Annual Report 2013

for the year ended March 31, 2013

Amaze the World!

Nitta Gelatin Inc.

Amaze the World!

The slogan for Nitta Gelatin's 100th Year Vision is to "Amaze the World!" Under this slogan, the Company set up a principle for action: "Be More Dynamic, Quicker, with Team Play."

Anticipating customer and market needs, Nitta Gelatin will work to develop products and uses and quickly provide products and services a step ahead of customers' expectations. In this way, Nitta Gelatin aims to impress customers, garnering even more trust and expanding business.

Contents

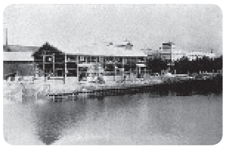
The earnings forecasts in this Annual Report are forward-looking statements

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.

Nitta Gelatin Group History

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

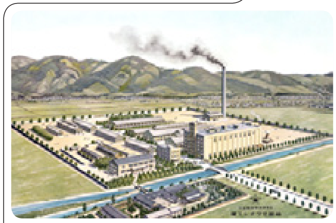
1918



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

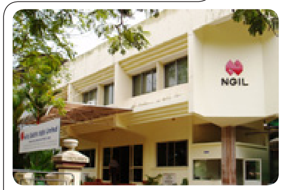
1937
Started production of photographic gelatin
After having relied on imports, research yielded Japan's first domestically made photographic gelatin

1968
Established Hikone Gelatin Inc.

1970

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.)

Be the Leader in Asia and a Globally Unique Enterprise

1982
Established Bostik-Nitta Co., Ltd.

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

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

1980 1990 2000 2010 2013

1990
Established Nitta Gelatin Canada, Inc. (Canada)

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)

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)

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

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

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

Consolidated Financial Highlights

Nitta Gelatin Inc. and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	72nd term From April 1, 2010 to March 31, 2011	73rd term From April 1, 2011 to March 31, 2012	**74th term From April 1, 2012 to March 31, 2013**	**74th term From April 1, 2012 to March 31, 2013**
For the year:				
Net sales	¥27,923	¥27,763	**¥28,772**	**$305,922**
Operating income	1,486	2,015	**1,618**	**17,203**
Net income	1,051	1,375	**1,565**	**16,640**
Comprehensive income	863	986	**2,003**	**21,297**
Research and development expenses	895	895	**1,026**	**10,909**
Capital expenditure	1,046	769	**1,426**	**15,162**
Depreciation and amortization	898	841	**825**	**8,771**
Net cash provided by operating activities	1,570	568	**2,050**	**21,796**
Net cash used in investing activities	(1,094)	(733)	**(1,557)**	**(16,555)**
Net cash provided by (used in) financing activities	(363)	713	**(376)**	**(3,997)**
Cash and cash equivalents at end of period	1,538	2,078	**2,258**	**24,008**
At year-end:				
Property, plant and equipment	¥ 5,537	¥ 5,387	**¥ 6,287**	**$ 66,847**
Net assets	6,185	8,108	**9,968**	**105,986**
Noncurrent liabilities	6,516	6,087	**5,844**	**62,137**
Total assets	21,466	23,371	**25,449**	**270,590**
Per share information (yen, U.S. dollar):				
Net assets per share (BPS)	¥449.51	¥509.41	**¥622.75**	**$ 6.62**
Net income per share (EPS)	80.19	99.87	**99.30**	**1.05**
Other:				
Equity ratio (%)	28.5	34.4	**38.6**	
Return on equity [ROE] (%)	17.4	19.4	**17.5**	
Return on assets [ROA] (%)	4.9	5.9	**6.2**	
Payout ratio (%)	4.7	10.0	**14.1**	

Note 1: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥94.05 = U.S.$1, the prevailing exchange rate at March 29, 2013.

Note 2: Net assets per share for the year ended March 31, 2011 was calculated after taking into consideration the amount of preferred stock.

Note 3: Net income per share for the year ended March 31, 2011 was calculated based on net income after deducting preferred dividends for each period, and 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.

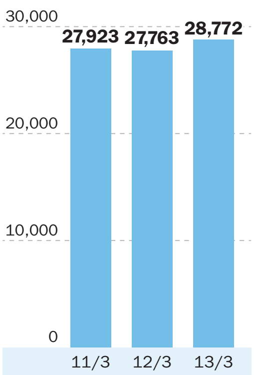
Note 4: For the year ended March 31, 2011, some Type A preferred stock was acquired and retired by a resolution of the board of directors on July 21, 2010 and December 15, 2010. On May 23, 2011, all Type A preferred stock was acquired and retired by a resolution of the board of directors on April 27, 2011.

Note 5: 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).

The Company conducted a two-for-one stock split on April 1, 2011. The Company calculated net income per share assuming the stock split had been conducted on April 1, 2010.

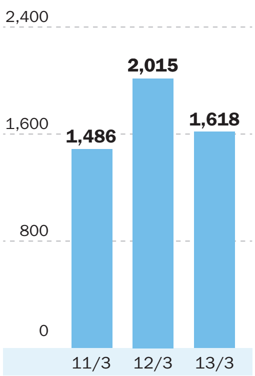
Net Sales

(Millions of yen)



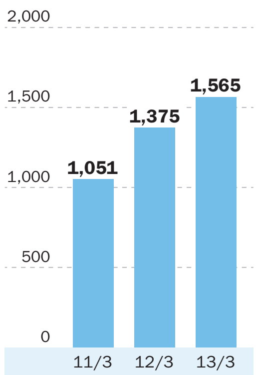
Operating Income

(Millions of yen)



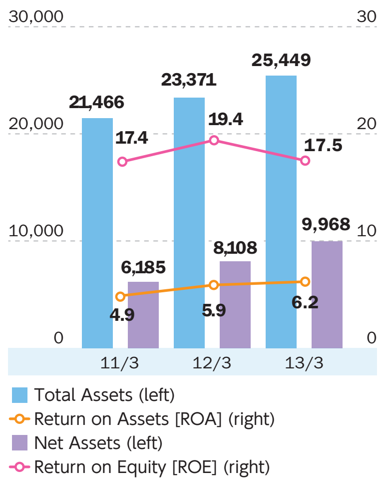
Net Income

(Millions of yen)



Total Assets/Return on Assets [ROA]
Net Assets/Return on Equity [ROE]

(Millions of yen) (%)



Message From the President

Since its founding in 1918, Nitta Gelatin has achieved sustained growth by surmounting hurdles brought about by upheaval in the social landscape with a business model devoted to gelatin and collagen. And in 2018, 5 years from now, Nitta Gelatin will mark the 100th anniversary of its founding. We seek to “Amaze the World!” over the next 5 years. This aspiration is embodied by our medium-term management plan based on our 100th Year Vision, which we are currently advancing.

