invested ¥202 million to construct a new office and laboratory, and upgrade production facilities for the Adhesives Division, and ¥25 million to construct a factory and introduce plant and equipment to Nitta Gelatin Vietnam Co., Ltd.

We allotted our own funds, borrowings, and proceeds from issuances of common stock by way of public subscription in July and third-party allocation in August 2013 to execute these capital investments.

Expenses amounting to ¥9 million were booked as a loss on retirement of noncurrent assets for relocation and removal of plant and equipment in constructing the new office and laboratory for the Adhesives Division, in addition to ¥20 million in ongoing replacement of machinery and other plant and equipment.

Financial Position

» Current Assets

Current assets were ¥18,685 million as of March 31, 2014, an increase of ¥3,365 million from March 31, 2013. This was mainly attributable to a ¥147 million increase in cash and deposits, a ¥2,324 million increase in notes and accounts receivable, and a ¥810 million increase in inventories.

» Noncurrent Assets

Noncurrent assets were ¥12,704 million as of March 31, 2014, an increase of ¥2,833 million from March 31, 2013. This mainly reflected a ¥2,516 million increase in property, plant and equipment in line with capital investments and an increase of ¥307 million in investment securities.

» Current Liabilities

Current liabilities were ¥10,080 million as of March 31, 2014, an increase of ¥443 million from the previous fiscal year-end. This mainly reflected increases of ¥518 million in notes and accounts payable and ¥161 million in other payable, partly offset by decreases of ¥135 million in the current portion of long-term debt and ¥200 million in the current portion of bonds.

» Noncurrent Liabilities

Noncurrent liabilities were ¥7,528 million as of March 31, 2014, an increase of ¥1,699 million from the previous fiscal year-end. This was mainly attributable to increases of ¥1,273 million in long-term debt and ¥175 million in lease obligations.

» Net Assets

Net assets stood at ¥13,781 million as of March 31, 2014, an increase of ¥4,056 million from the previous fiscal year-end. This was mainly attributable to increases of ¥429 million in retained earnings and ¥1,567 million each in capital stock and capital surplus resulting from the issuance of common stock by way of public subscription and third-party allocation.

As a result, the equity ratio stood at 43.4% as of March 31, 2014, compared to 38.0% as of March 31, 2013.

Basic Profit Distribution Policy and Dividends

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. In regard to dividends for the fiscal year ended March 31, 2014, 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.

In regard to funds set aside as internal reserves, we intend to effectively invest these funds in enhancing cost competitiveness even more than before, 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 from the standpoint of actively disclosing information to investors. Recognizing the possibility for such risks to occur, we endeavor to prevent the occurrence of such risks and to respond properly in the event that such risks occur.

This section includes forward-looking statements determined based on information available to us as of June 26, 2014.

(1) Product Development

Guided by our motto of quickly and efficiently providing products and services that address shifting market conditions and customer needs, we actively conduct 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 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, 2014, sales in overseas markets accounted for 40.0% 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 as well as the translation into Japanese yen of the accounts of 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 57.3% of our cost of manufacturing in the year ended March 31, 2014. 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 course of executing business activities, the Group's business is subject to Japanese laws and regulations, including the Food Sanitation Law, the Japanese Agricultural Standard and the Pharmaceutical Affairs Law, 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 methods. Main examples of such religious rules include the Halal (Islam) and Kosher (Judaism). 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 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 those in Osaka, Shiga and Tochigi prefectures, Japan; Province of Ontario, Canada; State of North Carolina and New Jersey, U.S.A.; State of Kerala, India and Guangdong Province, China, Long An Province, 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 derivatives) 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 only 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 26.1% (including lease obligations) in the fiscal year ended March 31, 2014.

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 imported gelatin except for photographic use. Going forward, the selling price of these imports may decrease as a result of the reduction or abolition of this tariff. 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 is 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 becoming subject to 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 or not 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
As of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Assets			
Current assets:			
Cash and deposits (Notes 6, 10 and 18)	**¥ 2,426**	¥ 2,278	**$ 23,580**
Notes and accounts receivable (Notes 3 and 10)	**8,164**	5,839	**79,354**
Inventories (Note 4)	**7,642**	6,831	**74,280**
Deferred tax assets (Note 7)	**158**	134	**1,535**
Other	**306**	251	**2,974**
Allowance for doubtful accounts	**(13)**	(16)	**(126)**
Total current assets	**18,685**	15,319	**181,619**
Property, plant and equipment:			
Buildings and structures (Note 6)	**7,564**	7,204	**73,522**
Machinery, equipment and vehicles (Note 6)	**9,841**	8,554	**95,655**
Land (Note 6)	**768**	761	**7,465**
Lease assets (Note 9)	**1,136**	786	**11,041**
Construction in progress	**2,260**	777	**21,967**
Other	**1,316**	1,279	**12,791**
Accumulated depreciation	**(14,084)**	(13,077)	**(136,897)**
Net property, plant and equipment	**8,804**	6,287	**85,575**
Intangible assets	**50**	48	**486**
Investments and other assets:			
Investment securities (Notes 5, 6 and 10)	**3,075**	2,768	**29,889**
Long-term loans receivable	**8**	13	**77**
Deferred tax assets (Note 7)	**399**	524	**3,878**
Asset for retirement benefits (Note 8)	**253**	–	**2,459**
Other	**111**	228	**1,078**
Total investments and other assets	**3,849**	3,534	**37,412**
Total assets	**¥ 31,389**	¥ 25,190	**$ 305,103**

See notes to consolidated financial statements.

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 1) 2014
Liabilities			
Current liabilities:			
Notes and accounts payable (Note 10)	**¥ 4,255**	¥ 3,736	**$ 41,358**
Short-term loans payable (Note 6)	**1,121**	1,145	**10,896**
Current portion of long-term debt (Notes 6 and 10)	**1,932**	2,068	**18,779**
Current portion of bonds (Notes 6 and 10)	**–**	200	**–**
Lease obligations (Notes 6, 9 and 10)	**215**	154	**2,089**
Other payable (Note 10)	**1,747**	1,586	**16,980**
Income taxes payable	**147**	81	**1,428**
Provision for bonuses	**177**	220	**1,720**
Other	**481**	443	**4,675**
Total current liabilities	**10,080**	9,637	**97,978**
Noncurrent liabilities:			
Long-term debt (Notes 6 and 10)	**4,415**	3,142	**42,914**
Lease obligations (Notes 6, 9 and 10)	**495**	319	**4,811**
Provision for retirement benefits (Note 8)	**–**	2,276	**–**
Liability for retirement benefits (Note 8)	**2,524**	–	**24,533**
Provision for directors' retirement benefits	**37**	35	**359**
Other	**55**	54	**534**
Total noncurrent liabilities	**7,528**	5,828	**73,172**
Total liabilities	**17,608**	15,465	**171,150**
Commitments and contingent liabilities (Notes 9, 11 and 12)			
Net assets			
Shareholders' equity (Note 15):			
Capital stock:	**3,144**	1,577	**30,559**
Authorized — 50,000,000 shares			
Issued — 18,373,974 shares in 2014 and 15,770,074 shares in 2013			
Capital surplus	**2,966**	1,398	**28,829**
Retained earnings	**8,623**	8,194	**83,816**
Treasury stock — 162 shares in 2014 and 162 shares in 2013	**(0)**	(0)	**(0)**
Total shareholders' equity	**14,734**	11,170	**143,215**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**622**	499	**6,045**
Deferred gains or losses on hedges	**(5)**	27	**(48)**
Foreign currency translation adjustment	**(187)**	(667)	**(1,817)**
Accumulated adjustments for retirement benefit (Note 8)	**(1,528)**	–	**(14,852)**
Pension liability adjustment of foreign subsidiaries	**–**	(1,452)	**–**
Total accumulated other comprehensive income	**(1,097)**	(1,592)	**(10,662)**
Minority interests	**144**	147	**1,399**
Total net assets	**13,781**	9,724	**133,952**
Total liabilities and net assets	**¥31,389**	¥25,190	**$305,103**

See notes to consolidated financial statements.