Q1: In the fiscal year ended March 31, 2013, Nitta Gelatin achieved record net sales and net income. Looking back at the past 5 years, what kinds of strategies have you implemented, and what kinds of results have you achieved?

Because gelatin is a material with a long history, there may appear to be very little change in our performance based solely on a comparison with the previous fiscal year. However, when we look back at the past 5 years, we can clearly see that our performance has changed dramatically. The first change lies in our overseas business. Nitta Gelatin first announced consolidated financial results in the fiscal year ended March 31, 2010. That year, the Company posted overseas sales of approximately ¥7,876 million, representing no more than 29.8% of total sales. In the fiscal year ended March 31, 2013, overseas sales reached ¥9,674 million, representing 33.6% of total sales. During this period, total sales rose by ¥2,379 million, of which ¥1,797 million came from an increase in overseas sales. In terms of profits, our overseas business was in the red in the fiscal year ended March 31, 2010. The overseas business has now become profitable. This comparison only makes the difference between these years stand out all the more.

Q2: How has the overseas business changed?

Put simply, we have completely dismissed the notion that the overseas business’ role is to supplement operations in Japan. Rather than exporting products from Japan, we are transforming our business model so as to conduct production in regions that are globally cost competitive, while selling products in regions where we are price competitive. The Company’s overseas business is still in a development phase, so I cannot say unequivocally that we have achieved this business model as yet. However, we are starting to produce concrete results. In terms of regions, we are starting to achieve increased sales in North America. In terms of products, we are starting to achieve higher collagen casing sales. These results are now well established within the Company as “a model of success” of sorts. Accordingly, out of our total planned capital investments of ¥11.0 billion over the next 3 years, we plan to allocate about ¥9.0 billion, or about 80% of the whole, to upgrading overseas production capacity under the “100th Year Vision,” which is currently under way.

Q3: You are planning intensive overseas investments over the next 3 years. What is your outlook for trends in the global collagen material market going forward?

Looking back at the Japanese market over the past 40 years, we see a correlation between growth in per capita GDP and gelatin consumption per person. This is because demand for gelatin increased as diets became increasingly Westernized in step with improved living standards. Similarly, we believe that demand for gelatin will continue to increase in Asian markets, given that Asia is home to many populous emerging countries undergoing economic development. With regard to collagen casing, global sheep stocks have been declining. This has reduced the supply of sheep intestines, which are used in natural casings, and pushed up the sheep intestine price, even as sausage consumption has been rising, primarily in emerging countries. For these reasons, demand for collagen casings, which serve as an alternative to sheep intestines, has been increasing, and we believe that this trend will continue into the future. Collagen peptide was developed in Japan as a functional food material. Collagen peptide is already finding an expanding market in China and Southeast Asia, where women’s beauty and health consciousness is even stronger than in Japan. And with European competitors entering the fray, the market for collagen peptide is expected to expand globally going forward.

Q4: Japanese companies that have proactively carried out overseas business have seen a marked improvement in business results as a result of the yen's recent depreciation. How does Nitta Gelatin stand in this regard?

If the yen's exchange rate weakens, then this will have the effect of increasing Nitta Gelatin's consolidated net sales and earnings when the business results of overseas subsidiaries are converted from local currencies to yen. This is true even if the business results of overseas subsidiaries are unchanged on a local currency basis. Although we import 100% of the raw materials for bovine gelatin produced in Japan, there is no foreign exchange impact because we export roughly the same amount of bovine gelatin. In contrast, in Japan, we sell pig skin gelatin imported from a North American subsidiary. For pig skin gelatin, this means that the yen's depreciation will lower our earnings. When earnings of the overseas business are improving, as is the case now, our consolidated business results will show an increase in net sales and a slight decrease in earnings. To reduce the impact of foreign exchange movements on earnings, we plan to rapidly put in place a business model where we conduct production and sales in line with market prices, rather than conducting export and import operations centered on Japan, as I noted earlier. In particular, now that the impact of BSE is disappearing in the Japanese market, we will strive to expand sales in the domestic market of bovine gelatin produced in Japan, while working to attain a relatively lower ratio of pig skin gelatin sold domestically. Furthermore, the increase in raw material prices for gelatin is a common trend around the world. In overseas markets, we have been able to transfer the rising raw material cost to product prices, while in Japan we have been unable to do so because of the drawn-out deflationary environment. Until last year, we were able to absorb the impact of rising raw material prices with the yen's appreciation. However, we can no longer do so at the current exchange rate level. Therefore, we are now transferring the higher raw material costs to prices while seeking the understanding of our customers.

Q5: In the Japanese market, what kind of strategies have you been implementing and what results have you achieved?

Given that Japan's population is contracting, we do not expect to expand sales volume in the domestic market. Furthermore, we do not disagree with those who describe the gelatin industry as a mature industry. However, in a mature industry, we must come up with effective strategies and put them into action to generate profits and achieve sustained growth. One solution has been our overseas strategy. On the other hand, in Japan, Nitta Gelatin is making the most of its strengths in the Formula Solution business, along with cultivating new markets for gelatin and collagen peptide. We have produced results in this business by providing our customers with custom-made solutions. Looking at segment performance, most of the sales in the Formula Solution business are from our domestic business. These sales have remained at their second highest level over the past 5 years. However, the Formula Solution business has achieved record segment profit.

Q6: Why has the Formula Solution business, which mainly targets the Japanese market, achieved record segment profit?

The Formula Solution business is broadly divided into two areas. The first area is food materials. Our customers in this area are companies conducting food businesses focused on the pursuit of beauty and health, including food products and medical diets. Here, we must provide proposals offering breadth, novelty, speed and flexibility to answer consumer needs. In this climate, we have grown because we have been able to provide high-quality solutions through such means as developing food recipes that fulfill the product planning requirements of our customers. In terms of our major achievements, we have steadily promoted adoption of Nitta Gelatin's food materials in products such as delicatessen items sold in convenience stores and medical diets, which have been growing in recent years. The second area is adhesives. Here, Nitta Gelatin launched a proprietary sealant in 2012 that has attracted attention for enhancing the efficiency of in-line manufacturing lines. Considering its particularly strong affinity with high-density, compact electronic products, we expect that this product will be increasingly adopted as a sealant for smartphones and digital cameras. This sealant can generate large profits because it is a highly proprietary and innovative product. Accordingly, we expect this product to become another growth driver in the Formula Solution business.

“We seek to ‘Amaze the World!’ over the next 5 years. This aspiration is embodied by the medium-term management plan based on our 100th Year Vision, which we are currently advancing.”

Norimichi Soga

Representative Director and President
Nitta Gelatin Inc.

Q7: In your recently announced medium-term management plan, Nitta Gelatin is projecting operating income growth of only 6% in the fiscal year ending March 31, 2014, but growth of around 50% over the ensuing 2 years. You are also aiming for an operating margin of 10%. How can you justify such an ambitious outlook?