Consolidated Statements of Income

Nitta Gelatin Inc. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Net sales	**¥32,814**	¥28,772	**$318,954**
Cost of sales (Note 4)	**26,329**	22,100	**255,919**
Gross profit	**6,484**	6,671	**63,024**
Selling, general and administrative expenses (Note 13)	**5,528**	5,075	**53,732**
Operating income	**955**	1,595	**9,282**
Other income (expenses):			
Interest and dividends income	**24**	19	**233**
Interest expenses	**(133)**	(147)	**(1,292)**
Rent income	**35**	29	**340**
Equity in earnings of affiliates	**97**	262	**942**
Foreign exchange gains	**166**	179	**1,613**
Going public expenses	**(23)**	–	**(223)**
Commissions paid	**(37)**	(15)	**(359)**
Gain on sales of noncurrent assets	**–**	11	**–**
Gain on transfer of business	**89**	–	**865**
Loss on retirement of noncurrent assets	**(29)**	(58)	**(281)**
Loss on valuation of investment securities	**–**	(12)	**–**
Loss on sales of golf club membership	**–**	(4)	**–**
Loss on change in equity	**(104)**	–	**(1,010)**
Other, net	**31**	53	**301**
	114	319	**1,108**
Income before income taxes and minority interests	**1,070**	1,915	**10,400**
Income taxes (Note 7)**:**			
Current	**350**	402	**3,402**
Deferred	**67**	1	**651**
Total income taxes	**418**	403	**4,062**
Income before minority interests	**651**	1,512	**6,327**
Minority interests in income	**(13)**	(13)	**(126)**
Net income (Note 17)	**¥ 665**	¥ 1,525	**$ 6,463**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Nitta Gelatin Inc. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Income before minority interests	**¥ 651**	¥1,512	**$ 6,327**
Other comprehensive income (Note 19)**:**			
Valuation difference on available-for-sale securities	**123**	83	**1,195**
Deferred gains or losses on hedges	**(30)**	17	**(291)**
Foreign currency translation adjustment	**388**	600	**3,771**
Pension liability adjustment of foreign subsidiaries	**(11)**	(395)	**(106)**
Share of other comprehensive income of associates accounted for using equity method	**105**	95	**1,020**
Total other comprehensive income	**575**	401	**5,589**
Comprehensive income	**¥1,227**	¥1,913	**$11,926**
Comprehensive income attributable to:			
Owners of the parent	**¥1,224**	¥1,918	**$11,897**
Minority interests	**2**	(4)	**19**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nitta Gelatin Inc. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at April 1, 2012	¥1,577	¥1,398	¥6,889	¥(0)	¥ 9,865
Cumulative effect of changes in accounting policies					–
Balance at April 1, 2012 after reflecting changes in accounting policies	1,577	1,398	6,889	(0)	9,865
Issuance of new shares					–
Dividends from surplus			(220)		(220)
Net income			1,525		1,525
Net changes of items other than shareholders' equity					–
Balance at March 31, 2013	¥1,577	¥1,398	¥8,194	¥(0)	¥11,170
Issuance of new shares	**1,567**	**1,567**			**3,135**
Dividends from surplus			**(236)**		**(236)**
Net income			**665**		**665**
Net changes of items other than shareholders' equity					**–**
Balance at March 31, 2014	**¥3,144**	**¥2,966**	**¥8,623**	**¥(0)**	**¥14,734**

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Accumulated adjustments for retirement benefit	Pension liability adjustment of foreign subsidiaries	Total	Minority interests	Total net assets
Balance at April 1, 2012	¥416	¥ 6	¥(1,350)	¥ –	¥ (903)	¥(1,832)	¥ 74	¥ 8,108
Cumulative effect of changes in accounting policies					(153)	(153)		(153)
Balance at April 1, 2012 after reflecting changes in accounting policies	416	6	(1,350)	–	(1,057)	(1,986)	74	7,954
Issuance of new shares								–
Dividends from surplus								(220)
Net income								1,525
Net changes of items other than shareholders' equity	83	21	683	–	(395)	393	72	465
Balance at March 31, 2013	¥499	¥ 27	¥ (667)	¥ –	¥(1,452)	¥(1,592)	¥147	¥ 9,724
Issuance of new shares								**3,135**
Dividends from surplus								**(236)**
Net income								**665**
Net changes of items other than shareholders' equity	**122**	**(32)**	**480**	**(1,528)**	**1,452**	**494**	**(3)**	**491**
Balance at March 31, 2014	**¥622**	**¥ (5)**	**¥ (187)**	**¥(1,528)**	**¥ –**	**¥(1,097)**	**¥144**	**¥13,781**

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at March 31, 2013	$15,328	$13,588	$79,646	$(0)	$108,573
Issuance of new shares	**15,231**	**15,231**			**30,472**
Dividends from surplus			**(2,293)**		**(2,293)**
Net income			**6,463**		**6,463**
Net changes of items other than shareholders' equity					**–**
Balance at March 31, 2014	**$30,559**	**$28,829**	**$83,816**	**$(0)**	**$143,215**