As I said at the outset, “We seek to ‘Amaze the World!’ over the next 5 years.” When I was appointed president, our operating margin was less than 2%. In the fiscal year ended March 31, 2013, the operating margin had improved to 5.6%. Having achieved this feat, I believe that Nitta Gelatin should take on the challenge of amazing the world by attaining a 10% operating margin. We announced these targets because we have a detailed roadmap for achieving them. Specifically, production and sales sites established through investments centered on overseas sites will progressively start operations and begin contributing to business results. In the fiscal year ending March 31, 2014, we will commence sales of collagen peptide and collagen casing in earnest in China, and begin operation of a food material blending plant in Vietnam. In the fiscal year ending March 31, 2015, we will start operations at a U.S. collagen peptide plant and expand business in India by converting an Indian affiliate into a consolidated subsidiary. In the fiscal year ending March 31, 2016, we plan to grow sales on the back of increased production at various gelatin plants, expand the sealant business in Japan and Asia, and produce and sell collagen casing in China. To achieve these goals, we raised capital by issuing new shares for public subscription.

100th Year Vision

Amaze the World!

Assumed Market Environment and Business Opportunities

Since formulating long-term vision CFG2016 in 2011, Nitta Gelatin has successfully listed on the First Section of the Tokyo Stock Exchange and accelerated global business development in Asia and North America.

Japan continues to see changes in diets and consumption spurred by market maturation and the population aging. Nitta Gelatin believes that diversification in consumer needs amid these changes will present opportunities for creating new applications and markets for the Company’s products. Overseas, meanwhile, economic development in emerging markets and population growth should result in market expansion for the Company’s products. In the Asian region in particular, which is the Company’s home market, rising incomes accompanying economic growth in China, India and elsewhere, should lead to increasingly Westernized and diverse diets. Nitta Gelatin believes that these dynamics will increase demand for the Company’s products in the processed food, health food and pharmaceuticals markets and thus create opportunities to expand sales.

Given these changes in its operating environment and 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.

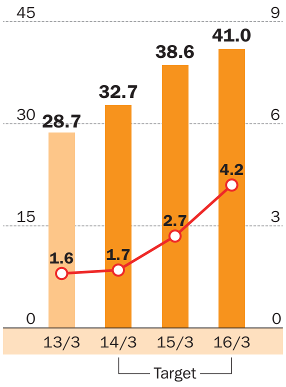
Basic Strategy for the 100th Year Vision

Our basic strategy is encapsulated by the phrase “Win out!! in growing Asian market” Nitta Gelatin’s mainstay products—gelatin, collagen peptide, and collagen casing—are expected to see higher demand in Asian markets experiencing ongoing economic growth. Leveraging the competitive edge of a company that is headquartered in Asia, Nitta Gelatin plans to keep up with this growing Asian market demand to expand business. By doing so, Nitta Gelatin aims to be the “Leader in Asia and a Globally Unique Enterprise” in terms of both business size and diversity, as a company centered on gelatin.

Business Strategies

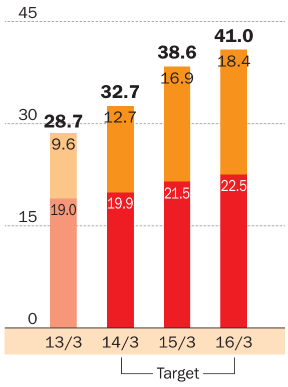
We will keep pace with burgeoning demand in the Asian market by increasing our supply capabilities for gelatin, collagen peptide, and collagen casing, while developing proprietary products and new applications. In doing so, we will grow our sales in Japan and North America, with the aim of expanding business. In the fiscal year ending March 31, 2016, the final year of our current medium-term management plan, we are targeting net sales of ¥41 billion (up 25.4% during the plan) and operating income of ¥4.2 billion (up 147.1% during the plan).

Net Sales and Operating Income Results and Targets
(Billions of yen)



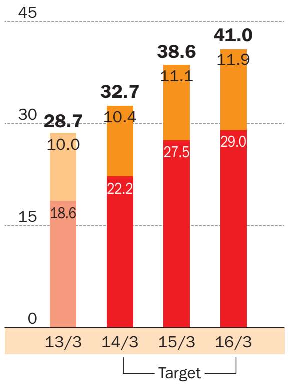
Net Sales (left axis)
Operating Income (right axis)

Domestic and Overseas Sales Results and Targets
(Billions of yen)



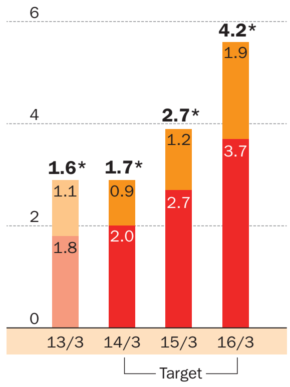
Domestic Sales
Overseas Sales

Sales by Segment Results and Targets
(Billions of yen)



Collagen Material Business
Formula Solution Business

Segment Profit Results and Targets
(Billions of yen)



Collagen Material Business
Formula Solution Business
* Consolidated operating income after adjustment for segment profit

1. Collagen Material Business

Bolster the Gelatin business' global competitiveness and increase supply capabilities

Nitta Gelatin plans to achieve further cost reductions through energy savings and increased production efficiency. With the prices of gelatin raw materials increasing, the Company will step up efforts to strengthen the supply chain of raw materials such as by diversifying the source countries and cultivating new suppliers in order to secure the stable procurement of raw materials. Through these initiatives, the Company believes it can achieve global cost competitiveness. To keep pace with increasing demand in the Asian market and expand sales, the Company intends to ramp up production and secure new supply bases in North America and India to upgrade the Group's supply capabilities.

Expand the Collagen Peptide business globally

The Company will push ahead with research into the functional characteristics of collagen peptides, with the view to using the results of this research as the basis for new product and application development to create new markets. Nitta Gelatin will also expand collagen peptide production and sales in China. And at the beginning of the fiscal year ending March 31, 2015, it will bring online a collagen peptide plant currently under construction in the U.S. to increase supply capabilities.

Expand the Collagen Casing business

Manufacturing facilities in North America will be revamped and efficiency improved to raise the productivity of collagen casing production as well as quality, which should translate into greater cost competitiveness. At the same time, the Company will expand sales, centered on the North American market. Furthermore, Nitta Gelatin plans to expand business in China, where the processed meat products market is growing fast, by putting in place a production and sales system.

Develop the Life Science business

The medical field is seeing rapid advances in practical research such as regenerative medicine using tissue engineering, iPS cells and ES cells. Gelatin and collagen are in the limelight in this field because of their high physiological compatibility. Nitta Gelatin will commercialize high-quality, safe gelatin and collagen matched to the needs of medical research institutes and medical device manufacturers worldwide.