	Thousands of U.S. dollars (Note 1)							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Accumulated adjustments for retirement benefit	Pension liability adjustment of foreign subsidiaries	Total	Minority interests	Total net assets
Balance at March 31, 2013	$4,850	$ 262	$(6,483)	$ –	$(14,113)	$(15,474)	$1,428	$ 94,517
Issuance of new shares								**30,472**
Dividends from surplus								**(2,293)**
Net income								**6,463**
Net changes of items other than shareholders' equity	**1,185**	**(311)**	**4,665**	**(14,852)**	**14,113**	**4,801**	**(29)**	**4,772**
Balance at March 31, 2014	**$6,045**	**$ (48)**	**$(1,817)**	**$(14,852)**	**$ –**	**$(10,662)**	**$1,399**	**$133,952**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nitta Gelatin Inc. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Operating activities:			
Income before income taxes and minority interests	**¥ 1,070**	¥ 1,915	**$ 10,400**
Depreciation and amortization	**914**	825	**8,884**
Increase (decrease) in provision for retirement benefits	**–**	(81)	**–**
Increase (decrease) in provision for directors' retirement benefits	**1**	1	**9**
Increase (decrease) in provision for bonuses	**(46)**	(21)	**(447)**
Increase (decrease) in allowance for doubtful accounts	**(2)**	1	**(19)**
Increase (decrease) in liability for retirement benefits	**(27)**	–	**(262)**
Interest and dividends income	**(24)**	(19)	**(233)**
Interest expenses	**133**	147	**1,292**
Foreign exchange losses (gains)	**(35)**	(71)	**(340)**
Equity in earnings of affiliates	**(97)**	(262)	**(942)**
Gain on sales of property, plant and equipment	**–**	(11)	**–**
Loss on retirement of noncurrent assets	**29**	58	**281**
Loss on valuation of investment securities	**–**	12	**–**
Loss on valuation of golf club membership	**104**	–	**1,010**
Loss on sales of golf club membership	**–**	4	**–**
Decrease (increase) in notes and accounts receivable	**(2,147)**	897	**(20,868)**
Decrease (increase) in inventories	**(624)**	(650)	**(6,065)**
Increase (decrease) in notes and accounts payable	**324**	40	**3,149**
Increase (decrease) in accrued consumption taxes	**(52)**	(66)	**(505)**
Other, net	**88**	13	**855**
Subtotal	**(391)**	2,732	**(3,800)**
Interest and dividends income received	**134**	153	**1,302**
Interest expenses paid	**(134)**	(148)	**(1,302)**
Income taxes paid	**(301)**	(686)	**(2,925)**
Net cash provided by operating activities	**(692)**	2,050	**(6,726)**
Investing activities:			
Payments into time deposits	**(20)**	(20)	**(194)**
Proceeds from withdrawal of time deposits	**20**	20	**194**
Purchase of property, plant and equipment	**(2,949)**	(1,193)	**(28,664)**
Proceeds from sales of property, plant and equipment	**–**	14	**–**
Purchase of intangible assets	**(12)**	(40)	**(116)**
Purchase of investment securities	**(6)**	(38)	**(58)**
Purchase of stocks of affiliates	**(142)**	(302)	**(1,380)**
Proceeds from cancellation of insurance funds	**15**	29	**145**
Purchase of insurance funds	**(4)**	(4)	**(38)**
Other, net	**(5)**	(21)	**(48)**
Net cash used in investing activities	**¥(3,105)**	¥(1,557)	**$(30,180)**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Financing activities:			
Net increase (decrease) in short-term loans payable	**¥ (91)**	¥ 84	**$ (884)**
Proceeds from long-term debt	**3,222**	2,124	**31,318**
Repayment of long-term debt	**(2,165)**	(2,103)	**(21,043)**
Redemption of bonds	**(200)**	(330)	**(1,944)**
Proceeds from issuance of common stock	**3,135**	–	**30,472**
Proceeds from stock issuance to minority shareholders	**–**	85	**–**
Proceeds from sale and leaseback transaction	**432**	132	**4,199**
Repayments of lease obligations	**(216)**	(140)	**(2,099)**
Cash dividends paid	**(236)**	(220)	**(2,293)**
Cash dividends paid to minority shareholders	**(5)**	(8)	**(48)**
Net cash provided by (used in) financing activities	**3,875**	(376)	**37,665**
Effect of exchange rate change on cash and cash equivalents	**70**	63	**680**
Net increase in cash and cash equivalents	**147**	180	**1,428**
Cash and cash equivalents at beginning of period	**2,258**	2,078	**21,947**
Cash and cash equivalents at end of period (Note 18)	**¥ 2,406**	¥ 2,258	**$ 23,386**

See notes to consolidated financial statements.

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 2013 financial statements to conform to the classifications used in 2014.

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 ¥102.88 = U.S. $1, the approximate rate of exchange at March 31, 2014, and were then rounded down to the nearest thousand. As a result, the totals shown in the accompanying consolidated financial statements in U.S. dollar 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 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, 2014 include the accounts of the Company and its 14 significant subsidiaries (14 significant subsidiaries in 2013). The fiscal year-end of three consolidated subsidiary (December 31) is different than the consolidated fiscal year-end (March 31), and necessary adjustments are made for any significant transactions between its 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, 2014 three affiliates (three affiliates in 2013) 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 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 foreign consolidated subsidiaries are translated into yen at the exchange rates as of the consolidated balance sheet date, and revenue and expense accounts are translated at the average rate during the year. Differences arising from the translation are presented in foreign currency translation adjustment and minority interests in 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 or 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 foreign 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:	4 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 lives 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 it is agreed).

In addition, the Group accounts for the finance lease transactions that commenced on or before March 31, 2008 and do not transfer ownership of the leased assets to the lessee as operating lease transactions.

(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 record provision for bonuses at an amount estimated to cover the bonus payments for services rendered by employees during each fiscal year.

(11) Provision for directors' retirement benefits

Certain domestic consolidated subsidiaries record provision for directors' retirement benefits to cover future payments at an amount required according to the internal rules as of the balance sheet date.

(12) Accounting method for retirement benefits

The retirement benefit obligation is calculating by allocating the estimated retirement benefits to period of service by the straight-line 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.

(13) Hedge accounting

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

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

2014

Hedging instruments	Hedged items
Foreign exchange forward contracts	Payables denominated in foreign currencies in connection with imports of raw materials and forecasted transactions denominated in foreign currencies
Interest rate swaps	Loans and debt

2013

Hedging instruments	Hedged items
Foreign exchange forward contracts	Payables denominated in foreign currencies in connection with imports of raw materials and forecasted transactions denominated in foreign currencies
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 the exceptional treatment, however, the assessment of effectiveness is not performed.

(14) Going public expenses

Going public expenses are charged to income as incurred.

(15) Income taxes

Income taxes are computed based on 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 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.

(16) Accounting Change

(Application of International Accounting Standards (IAS) 19 Employee Benefits)

Certain overseas affiliate companies started applying IAS 19 Employee Benefits (June 16, 2011) from the year ended March 31, 2014. This change in accounting policy was also applied retroactively to restate results for the fiscal year ended March 31, 2013 in the consolidated financial statements.

As a result, net income for the year ended March 31, 2013 decreased ¥40 million after restatement. Moreover, net assets as of April 1, 2012 were restated ¥153 million lower to mainly reflect the accumulative impact of this accounting policy change.

Also net asset per share at the year ended March 31, 2013 decreased ¥15.43 and net income per share for the year ended March 31, 2013 decreased ¥2.58.

(Application of Accounting Standard for Retirement Benefits, etc.)

The Company has applied the “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 26, issued on May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, issued on May 17, 2012) from the fiscal year ended March 31, 2014 (excluding, however, the stipulations of the body text of Article 35 of the Retirement Benefit Accounting Standard and the body text of Article 67 of the Retirement Benefit Accounting Guidance).

Under this accounting standard, the Company has adopted the method of recording unrecognized actuarial gains and losses and unrecognized prior service costs after tax as a liability for retirement benefits. The Company has also recorded the amounts of retirement benefit obligations minus pension assets as a liability for retirement benefits.

In accordance with the transitional treatment stipulated by Article 37 of the Retirement Benefit Accounting Standard, as of March 31, 2014, the amounts of the impacts resulting from the application of Retirement Benefit Accounting Standard, etc., were added to, or deducted from, Accumulated adjustments for retirement benefit in accumulated other comprehensive income.

As a result, the Company recorded liability for retirement benefits of ¥2,524 million ($24,533 thousand) as of March 31, 2014, and accumulated other comprehensive income was reduced by ¥75 million ($729 thousand), as of the same date.

Also net asset per share as of March 31, 2013 decreased ¥4.12 ($0.04).