2. Formula Solution Business

Expand business by providing food solutions in the food material business

Nitta Gelatin will strengthen the functions of application laboratories in Japan, the U.S., India, China and elsewhere, as it seeks to expand sales by developing new applications and products matched to customer and market needs in each region. Furthermore, the Company will establish production and sales systems in Vietnam and start production and sales of food agents such as gelling agents in Southeast Asia.

Transform the Adhesive business into a high-profit business

Sealants (high-performance gaskets) are attracting attention as products that can help rationalize the production of smartphones, smart meters, digital cameras and other electronic equipment. The Company plans to offer these sealants in Asian countries, the main production regions of electronic equipment, to grow a future earnings driver. Furthermore, Nitta Gelatin will raise the productivity of hot-melt adhesive, a core product, develop new products, and expand sales. To support these activities, the Company plans to rebuild the Osaka Plant and build a sealants application center.

3. Capital Investment Plans

The Company plans to make capital investments totaling ¥11.0 billion during the period covered by the medium-term management plan. The main planned capital investments are as follows: construct a U.S. collagen peptide plant (scheduled to come online in the fiscal year ending March 31, 2015); deploy new facilities to increase productivity in the U.S. casing business (planned for completion in the fiscal year ending March 31, 2015); deploy facilities to boost gelatin production efficiency at the Osaka Plant (scheduled to come online in the fiscal year ending March 31, 2015); deploy an adhesives manufacturing facility and build a sealants application center (scheduled to come online in the fiscal year ending March 31, 2015); deploy facilities to increase production capacity at India, U.S. and Canada gelatin plants (planned for completion in the fiscal year ending March 31, 2016); and deploy casing manufacturing facilities in China (scheduled to come online in the fiscal year ending March 31, 2016).

4. Research and Development Plans

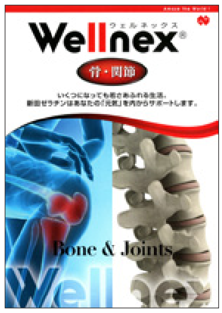
In the gelatin field, we will improve and upgrade production technology for raw material and gelatin processes, develop new gelatin (new raw materials, new functions), and optimize quality. In the collagen peptide field, we will develop collagen peptide production technology (peptization, refining technology), and research functional characteristics of collagen peptide.
In the collagen casing field, we will conduct research and development focused on production technologies (production process innovation) and develop new markets and products.

In the life science field, we will develop materials that expand applications for advanced medical care and conduct research and development of culture substrates for iPS cells. In the food material field, we will develop applications and new materials (for delicatessens and food products for seniors such as medical diets), as well as plan and develop consumer products (collagen beverage and food products and cosmetics). In the adhesives field, we will conduct research and development of environmentally friendly hot-melt adhesive and sealants (high-performance gaskets).

Outline of Strategic Products

Amazing Gelatin: We are developing amazing products unrivaled by other companies that turn the conventional notion of gelatin on its head. Examples include gelatin that does not melt, and scent-free gelatin. Scent-free gelatin has proven popular mainly for use in capsules, and has now become the industry standard. Looking ahead, we will continue to develop these sorts of innovative gelatin products.

Wellnex™ (collagen-derived functional peptide): Collagen peptide is generally used for beauty applications. The Company's research into collagen peptide's functional properties is demonstrating that collagen peptide is also beneficial to bone and joint health, healing wounds, strengthening muscle, preventing diabetes and more. Wellnex™ is a collagen-derived functional peptide based on scientific evidence obtained from our research into the functional properties of collagen peptide. With this new product, we aim to create an entirely new market.

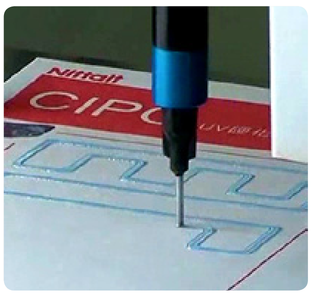


beMatrix™ (gelatin and collagen for advanced medical care): In the field of regenerative medicine, demand for gelatin and collagen has developed robustly for cell scaffolds to induce self-repair and regeneration of human tissue, biomaterial for drug delivery systems (DDS), and cell culture scaffolds for iPS cells and other cells. Going forward, we aim to commercialize the beMatrix™ line of gelatin and collagen products that ensure a high degree of safety for advanced medical care.

Collagen Casing: Demand for collagen casings for sausages as a substitute for commonly used sheep intestine is growing rapidly, especially in China and other Asian countries. We will advance this business by developing products that match customers' needs, such as Clear Choice™, which mimics the texture of sheep intestine more closely than previous products.

Food Solutions for Delicious Food: Harnessing a range of materials such as new gelatin that other companies do not offer, along with carrageenan, pectin and agar, we provide food agents that ensure delicious food (texture, taste, appearance), high logistics stability, and high productivity. Furthermore, we provide food solutions that other companies cannot match, including new menu proposals that anticipate dietary trends.

Sealants (High-performance gaskets): Production of smartphones, digital cameras and tablet PCs requires gaskets for water- and dust-proofing purposes. Leveraging technology cultivated through hot-melt adhesives, we have developed a sealant that cures with ultraviolet exposure. As a result, we have enabled the full automation of gasket assembly by factory automation equipment, a process that was previously conducted manually.



Basic Strategy: “Win out!! in growing Asian market”

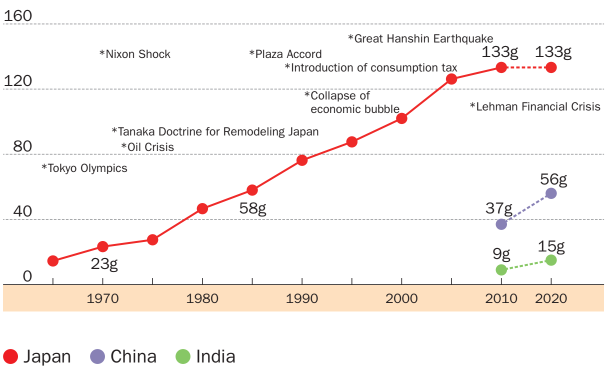
Outlook for Global Gelatin Demand

(tons)

	2010		2020	Growth rate
Japan	17,000	→	17,000	0 %
Asia	72,500	→	129,000	78 %
Global	346,000	→	425,000	23 %

In Japan, we cannot expect expansion in the volume of the market due to the country’s mature market and aging population with fewer children. However, we believe that Japan will serve as an important product and application development hub for the Company, with a view to the future development of other Asian markets. Turning to other countries in Asia, the markets for processed food, health food and pharmaceuticals are expanding in line with the Westernization and diversification of diets and growing health and beauty consciousness. Looking back at the development of the Japanese market over the past 40 years, we can easily see that demand for gelatin, collagen peptide, and collagen casing in Asian markets can also be expected to increase further in step with these trends.