Following the application of the Retirement Benefit Accounting Standard, etc., the Company has included pension liability adjustment of foreign subsidiaries in Accumulated adjustments for retirement benefit on the consolidated balance sheets and the consolidated statements of changes in net assets from March 31, 2014. Previously, the Company had shown pension liability adjustment of foreign subsidiaries as a separate account on the consolidated balance sheets and the consolidated statements of changes in net assets.

(17) New accounting standards

(Application of Accounting Standard for Retirement Benefits, etc.)

"Accounting Standard for Retirement Benefit" and "Guidance on Accounting Standard for Retirement Benefit"

1. Outline

These accounting standards were revised with regard to the accounting method for unrecognized actuarial gains and losses and unrecognized prior service costs, the calculation method of retirement benefit obligations and service costs, and enhanced disclosures.

2. Scheduled adoption date

The revised method for calculating retirement benefit obligations and service costs is scheduled for adoption from April 1, 2014.

In accordance with the transitional treatment provided for these revised accounting standards, past consolidated financial statements were not restated.

3. Impact of applying the accounting standard and guidance

The Company is currently evaluating the impact of applying the accounting standard and guidance on financial statements when the accompanying consolidated financial statements were prepared.

(Application of Accounting Standard for Business Combinations, etc.)

Revised Accounting Standard for Business Combination (ASBJ Statement No. 21, issued on September 13, 2013) and other related revised standards

1. Outline

The main revisions are as follows.

(1) Gain or loss arising from a change in the parent company's equity in subsidiaries in cases where control is retained was revised to a method recognizing them as capital surplus. "Minority interests" in financial statements prior to the accounting standard revision will be restated as "non-controlling interests" upon adoption of the revision.

(2) Acquisition costs in connection with business combinations were revised to a method expensing them in the consolidated fiscal year in which they arise.

(3) In the event that the accounting of a business combination is recognized provisionally in the fiscal year following the combination, when the consolidated financial statements for that year are disclosed together with the statements from the previous fiscal year in which the combination took place, the disclosure method was revised to restate the distribution of acquisition cost due to the provisional recognition in the statements of the fiscal year in which the combination took place.

(4) "Income (loss) before minority interest" in financial statements prior to the accounting standard revision will be restated as "net income" upon adoption of this revision. In conjunction, "net income" in financial statements prior to the accounting standard revision will be restated as "net income attributable to owners of the parent" upon adoption of the revision.

2. Scheduled adoption date

This revised accounting standard is scheduled for adoption from April 1, 2015.

3. Impact of applying the accounting standard

The impact of applying the revised accounting standard had not been ascertained at the time when the accompanying consolidated financial statements were prepared.

3. Notes Receivable and Notes Payable Maturing at Fiscal Year-End

Notes receivable maturing at the fiscal year-end are settled on the date of clearance. As March 31, 2013 was a bank holiday, the following notes receivable were included in the balances as of March 31, 2014 and 2013.

	Millions of yen	
	2014	2013
Notes receivable	**¥–**	¥106

4. Inventories

The balances of inventories as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Merchandise and finished goods	**¥4,732**	¥4,404	**$45,995**
Work in process	**1,089**	918	**10,585**
Raw materials and supplies	**1,820**	1,508	**17,690**
Inventories, total	**¥7,642**	¥6,831	**$74,280**

The inventory write-down of ¥(28) million ($(272) thousand) and ¥39 million were recorded in cost of sales for the years ended March 31, 2014 and 2013, respectively, due to decline in profitability.

5. Investment Securities

Information of available-for-securities as of March 31, 2014 and 2013 was as follows:

	Millions of yen					
	2014			2013		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥1,194**	**¥227**	**¥966**	¥ 977	¥201	¥775
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	**5**	**6**	**(1)**	29	30	(1)
Total	**¥1,199**	**¥234**	**¥965**	¥1,006	¥232	¥774

	Thousands of U.S. dollars		
	2014		
	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	**$11,605**	**$2,206**	**$9,389**
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	**48**	**58**	**(9)**
Total	**$11,654**	**$2,274**	**$9,379**

Unlisted equity securities of ¥18 million ($174 thousand) as of March 31, 2014 and 2013 were not included in the above tables as there were no market prices available and it is extremely difficult to determine their fair value.

Investments in unconsolidated subsidiaries and affiliates of ¥1,857 million ($18,050 thousand) and ¥1,743 million were included in investment securities as of March 31, 2014 and 2013, respectively.

Impairment losses on available-for-sale securities with fair market value are recognized if the available fair market value declined by 50% or more from the acquisition cost or when the fair market value declined of 30% to 50% and the decline was considered not recoverable.

The impairment losses on available-for-sale securities for the year ended March 31, 2013 were ¥12 million.

6. Short-Term Loans Payable, Long-Term Debt, Bonds and Lease Obligations

	Millions of yen			Millions of yen	Thousands of U.S. dollars
	2014			2013	**2014**
	Amount	Weighted average interest rate (%)	Due	Amount	Amount
Current portion of long-term debt	**¥ 1,932**	**1.536%**	**–**	¥ 2,068	**$ 18,779**
Lease obligations (current portion)	**215**	**–**	**–**	154	**2,089**
Long-term debt excluding current portion	**4,415**	**1.834**	**2015 to 2021**	3,142	**42,914**
Lease obligations excluding current portion	**495**	**–**	**2015 to 2022**	319	**4,811**
No. 16 unsecured corporate bonds	**–**	**1.82**	**Aug. 2013**	200	**–**
	7,060			5,884	**68,623**
Less: Current portion	**(2,148)**			(2,422)	**(20,878)**
	¥ 4,911			¥ 3,461	**$ 47,735**

The weighted average interest rate of short-term loans payable at March 31, 2014 was 2.460%. 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 debt and lease obligations outstanding on or after April 1, 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars	
Year ending March 31,	Long-term debt	Lease obligations	Long-term debt	Lease obligations
2015	¥1,932	¥215	$18,779	$2,089
2016	1,520	192	14,774	1,866
2017	1,220	144	11,858	1,399
2018	741	112	7,202	1,088
2019 and thereafter	933	46	9,068	447
Total	¥6,348	¥711	$61,702	$6,910

The following assets were pledged as collateral as of March 31, 2014 and 2013.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Buildings and structures	**¥1,203**	¥1,199	**$11,693**
Machinery, equipment and vehicles	**81**	122	**787**
Land	**191**	191	**1,856**
Investment securities	**213**	373	**2,070**
Total	**¥1,689**	¥1,886	**$16,417**
Assets pledged as factory foundation mortgage included in the above assets:			
Buildings and structures	**¥1,203**	¥1,199	**$11,693**
Machinery, equipment and vehicles	**81**	122	**787**
Land	**191**	191	**1,856**
Total	**¥1,475**	¥1,513	**$14,337**

The obligations collateralized by the above assets as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Long-term debt	**¥3,214**	¥3,733	**$31,240**
Factory foundation mortgage included in the above liabilities:			
Long-term debt	**¥2,920**	¥3,277	**$28,382**

For the purpose of obtaining working funds effectively, the Company and one consolidated subsidiary have entered into overdraft agreements and loan commitment agreements amounting to ¥4,950 million ($48,114 thousand) in total with five banks at March 31, 2014 and 2013. There was no borrowing outstanding under these agreements as of March 31, 2014 and 2013.

7. 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 38.01% for the years ended March 31, 2014 and 2013. For the years ended March 31, 2013, reconciliations between the statutory income tax rate and the effective income tax rate as a percentage of income are as follows:

	2013
Statutory tax rate	38.01%
Adjustments for:	
Non-deductible expenses for income tax purposes	0.77
Non-taxable income	(0.38)
Inhabitants taxes—per capita levy	0.24
Tax credit for research and development, etc.	(2.39)
Unrecognized tax benefits of net operating losses of subsidiaries	(9.99)
Difference in tax rates between the Company and subsidiaries	(1.46)
Equity in earnings of affiliates	(5.21)
Effect of change in accounting policy applied retroactively	1.38
Other	0.08
Effective tax rates	21.06%

For the years ended March 31, 2014, reconciliations between the statutory income tax rate and the effective income tax rate as a percentage of income are omitted since the difference between the statutory income tax rate and the effective income tax rate is less than 5% of the statutory income tax rate.

The significant components of deferred tax assets and liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Loss on valuation of inventories	**¥ 47**	¥ 48	**$ 456**
Unrealized profit	**38**	19	**369**
Provision for bonuses	**72**	70	**699**
Accrued enterprise tax	**15**	12	**145**
Loss on valuation of golf club membership	**1**	1	**9**
Loss on valuation of investment securities	**249**	250	**2,420**
Provision for retirement benefits	**–**	843	**–**
Liability for retirement benefits	**851**	–	**8,271**
Provision for directors' retirement benefits	**29**	28	**281**
Interest expenses	**23**	9	**223**
Impairment loss	**29**	29	**281**
Net loss carried forward	**752**	853	**7,309**
Other	**50**	47	**486**
Subtotal	**2,162**	2,215	**21,014**
Valuation allowance	**(996)**	(959)	**(9,681)**
Total deferred tax assets	**1,165**	1,256	**11,323**
Deferred tax liabilities:			
Depreciation	**(235)**	(245)	**(2,284)**
Valuation difference on available-for-sale securities	**(342)**	(274)	**(3,324)**
Provision for retirement benefits	**–**	(64)	**–**
Asset for retirement benefits	**(34)**	–	**(330)**
Other	**–**	(15)	**–**
Total deferred tax liabilities	**(611)**	(601)	**(5,938)**
Net deferred tax assets	**¥ 553**	¥ 655	**$ 5,375**

Following the promulgation on March 31, 2014 of the "Act for Partial Revision of the Income Tax Act etc.," the Special Reconstruction Corporation Tax will not be imposed for the fiscal years beginning on or after April 1, 2014.

In line with these changes the effective statutory tax rate used to measure deferred tax assets and liabilities as of March 31, 2014 was changed from approximately 38.0% to 35.6% for temporary differences expected to be utilized in the fiscal years beginning on or after April 1, 2014.

As a result, total deferred tax assets (excluding the amount of deferred tax liabilities) as of March 31, 2014 decreased by ¥7 million ($68 thousand), and income taxes for the fiscal year ended March 31, 2014 increased by ¥7 million ($68 thousand).

8. Retirement Benefit Plans

(For the year ended March 31, 2014)

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
	2014	2014
Retirement benefit obligations:		
Balance at beginning of year	¥7,632	$74,183
Service cost	179	1,739
Interest cost	259	2,517
Actuarial gains and losses	372	3,615
Benefits paid	(357)	(3,470)
Foreign currency translation adjustment	293	2,847
Balance at end of year	¥8,379	$81,444

(b) Plan assets

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Plan assets:		
Balance at beginning of year	¥5,458	$53,052
Expected return on plan assets	253	2,459
Administrative fees	(23)	(223)
Actuarial gains and losses	255	2,478
Contribution paid by the employer	172	1,671
Contribution paid by the employees	2	19
Benefits paid	(249)	(2,420)
Foreign currency translation adjustment	238	2,313
Balance at end of year	¥6,107	$59,360

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

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligations	¥ 6,527	$ 63,442
Plan assets	(6,107)	(59,360)
	419	4,072
Unfunded retirement benefit obligations	1,851	17,991
Total Net liability (asset) for retirement benefits	¥ 2,271	$ 22,074
Liability for retirement benefits	¥ 2,524	$ 24,533
Asset for retirement benefits	(253)	(2,459)
Total Net liability (asset) for retirement benefits	¥ 2,271	$ 22,074

(d) Retirement benefit costs

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥ 179	$ 1,739
Interest cost	259	2,517
Expected return on plan assets	(253)	(2,459)
Administrative fees	23	223
Amortization of actuarial gains and losses	75	729
Amortization of prior service benefit and cost	(13)	(126)
Total Retirement benefit costs	¥ 270	$ 2,624

(e) Adjustments for retirement benefit

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Adjustments for retirement benefit:		
Actuarial gains and losses	¥18	$174
Total	¥18	$174

(f) Accumulated adjustments for retirement benefit

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Accumulated adjustments for retirement benefit:		
Unrecognized prior service costs	¥ 55	$ 534
Unrecognized actuarial gains and losses	(1,673)	(16,261)
Total	¥(1,617)	$(15,717)

(g) Plan assets

Plan assets comprise:

	2014
Bonds	54%
Equity securities	37
Cash and deposits	4
Other	5
Total	100%

Current and target assets allocations, 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

	2014
Discount rate:	
The Company and domestic consolidated subsidiaries	1.1%
Foreign consolidated subsidiaries	3.3%–4.5%
Long-term expected rate of return:	
The Company and domestic consolidated subsidiaries	2.1%
Foreign consolidated subsidiaries	4.3%–6.5%

(2) Defined contribution plans

Certain consolidated subsidiaries that have defined contribution plans are expected to contribute ¥71 million ($690 thousand) to the defined contribution plans for the year ended March 31, 2014.

(For the year ended March 31, 2013)

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

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2013 for the Company's and the consolidated subsidiaries' defined benefit plans.

	Millions of yen
	2013
Retirement benefit obligation	¥(7,632)
Plan assets at fair value	5,458
Unfunded retirement benefit obligation	(2,173)
Unrecognized actuarial loss	(6)
Unrecognized prior service benefit and cost	(69)
Net retirement benefit obligation	(2,249)
Prepaid pension cost	27
Provision for retirement benefits	¥(2,276)

Note: Certain consolidated subsidiaries apply the simplified method in calculating retirement benefit obligation.

The components of retirement benefit expenses for the years ended March 31, 2013 were outlined as follows:

	Millions of yen
	2013
Service cost(Note 1)	¥ 166
Interest cost	243
Administrative fees	6
Expected return on plan assets	(227)
Amortization of actuarial loss	77
Amortization of prior service benefit and cost	(24)
Other(Note 2)	52
Retirement benefit expenses	¥ 295

Note 1: Retirement benefit expenses of consolidated subsidiaries which apply the simplified method are included in "Service cost."
Note 2: "Other" includes contributions to the defined contribution plans.

Both discount rates and expected rates of return on plan assets used in calculation of retirement benefit obligations for the years ended March 31, 2013 were mainly 2.10%.

9. Leases

(1) Finance leases (lessee)

The Company leases production facilities (machinery, equipment and vehicles) in connection with collagen material business as a lessee through finance lease transactions that do not transfer ownership of the leased property to the lessee. Finance leases that do not transfer ownership of the leased property to the lessee and commenced on or before March 31, 2008 are accounted for as operating leases.