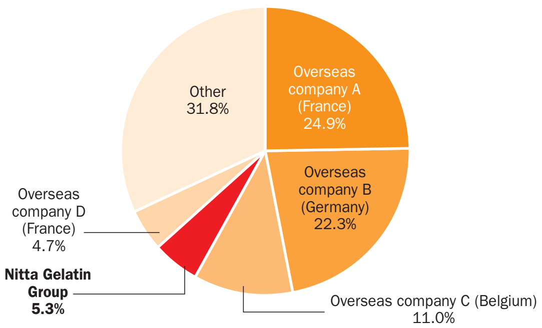
■ Consumption of Gelatin in Japan (grams per capita)



Take gelatin, for example. Per capita consumption of gelatin tends to rise in step with the westernization of diets that accompanies improving income levels. The proof for this is in western foods that depend on the properties of gelatin. Jelly, gummy candy and convenience store delicatessen items depend on gelatin’s property to solidify or melt, while chewable candy, rice pilaf, processed cheese and ice cream depend on gelatin’s property to add texture to food. The foam retention property, on the other hand, is crucial to marshmallow, mousse and Bavarian cream, while the binding property is essential to yogurt, puddings and poultices. Capsules depend on the coating property, and chocolate and medicine make use of gelatin’s glossy property. In each case, gelatin is inextricably tied to the westernization of diets and lifestyles.

When income levels improve, demand for collagen casing and collagen peptide also increase. Increased prosperity is accompanied by growth in the consumption of processed meat products. One of those products is sausage. Naturally, casings are needed to manufacture sausages. Given that the supply of natural sheep casings is declining, demand for collagen casings should increase as an alternative to sheep casings. Economic development is also accompanied by higher consumer spending on beauty and health. In China and Southeast Asia, where people are even more beauty conscious than in Japan, we are seeing growth in the markets for beverages and powder products containing collagen peptide that tout beauty benefits.

Global Gelatin Manufacturers and Production Capacity



Source: By Nitta Gelatin based on reports by Gelatin Manufacturers of Europe and Gelatin Manufacturers Association Asia Pacific

For the foregoing reasons, we believe that Asian markets offer prospects for considerable growth in business opportunities. To capture these business opportunities, we are implementing the following strategies:

(1) Achieve cost competitiveness commensurate with prices in markets where products are sold

Our first priority is to ensure stable, low-cost procurement of raw materials. To this end, we will strengthen ties with existing raw material suppliers while cultivating new suppliers. We will also work to improve productivity, deploy energy-efficient facilities and develop production technologies.

(2) Increase product supply capabilities

In the gelatin field, we will ramp up production by upgrading production facilities at our existing plants in North America and India. At the same time, we will obtain new gelatin manufacturing bases through such means as alliances and M&As. In the collagen peptide field, we will ramp up the production capacity of our plant in China, while building a new plant in the U.S. In collagen casings, we will upgrade the U.S. plant’s production by replacing existing production facilities with new facilities we are developing. We are also setting our sights on producing collagen casings in China.

(3) Develop products in line with customer needs

To set Nitta Gelatin apart from its competitors and boost its earnings capacity, we will develop new products and applications. To do so, we will conduct R&D in line with the needs of various countries and regions at our application laboratories in Japan, the U.S., China, India and Vietnam. The new products and applications will be proposed to customers with the view to expanding sales.

Operational Review

Fiscal Year Ended March 31, 2013

ifia® JAPAN 2013
The 18th International Food Ingredients & Additives Exhibition and Conference (Tokyo)

Global Gelatin Conference (India)

INTERNEPCON JAPAN 2013 (Tokyo)

IFT Annual Meeting & Food Expo. 2013
(Chicago, U.S.A.)


Global Gelatin Conference (Vietnam)

Global R&D Meeting (Osaka)

Collagen Material Business

Gelatin
- For food
- For hard and soft capsules
- For photographic films and papers

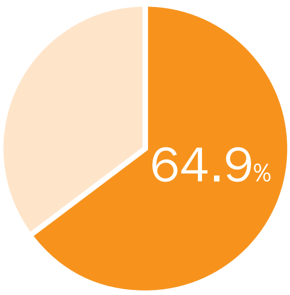
Collagen Peptide
- For dietary food supplements
- For protein drinks and foods
- For cosmetics

Life Science
- Testing reagent for laboratory research
- Biomaterial
- Functional materials for cosmetics

Collagen Casing
- Sausage casings

Net Sales

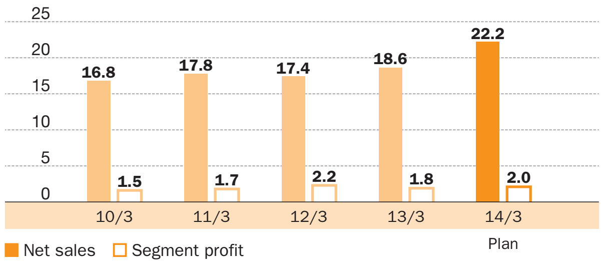
Collagen Material Business



Net Sales ¥18.67bn. (YoY change +7.1%)

Segment Profit ¥1.81bn. (YoY change –19.4%)

(Billions of yen)



Gelatin Business

In the gelatin business, we are working to enhance our global competitiveness and upgrade our supply capabilities. Demand is projected to increase particularly in Asian markets, such as China and India, driven by population growth and economic development. Therefore, we are taking steps to upgrade our supply capabilities in these markets by enhancing Group companies' productivity and developing new supply sites. On the other hand, we expect to face increasingly stiff price competition for capsule-use gelatin owing to the expanded use of generic drugs. That is why we must cut costs at plants and continuously ensure stable procurement of raw materials, while achieving even higher quality. In addition, considering the sizable environmental impact of gelatin production, the Nitta Gelatin Group will continue working to answer societal demands for reducing CO_2 emissions and so forth by taking further steps to conserve energy and resources, and raise efficiency.

Peptide Business

In the peptide business, we are working to expand business globally. The collagen peptide market has grown rapidly on the back of heightened consumer awareness of collagen peptide's health benefits and growing recognition of its physiological effects as a health food material. However, we believe that future growth in demand will slow as the Japanese market matures. Overseas, we are targeting the Chinese and Asian markets and the North American market, where new demand is anticipated. In these markets, we aim to increase sales by popularizing Nitta Gelatin's global collagen peptide brand Wellnex™. To drive sales growth in each market, we are working to raise collagen peptide production efficiency and strengthen cost competitiveness in China, while building a new collagen peptide plant in the U.S., with the start of production planned for the spring of 2014.

Collagen Casing Business

Nitta Gelatin entered the collagen casing business in earnest in 1996. Over the past 17 years, we have successfully driven the evolution of this operation into a business that supplies globally competitive products. Going forward, we aim to achieve further business expansion. In terms of market conditions, consumption volume of sausage is projected to increase in step with economic development in emerging countries. Growth in demand will also be supported by a declining supply of sheep intestines, which serve as natural casings. Backed by these tailwinds, as well as increased supply capabilities and cost competitiveness underpinned by production innovation at our North American plant and facility upgrades, Nitta Gelatin is well positioned to achieve further earnings expansion. The market for sausage and other processed meat products is expanding rapidly, particularly in China. Here, we are swiftly expanding our collagen casing production and sales framework in response to this increase in demand.

Life Science Business

We are nurturing the life science business into a new future earnings driver. We have developed gelatin and collagen for advanced medical care that ensures a high degree of safety, which is needed in the fast growing field of regenerative medicine. We are now working to promote widespread uptake of this material in Japan and North America.

In the cosmetics market, collagen is highly recognized and broadly used as a moisturizer. However, the collagen market does not offer prospects for rapid expansion, and competition is intensifying. In this context, we will focus on researching collagen's functional properties. Our goal is to expand our market share by developing collagen products for cosmetics that are backed by scientific evidence.

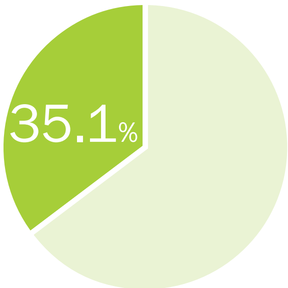
Formula Solution Business

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)

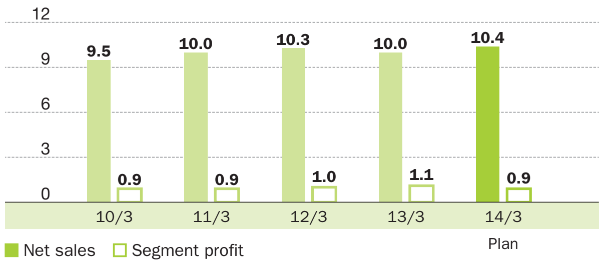
Net Sales

Formula Solution Business



Net Sales ¥10.09bn. (YoY change −2.2%)

Segment Profit ¥1.15bn. (YoY change +6.3%)



Food Material Business

We aim to achieve business expansion through food solutions. 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.

In Japan, the market for delicatessen items and the market for medical diets for seniors are expected to expand as food market needs diversify in tandem with the Japanese population aging and having fewer children. We believe that cultivating these markets is a crucial task ahead.

By proactively making proposals highlighting our application technologies developed over many years, we are striving to capture a greater share of existing markets while cultivating new markets.

Furthermore, we are developing products and applications in line with market needs in each country and region. These efforts are being led by our application laboratories in Osaka, Tokyo, North America, China, India and Vietnam. We will propose the products and applications we develop to customers with the aim of expanding sales.

Adhesive Business

In the adhesive business, we are seeking to develop adhesive functions that closely fit customer needs and applications. To this end, as with food materials, we provide hot-melt adhesives containing a wide array of materials, and propose adhesives applications optimized to production lines.

The defining feature of hot-melt adhesives is their high-speed adhesion property. As a result, hot-melt adhesives are used in a broad range of fields, including hygiene products, bookbinding, construction, woodworking, electrical work, housing, as well as packaging applications in food, beverages and other fields.

In 2012, we launched a new sealant material that cures with ultraviolet exposure. We are working to expand sales of this sealant material globally as a strategic product developed in Japan, with the view to nurturing a high-profit business.

Efforts are focused on enhancing productivity, developing new products and expanding sales of core hot-melt adhesive products, with the goal of transforming the adhesives business into a high-profit business.

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

(As of June 26, 2013)

Back row from left: Koichi Ogata, Director and Executive Officer; Mayumi Ishihara, Outside Director; Hiroshi Nitta, Director; Yasuyuki Nakai, Standing Audit & Supervisory Board Member; Tatsuro Otsuka, Director and Executive Officer

Front row from left: Yoshihiro Sakatani, Outside Audit & Supervisory Board Member; Tsuneo Sasaki, Director and Senior Managing Executive Officer; Norimichi Soga, Representative Director and President; Takeo Yamaki, 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

Takeo Yamaki

Apr. 1982 Joined the Company
Mar. 2006 General Manager, Gelatin Manufacturing Department, Operating Division of the Company
Sept. 2006 General Manager, Manufacturing Department, Gelatin Division of the Company
June 2008 Executive Officer of the Company (to present)
Sept. 2008 General Manager, Gelatin Division of the Company
June 2010 Director of the Company (to present)
Mar. 2011 General Manager, Manufacturing Division of the Company
Mar. 2013 General Manager, Gelatin Division of the Company

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)
June 2012 General Manager, R&D Department
Mar. 2013 General Manager, Sales & Marketing Division of the Company

Director and Executive Officer

Tatsuro Otsuka

Apr. 1976 Joined the Company
Mar. 2001 General Manager, Business Planning Department, Operating Division of the Company
Sept. 2006 General Manager, Quality Assurance Division of the Company
July 2009 General Manager, Corporate Planning Division of the Company
June 2012 Director of the Company (to present)
June 2012 Executive Officer of the Company (to present)
June 2012 General Manager, System Solutions Department 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
Jun 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)

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

Yoshihiro Sakatani

Oct. 1979 Joined Nisshin Audit Corporation (currently Ernst & Young ShinNihon LLC)
Mar. 1982 Registered as a certified public accountant
Aug. 1998 Senior Partner and Representative Partner of Century Audit Corporation (currently Ernst & Young ShinNihon LLC)
July 2002 General Manager, Osaka Public Offering Support Division of Shin Nihon & Co. (currently Ernst & Young ShinNihon LLC)
July 2004 Established Japan Management Consulting K.K. Representative Director of Japan Management Consulting Co., Ltd. (to present)
June 2006 Outside Audit & Supervisory Board Member of the Company (to present)

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)

Executive Officers

Raymond Merz
Hidenori Takemiya
Yuji Yamamoto
Toru Tamaoka
Yoshitaka Oda
Hiroshi Takase

Investor Information

Stock Information (As of March 31, 2013)

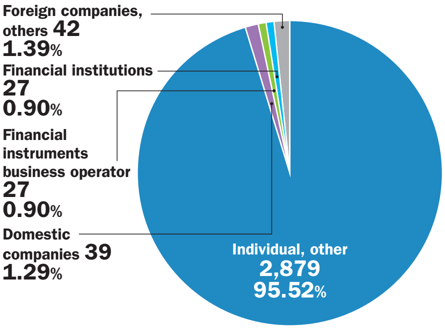
- **Number of shares authorized:** 50,000,000 shares
- **Number of shares issued:** 15,770,074 shares (including treasury stock of 162 shares)
- **Number of shareholders:** 3,014
- **Major Shareholders** (Top 10)

Shareholder Name	Number of Shares	Shareholding Percentage
IBP Co., Ltd.	2,946,316	18.68%
The Master Trust Bank of Japan, Ltd. (trust account)	896,500	5.68
Nitta Corporation	840,014	5.33
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	621,074	3.94
Sumitomo Mitsui Banking Corporation	600,286	3.81
Nitta Gelatin Employees Shareholding Association	484,100	3.07
Iwaki Co., Ltd.	391,000	2.48
Ishizuka Corporation	382,014	2.42
Resona Bank, Ltd.	334,672	2.12
Japan Trustee Services Bank, Ltd. (trust account)	274,900	1.74

(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.