The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of the leased properties as of March 31, 2013, which would be reflected in the consolidated financial statements if the finance lease accounting was applied to the finance leases currently accounted for as operating leases.

	Millions of yen		
	2013		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥240	¥197	¥42
Total	¥240	¥197	¥42

Lease payments relating to finance leases accounted for as operating leases and the pro forma depreciation expenses and interest expenses relating to assets leased under finance leases accounted for as operating leases for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Lease payments	**¥20**	¥66	**$194**
Depreciation expenses	**17**	56	**165**
Interest expenses	**0**	4	**0**

The pro forma depreciation expenses are computed by the straight-line method over the lease term with no residual value (residual value guarantee amount if it is agreed), and the pro forma interest expenses are computed by the interest method. There were no impairment losses allocated to lease assets for the years ended March 31, 2014 and 2013.

(2) Operating Leases

Future minimum lease payments subsequent to March 31, 2014 for non-cancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥313	$3,042
2016 and thereafter	153	1,487
Total	¥467	$4,539

10. 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. Although trade receivables denominated in foreign currencies arising from foreign operations are exposed to foreign currency risk, the balances of receivables are always less than payables denominated in the same currencies.

Investment securities are mainly composed of equity securities of companies with business relationship and are exposed to market risk. The Company also provides long-term loans to companies with business relationship.

Substantially all trade payables such as notes and accounts payable have payment due dates within five months. Although certain payables denominated in foreign currencies are exposed to foreign currency risk, such risk is hedged by foreign exchange forward contracts except for payables less than receivables denominated in the same currencies.

Long-term debt, bonds and lease obligations under finance leases are principally for the purpose of making capital investments and due up to seven years from the balance sheet date. Although certain of them 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 debt.

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 (13) 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 Company, for trade receivables and long-term loans receivable, sales departments of each division monitor credit worthiness of their main customers periodically and manage due dates and outstanding balances by customer. In addition, the Company is making efforts to identify uncollectibility in the earlier stage and mitigate risks of bad debts from customers having financial difficulties. Consolidated subsidiaries similarly manage such risks in accordance with the Company's credit management rules.

The Company 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 denominated in foreign currencies, the foreign currency risk of the Company identified by currency on a monthly basis is hedged by foreign exchange forward contracts. In addition, in order to mitigate the interest rate risk for interest payments of long-term debt, the Company has entered into interest rate swap transactions.

For investment securities, the Company periodically monitors the fair values and the financial position of the issuers (companies with business relationship) 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 on funding (risk of default at due dates)

Based on reports from each division, the responsible division of the Company prepares and updates its cash flow plan on a timely basis and manages liquidity risk by maintaining liquid funds. Consolidated subsidiaries manage their liquidity risk in a similar manner.

(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 11. "Derivative Transactions" are not indicative of the market risk involved in derivative transactions.

(2) Fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheets as of March 31, 2014 and 2013, fair value and their difference are shown in the following table. Financial instruments whose fair value is extremely difficult to determine are not included in the following table.

	Millions of yen		
	2014		
	Carrying value	Fair value	Difference
Cash and deposits	¥ 2,426	¥ 2,426	¥ –
Notes and accounts receivable	8,164	8,164	–
Investment securities	1,199	1,199	–
Total assets	¥11,790	¥11,790	¥ –
Notes and accounts payable	4,255	4,255	–
Other payable	1,747	1,747	–
Long-term debt (including its current portion)	6,348	6,359	10
Total liabilities	¥12,352	¥12,362	¥10
Derivative transactions(*)	¥ 8	¥ 8	¥ –

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

	Millions of yen		
	2013		
	Carrying value	Fair value	Difference
Cash and deposits	¥ 2,278	¥ 2,278	¥ –
Notes and accounts receivable	5,839	5,839	–
Investment securities	1,006	1,006	–
Total assets	¥ 9,125	¥ 9,125	¥ –
Notes and accounts payable	¥ 3,736	¥ 3,736	¥ –
Other payable	1,586	1,586	–
Long-term debt (including its current portion)	5,210	5,231	21
Total liabilities	¥10,533	¥10,554	¥21
Derivative transactions(*)	¥ 40	¥ 40	¥ –

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

	Thousands of U.S. dollars		
	2014		
	Carrying value	Fair value	Difference
Cash and deposits	**$ 23,580**	**$ 23,580**	**$ –**
Notes and accounts receivable	**79,354**	**79,354**	**–**
Investment securities	**11,654**	**11,654**	**–**
Total assets	**$114,599**	**$114,599**	**$ –**
Notes and accounts payable	**$ 41,358**	**$ 41,358**	**$ –**
Other payable	**16,980**	**16,980**	**–**
Long-term debt (including its current portion)	**61,702**	**61,809**	**97**
Total liabilities	**$120,062**	**$120,159**	**$97**
Derivative transactions(*)	**$ 77**	**$ 77**	**$ –**

(*) 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. The information on securities classified by holding purpose is disclosed in Note 5. “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.

Long-term debt

The fair value of long-term debt 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:

The information on derivative transactions is disclosed in Note 11. “Derivative Transactions.”

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Carrying value:			
Unlisted equity securities	**¥18**	¥18	**$174**

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, 2014 and 2013, monetary receivables with maturities were deposits of ¥2,422 million ($23,541 thousand) and ¥2,275 million and notes and accounts receivable of ¥8,164 million ($79,354 thousand) and ¥5,839 million, respectively. These were all due within one year.

11. Derivative Transactions

The hedge accounting has been applied to all derivative transactions held by the Group as of March 31, 2014 and 2013, and their fair value information is stated as follows. Fair value is measured based on quotes and prices provided by counterparty financial institutions.

Currency related:

	Millions of yen					
	2014			2013		
	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	**¥533**	**¥–**	**¥(8)**	¥248	¥–	¥41

	Thousands of U.S. dollars		
	2014		
	Contract or notional amount	Maturing after one year	Fair value
Deferral hedge accounting			
Foreign exchange forward contracts			
Buy: USD and CAD	**$5,180**	**$–**	**$(77)**

Interest related:

	Millions of yen					
	2014			2013		
	Contract or notional amount	Maturing after one year	Fair value	Contract or notional amount	Maturing after one year	Fair value
Deferral hedge accounting						
Interest rate swaps						
Receive/floating and pay/fixed	**¥ –**	**¥ –**	**¥–**	¥1,500	¥ –	¥(1)
Exceptional treatment						
Interest rate swaps						
Receive/floating and pay/fixed	**2,050**	**¥123**	(*)	1,950	¥290	(*)

	Thousands of U.S. dollars		
	2014		
	Contract or notional amount	Maturing after one year	Fair value
Deferral hedge accounting			
Interest rate swaps			
Receive/floating and pay/fixed	**$ –**	**$ –**	**$–**
Exceptional treatment			
Interest rate swaps			
Receive/floating and pay/fixed	**19,926**	**1,195**	(*)

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

12. Contingent Liabilities

As of March 31, 2013, the Group was contingently liable for the assignment of receivable with recourse in the amount of ¥475 million.

13. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Packing and freightage expenses	**¥ 822**	¥ 740	**$ 7,989**
Salaries	**1,305**	1,138	**12,684**
Bonuses	**205**	236	**1,992**
Provision for bonuses	**60**	61	**583**
Retirement benefit costs	**74**	81	**719**
Provision for directors' retirement benefits	**1**	1	**9**
Provision of allowance for doubtful accounts	**3**	4	**29**
Depreciation	**86**	78	**835**
Research and development expenses	**814**	793	**7,912**

For the years ended March 31, 2014 and 2013, research and development expenses included in general and administrative expenses and manufacturing costs were ¥1,004 million ($9,758 thousand) and ¥1,026 million, respectively.

14. Information on Related Party Transactions

Transactions of the Company with affiliates for the year ended March 31, 2014 were as follows:

Name	Paid in capital	Principal business	Ownership ratio	Description of transaction	Millions of yen	Thousands of U.S. dollars
Guangdong Baiwei Bio Material Co., Ltd. (Guangdong, China)	**(Thousands of RMB) 67,600**	**Manufacture of collagen peptido**	**Direct 44.6%**	**Subscription of capital stock**	**¥142**	**$1,380**

Transactions of the Company with affiliates for the year ended March 31, 2013 were as follows:

Name	Paid in capital	Principal business	Ownership ratio	Description of transaction	Millions of yen
Reva Proteins Ltd. (Gujarat, India)	(Thousands of rupees) 405,675	Manufacture of ossein	Direct 25.4% Indirect 34.6%	Subscription of capital stock	¥196

For the years ended March 31, 2014 and 2013, significant affiliates were Nitta Gelatin India Ltd. and Bostik-Nitta Co., Ltd., and the condensed financial information prepared by combining the financial statements of these significant affiliates was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Total current assets	**¥2,938**	¥3,371	**$28,557**
Total noncurrent assets	**2,111**	1,599	**20,519**
Total current liabilities	**1,922**	1,837	**18,681**
Total noncurrent liabilities	**262**	142	**2,546**
Total net assets	**2,864**	2,990	**27,838**
Net sales	**8,040**	7,849	**78,149**
Income before income taxes	**327**	1,189	**3,178**
Net income	**185**	747	**1,798**

15. Shareholders' Equity

The Companies Act of Japan provides that an amount equivalent to 10% of the amount of deduction from surplus as a result of the payment of dividends shall be recorded as additional paid-in capital (a component of capital surplus) or legal reserve (a component of retained earnings) on the dividend date until the total of additional paid-in capital and legal reserve equals 25% of the capital stock account.

Such distributions can be made at any time by resolution of the shareholders' meeting or the board of directors if certain conditions are met.

Changes in total number of shares of capital stock issued for the years ended March 31, 2014 and 2013 were as follows:

As of March 31,	2012	Increase/(decrease)	2013	Increase/(decrease)	**2014**
Issued:					
Common stock	15,770,074	–	15,770,074	2,603,900	**18,373,974**
Total	15,770,074	–	15,770,074	–	**18,373,974**
Treasury stock:					
Common stock	162	–	162	–	**162**

For the year ended March 31, 2014, the increase in the number of issued shares of common stock was due to issuance of new shares by public offering, the payment date of which was July 29, 2013 (2,400,000 shares) and issuance of new shares by third-party allotment, the payment date of which was August 28, 2013 (203,900 shares).

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

(1) Dividends paid to shareholders

			2014				
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, 2013 Annual general meeting of shareholders	**Common stock**	**¥126**	**$1,224**	**¥8.00**	**$0.07**	**March 31, 2013**	**June 27, 2013**
November 5, 2013 Board of directors	**Common stock**	**110**	**1,069**	**6.00**	**0.05**	**September 30, 2013**	**December 6, 2013**

			2013		
Resolution	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Record date	Effective date
June 27, 2012 Annual general meeting of shareholders	Common stock	¥126	¥8.00	March 31, 2012	June 28, 2012
November 9, 2012 Board of directors	Common stock	94	6.00	September 30, 2012	December 7, 2012

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

2014								
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
June 26, 2014 Annual general meeting of shareholders	**Common stock**	**¥110**	**$1,069**	**Retained earnings**	**¥6.00**	**$0.05**	**March 31, 2014**	**June 27, 2014**

2013						
Resolution	Type of shares	Amount (Millions of yen)	Paid from	Amount per share (Yen)	Record date	Effective date
June 26, 2013 Annual general meeting of shareholders	Common stock	¥126	Retained earnings	¥8.00	March 31, 2013	June 27, 2013

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.

Net income per share is computed based on the net income available to shareholders of common stock and weighted average number of shares of common stock outstanding during the period which was 17,556,927 shares and 15,769,912 shares for the years ended March 31, 2014 and 2013, respectively.

	Yen		U.S. dollars
	2014	2013	**2014**
Net assets per share	**¥742.20**	¥607.31	**$7.21**
Net income per share	**37.90**	96.72	**0.36**

Diluted net income per share is not disclosed due to the absence of dilutive shares for the years ended March 31, 2014 and 2013.

Certain overseas affiliate companies started applying IAS 19 Employee Benefits (June 16, 2011) from the year ended March 31, 2014. This change in accounting policy was also applied retroactively to restate results for the fiscal year ended March 31, 2013 in the consolidated financial statements.

18. Cash Flow Information

Reconciliations between cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2014 and 2013 and cash and deposits in the consolidated balance sheets as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash and deposits	**¥2,426**	¥2,278	**$23,580**
Time deposits with a maturity in excess of three months	**(20)**	(20)	**(194)**
Cash and cash equivalents	**¥2,406**	¥2,258	**$23,386**

19. Comprehensive Income

Reclassification adjustments and income tax benefit (expense) on components of other comprehensive income for the year ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Valuation difference on available-for-sale securities:			
Losses arising during the period	**¥191**	¥ 117	**$1,856**
Reclassification adjustments	**(0)**	12	**(0)**
Pre-tax amount	**191**	129	**1,856**
Income tax benefit	**(68)**	(46)	**(660)**
Valuation difference on available-for-sale securities	**123**	83	**1,195**
Deferred gains or losses on hedges:			
Losses arising during the period	**(15)**	75	**(145)**
Reclassification adjustments	**–**	4	**–**
Adjustments to acquisition cost of assets	**(33)**	(52)	**(320)**
Pre-tax amount	**(49)**	27	**(476)**
Income tax expense	**18**	(10)	**174**
Deferred gains or losses on hedges	**(30)**	17	**(291)**
Foreign currency translation adjustment:			
Losses arising during the period	**388**	600	**3,771**
Pension liability adjustment of foreign subsidiaries:			
Losses arising during the period	**(58)**	(461)	**(563)**
Reclassification adjustments	**77**	51	**748**
Pre-tax amount	**18**	(409)	**174**
Income tax expense	**(30)**	14	**(291)**
Pension liability adjustment of foreign subsidiaries	**(11)**	(395)	**(106)**
Share of other comprehensive income of associates accounted for using equity method:			
Losses arising during the period	**53**	95	**515**
Reclassification adjustments	**52**	–	**505**
Share of other comprehensive income of associates accounted for using equity method	**105**	95	**1,020**
Total other comprehensive income	**¥575**	¥ 401	**$5,589**

20. Segment Information

(1) Overview of reportable segment

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 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.
(Application of IAS 19 Employee Benefits)
Certain overseas affiliate companies started applying IAS 19 Employee Benefits (June 16, 2011) from the year ended March 31, 2014. This change in accounting policy was also applied retroactively to restate results for the fiscal year ended March 31, 2013 in the consolidated financial statements.