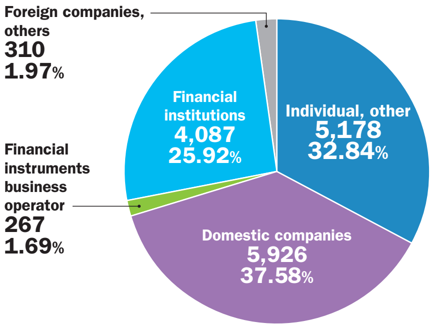
Share Distribution

<Breakdown of Shareholding by Investor Type>



<Breakdown of Shareholding by Number of Shares Held>

(Thousand shares)



Corporate Information (As of March 31, 2013)

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 (As of August 28, 2013)*
Number of shares issued:	¥18,373,974 shares (As of August 28, 2013)*
Net Sales:	Non-consolidated: ¥20,261 million (Year ended March 31, 2013) Consolidated: ¥28,772 million (Year ended March 31, 2013)
Employees:	Non-consolidated: 255 (As of March 31, 2013) Consolidated: 624 (As of March 31, 2013)
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:	4 locations in Japan

* The Company issued new shares in July and August 2013. As a result, capital increased ¥1,567,171,190 and the number of shares issued increased by 2,603,900 compared with March 31, 2013.

Affiliates

Nitta Gelatin NA Inc. (U.S.A.)
Nitta Gelatin Canada, Inc. (Canada)
Nitta Gelatin USA, Inc. (U.S.A.)
Nitta Casings Inc. (U.S.A.)
Nitta Casings (Canada) Inc. (Canada)
Nitta Gelatin Holding, Inc. (U.S.A.)
Shanghai Nitta Gelatin Co., Ltd. (China)
Beijing Nitta Collagen Casing Co., Ltd. (China)
Nitta Hong Kong, Ltd. (China)
Nitta Gelatin Vietnam Co., Ltd. (Vietnam)
Aibis Inc. (Japan)
Alma Corporation (Japan)
Nitta Biolab Inc. (Japan)
Hikone Gelatin Inc. (Japan)
Bostik-Nitta Co., Ltd. (Japan)
Nitta Gelatin India Ltd. (India)
Guangdong Baiwei Bio Material Co., Ltd. (China)
Shinju Service Co., Ltd. (Japan)
Bamni Proteins Ltd. (India)
Reva Proteins Ltd. (India)

Management's Discussion and Analysis

Business Performance Summary for the Fiscal Year Ended March 31, 2013

In the fiscal year ended March 31, 2013, overseas economies remained on a weak recovery track on the whole. Although the U.S. economy continued to stage a gradual recovery, the European debt problem and financial crisis persisted, along with slowing expansion in the Indian and Chinese economies and flat growth in the Southeast Asian economies. On the other hand, the Japanese economy showed signs of gradual recovery related to demand generated by post-quake reconstruction. Deflation continued to spread, however, due to factors such as the global economic slowdown, anemic exports due to the yen's protracted appreciation, and concerns about the impact of Japan's strained diplomatic relations with other countries on economic activity. Amid these circumstances, the implementation of economic recovery measures by the new Japanese government formed at the end of last year and the Bank of Japan's loosening of monetary policy resulted in the outlook improving in some aspects due mainly to the depreciation of the yen and the rise in stock prices.

In markets overseas, demand for gelatin, collagen casing and collagen peptide increased atop economic recovery and economic development in emerging countries. In the Japanese market, demand remained sluggish, reflecting the digitization of books and movies, and deflationary impacts.

Against this backdrop, the Nitta Gelatin Group has adopted three basic management policies: (1) Customer First; (2) Globalization & Innovation; and (3) Selection and Concentration. Guided by these policies, the Group has actively worked to provide products and services that satisfy customers, develop new products and cultivate new markets, expand sales, improve productivity and reduce costs, with the aim of rising above the challenging business conditions.

As a result, net sales increased 3.6% year on year to ¥28,772 million in the fiscal year ended March 31, 2013, reflecting strong sales trends in overseas markets, which counteracted a decline in sales in Japan. Operating income declined 19.7% to ¥1,618 million. This was due, in addition to increases in raw material prices, to a rise in energy costs in Japan and higher procurement costs of imports as a result of the yen's depreciation. Ordinary income was held to almost the same as the previous fiscal year at ¥2,002 million on account of increases in equity in earnings of affiliates and foreign exchange gains. Net income increased 13.8% to ¥1,565 million, mainly because of lower income taxes.

Consolidated Business Performance for the Fiscal Year Ended March 31, 2013

Net Sales and Earnings

» Net Sales

Overseas, the Group posted strong sales atop buoyant demand. In Japan, sales declined due to deflationary impacts. As a result, in the fiscal year ended March 31, 2013, net sales increased ¥1,009 million, or 3.6% year on year to ¥28,772 million.

» Gross Profit

Consolidated gross profit declined ¥146 million, or 2.1% year on year to ¥6,691 million, mainly due to a rise in raw material costs and energy costs 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 ¥249 million, or 5.2%, year on year to ¥5,072 million.

» Operating Income

As a result of the foregoing, operating income decreased ¥396 million, or 19.7%, year on year to ¥1,618 million.

» Net Income

We booked a gain on sales of noncurrent assets of ¥11 million as other income, and a loss on retirement of noncurrent assets of ¥58 million and a loss on valuation of investment securities of ¥12 million as other expenses. However, as a result of a decline in income taxes paid, net income increased ¥190 million, or 13.8% year on year to ¥1,565 million.

Segment Performance

» Collagen Material Business

In the gelatin field, sales of gelatin for capsules performed strongly in Japan. The Group posted sharply lower photographic gelatin sales because demand for film fell due to the rapid digitization of movies. Meanwhile, sales of edible gelatin in Japan declined, mainly reflecting the end of a temporary boost in sales from post-quake demand in the previous fiscal year. In overseas markets, on the other hand, sales increased due to buoyant demand for edible gelatin and gelatin for capsules. Another contributing factor was the positive impact of a revision of gelatin prices to the Group's advantage.

Collagen peptide sales declined year on year, mainly reflecting intensified competition with other materials in the health foods market in Japan and stagnating sales overseas in the Asian market.

Collagen casing sales increased, buoyed by robust demand for collagen casings for snack sausages in the U.S. and strong exports to China.

As a result, net sales in the Collagen Material business increased 7.1% year on year to ¥18,674 million. Segment profit (operating income) was down 19.4% to ¥1,817 million.