As a result, segment profit of Collagen material business for the year ended March 31, 2013 decreased ¥23 million after restatement.

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

	Millions of yen				
	2014				
	Collagen material business	Formula solution business	Total	Reconciliation(Note 1)	Amounts on consolidated financial statements(Note 2)
Net sales:					
Sales to third parties	**¥22,436**	**¥10,377**	**¥32,814**	**¥ –**	**¥32,814**
Intersegment sales and transfers	**1,487**	**–**	**1,487**	**(1,487)**	**–**
Total	**23,923**	**10,377**	**34,301**	**(1,487)**	**32,814**
Segment profit	**1,420**	**920**	**2,340**	**(1,384)**	**955**
Segment assets	**23,327**	**5,791**	**29,118**	**2,271**	**31,389**
Other items:					
Depreciation and amortization	**808**	**70**	**878**	**35**	**914**
Increase in property, plant and equipment and intangible assets	**2,845**	**229**	**3,075**	**27**	**3,102**

	Millions of yen				
	2013				
	Collagen material business	Formula solution business	Total	Reconciliation(Note 1)	Amounts on consolidated financial statements(Note 2)
Net sales:					
Sales to third parties	¥18,674	¥10,097	¥28,772	¥ –	¥28,772
Intersegment sales and transfers	1,304	–	1,304	(1,304)	–
Total	19,979	10,097	30,076	(1,304)	28,772
Segment profit	1,794	1,151	2,945	(1,349)	1,595
Segment assets	18,370	4,528	22,899	2,290	25,190
Other items:					
Depreciation and amortization	721	72	793	31	825
Increase in property, plant and equipment and intangible assets	1,229	73	1,302	124	1,426

	Thousands of U.S. dollars				
	2014				
	Collagen material business	Formula solution business	Total	Reconciliation(Note 1)	Amounts on consolidated financial statements(Note 2)
Net sales:					
Sales to third parties	**$218,079**	**$100,865**	**$318,954**	**$ –**	**$318,954**
Intersegment sales and transfers	**14,453**	**–**	**14,453**	**(14,453)**	**–**
Total	**232,533**	**100,865**	**333,407**	**(14,453)**	**318,954**
Segment profit	**13,802**	**8,942**	**22,744**	**(13,452)**	**9,282**
Segment assets	**226,739**	**56,288**	**283,028**	**22,074**	**305,103**
Other items:					
Depreciation and amortization	**7,853**	**680**	**8,534**	**340**	**8,884**
Increase in property, plant and equipment and intangible assets	**27,653**	**2,225**	**29,889**	**262**	**30,151**

Note 1. "Reconciliation" included the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Segment profit:			
Intersegment elimination	**¥ 3**	¥ 2	**$ 29**
Corporate expense(*)	**(1,387)**	(1,352)	**(13,481)**
Total	**¥(1,384)**	¥(1,349)	**$(13,452)**

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Segment assets:			
Intersegment elimination	**¥ (567)**	¥ (458)	**$ (5,511)**
Corporate assets(*)	**2,838**	2,749	**27,585**
Total	**¥2,271**	¥2,290	**$22,074**

(*) "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, 2014 and 2013

(a) Information by geographical area

Net sales:

Millions of yen					
2014					
Japan	Asia	North America	Canada	Other	Total
¥19,684	**¥2,022**	**¥8,240**	**¥2,006**	**¥860**	**¥32,814**

Millions of yen					
2013					
Japan	Asia	North America	Canada	Other	Total
¥19,098	¥1,239	¥5,879	¥1,740	¥814	¥28,772

Thousands of U.S. dollars					
2014					
Japan	Asia	North America	Canada	Other	Total
$191,329	**$19,653**	**$80,093**	**$19,498**	**$8,359**	**$318,954**

Property, plant and equipment:

Millions of yen				
2014				
Japan	Asia	North America	Canada	Total
¥2,990	**¥255**	**¥4,664**	**¥894**	**¥8,804**

Millions of yen				
2013				
Japan	Asia	North America	Canada	Total
¥2,955	¥91	¥2,344	¥896	¥6,287

Thousands of U.S. dollars				
2014				
Japan	Asia	North America	Canada	Total
$29,062	**$2,478**	**$45,334**	**$8,689**	**$85,575**

(b) Information by product and service has been omitted since similar information is disclosed as information by reportable segment. Information by major customer has been omitted since there were no sales to single external customer accounting for 10% or more of the consolidated sales.

21. Subsequent Events

(Introduction of stock compensation-type stock options)

At a Board of Directors' meeting held on April 25, 2014, the Company has passed a resolution to submit a proposal regarding the introduction of stock compensation-type stock options for the Company's directors (excluding outside directors) and allotment stock acquisition rights as stock options at less than ¥100 million per one fiscal year.

The proposal was approved by the 75th Ordinary General Meeting of Shareholders held on June 26, 2014, based on Articles 361 of the Companies Act.

Date of resolution	June 26, 2014
Persons granted	6 directors of the Company (excluding outside directors)(Note 1)
Type of shares	Common stock
Numbers of options granted	The maximum number of shares that may be granted due to the exercise of stock acquisition rights on any day within one year of the day of the Annual general meeting of shareholders for each fiscal year shall be 200,000. The number of shares underlying each stock acquisition right (hereinafter, "the number of shares to be granted") shall be 100 shares.(Note 2)
Total amount to be invested upon exercise of stock acquisition rights	The amount to be invested upon exercise of stock acquisition rights shall be the amount to be paid in per share, for each share that can be granted due to the exercise of stock acquisition rights, which shall be one yen, multiplied by the number of shares granted.
Exercise period of stock acquisition right	The Company's Board of Directors shall determine the exercise period within a period not to exceed 40 years from the allotment date.
Conditions for exercising stock acquisition rights	Conditions, including those enabling the recipients of stock acquisition rights allotments who have lost their position as a Director of the Company to exercise their stock acquisition rights from the day after the day they lose their position, shall be determined by the Company's Board of Directors.
Limits on acquisition of stock acquisition rights via assignment	Approval of the Board of Directors of the Company shall be required for the acquisition of stock acquisition rights via assignment.

(Note 1) After the 75th Annual General Meeting of Shareholders is adjourned, the Company plans to pass a Board of Directors resolution to allot the same aforementioned stock options (stock acquisition rights) as stock compensation-type stock options to its executive officers.

(Note 2) In the event that the Company conducts a stock split of its common stock (including the gratis allotment of common shares; hereinafter, the same as the stipulations for a stock split) or a stock consolidation, the Company shall adjust the number of shares to be granted according to the formula below, and any fraction under one share resulting from such adjustment shall be rounded down.

Number of shares to be granted after adjustment =

Number of shares to be granted before adjustment × Stock split or stock consolidation ratio.

In addition to the foregoing, in the event that the Company conducts a merger or corporate split or in any other equivalent cases that require the adjustment of the number of shares to be granted, the Company shall be able to adjust the number of shares to be granted with a scope deemed rational under the circumstances.

(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, 2014 and 2013, 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.

Nitta Gelatin Inc.