» Formula Solution Business

In food materials, overall sales were sluggish due to lackluster sales of ingredients for delicatessen items. This was despite steady growth in sales of stabilizers for ham, sausage and other meat products, in addition to gelling agents for use in chilled desserts sold in convenience stores.

In adhesives, overall sales declined, mainly due to the sale of certain product businesses and lower sales of hot-melt adhesives for bookbinding applications owing to weak conditions in the publishing sector. This was partly offset by firm sales of hot-melt adhesives for building materials supported by recovery demand from the Great East Japan

Earthquake, and high-performance polymers developed by the Company.

As a result, net sales in the Formula Solution business decreased 2.2% year on year to ¥10,097 million. Segment profit (operating income) rose 6.3% year on year to ¥1,151 million, as prices of raw materials for adhesives stopped increasing.

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, 2013. Total R&D expenses were ¥1,026 million.

» Collagen Material Business

Gelatin

- Improve and upgrade production technology for raw material and gelatin processes
- Develop new gelatin (new materials, new functions)
- Enhance gelatin applications

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 ¥647 million.

» Formula Solution Business

Food Material

- Develop applications utilizing application laboratories
- Develop novel products
- Plan and develop consumer products (collagen supplements, collagen-added cosmetics)

Adhesive

- Environmentally friendly hot-melt adhesives
- High-performance polymers (sealants)

R&D expenses in the Formula Solution business were ¥378 million.

Cash Flows

Net cash provided by operating activities was ¥2,050 million, compared with ¥568 million in the previous fiscal year. The main contributing factors were income before income taxes and minority interests of ¥1,938 million, depreciation and amortization of ¥825 million and decrease in notes and accounts receivable of ¥897 million. These inflows were partly offset by an increase in inventories of ¥650 million and income taxes paid of ¥686 million.

Net cash used in investing activities was ¥1,557 million, compared with ¥733 million in the previous fiscal year. The main uses of cash were the purchase of property, plant and equipment of ¥1,193 million, and the purchase of stocks of affiliates of ¥302 million.

Net cash used in financing activities was ¥376 million, compared to net cash provided of ¥713 million in the previous year. The main use of cash was cash dividends paid of ¥220 million.

As a result, cash and cash equivalents were ¥2,258 million as of March 31, 2013, an increase of ¥180 million from a year earlier.

Capital Investment

We executed capital investment of ¥1,426 million centered on the Collagen Material business, mainly for the purpose of the construction of a new collagen peptide plant, rationalizing production, and maintaining and improving production capacity and quality.

In the Collagen Material business, we executed capital investment of ¥192 million at Nitta Gelatin USA, Inc. to construct a new collagen peptide plant, ¥328 million at Nitta Casings Inc. and Nitta Casings (Canada) Inc. to upgrade and bolster collagen casing production facilities, and ¥581 million at the Osaka Plant to enhance quality, reduce energy and maintain production capacity of gelatin production facilities. We also made capital investment of ¥56 million at Hikone Gelatin Inc., and ¥45 million at Nitta Gelatin Canada, Inc.

In the Formula Solution business, we executed total capital investment of ¥73 million, mainly comprising capital investment for the purpose of upgrading testing and measurement equipment, and upgrading production facilities and laboratory equipment to enhance the quality of adhesive products and maintain production capacity.

Furthermore, in corporate assets, we made capital investment of ¥124 million, primarily to seismically reinforce the employee benefit and welfare facilities at the Osaka Plant.

We allotted capital increase, own funds, and borrowings to execute these capital investments. The capital increase is proceeds from issuance of new shares for public subscription and disposal of treasury stock settled on December 19, 2011 and issuance of new shares for third-party allotment settled on January 18, 2012.

In addition, we booked an ¥11 million gain on sales of noncurrent assets from the sale of food seasoning production facilities in April 2012. We also booked a ¥58 million loss on retirement of noncurrent assets on the ongoing replacement of machinery and other plant and equipment.

Financial Position

Total assets were ¥25,449 million as of March 31, 2013, an increase of ¥2,077 million from the previous fiscal year-end.

» Current Assets

Current assets were ¥15,319 million as of March 31, 2013, an increase of ¥383 million from March 31, 2012. This was mainly attributable to a ¥180 million increase in cash and deposits and a ¥860 million increase in inventories, partly offset by a ¥609 million decrease in notes and accounts receivable.

» Noncurrent Assets

Noncurrent assets were ¥10,129 million at March 31, 2013, an increase of ¥1,693 million from March 31, 2012. This mainly reflected an increase of ¥900 million in net property, plant and equipment in line with capital investments and an increase of ¥713 million in investment securities, primarily as a result of market value gains accompanying rising share prices.

» Current Liabilities

Current liabilities were ¥9,637 million as of March 31, 2013, an increase of ¥460 million from the previous fiscal year-end. This mainly reflected an increase of ¥260 million in notes and accounts payable, ¥220 million in short-term loans payable and an increase of ¥190 million in the current portion of long-term debt, partly offset by a decrease of ¥305 million in income taxes payable.

» Noncurrent Liabilities

Noncurrent liabilities were ¥5,844 million as of March 31, 2013, a decrease of ¥242 million from the previous fiscal year-end. This mainly reflected a decrease of ¥200 million in bonds and a decline of ¥119 million in long-term debt.

» Net Assets

Net assets stood at ¥9,968 million as of March 31, 2013, an increase of ¥1,859 million from the previous fiscal year-end. This was mainly attributable to an increase of ¥1,345 million in retained earnings and an increase of ¥688 million in foreign currency translation adjustments due to the yen's depreciation.

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, 2013, in accordance with the aforementioned policies, management has decided to pay a year-end dividend of ¥6.00 per common share, as well as a commemorative dividend of ¥2.00 to mark the Company's designation to the First Section of the Tokyo Stock Exchange. Combined with the interim dividend of ¥6.00, the annual dividend per common share is ¥14.00.

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.

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, 2013.

(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, 2013, sales in overseas markets accounted for 33.6% 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 55.6% of our cost of manufacturing in the year ended March 31, 2013. 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 raw material source. 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 and China); and primary regions where products are sold (including Japan, North America, India, China and various other Asian countries).

Wide spread anti-Japanese demonstrations that erupted in China in September 2012 had no impact on the Group's business.

(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 27.6% (including lease obligations) in the fiscal year ended March 31, 2013.

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Assets			
Current assets:			
Cash and deposits (Notes 6, 10 and 18)	**¥ 2,278**	¥ 2,098	**$ 24,221**
Notes and accounts receivable (Notes 3 and 10)	**5,839**	6,449	**62,083**
Inventories (Note 4)	**6,831**	5,971	**72,631**
Deferred tax assets (Note 7)	**134**	168	**1,424**
Other	**251**	262	**2,668**
Allowance for doubtful accounts	**(16)**	(14)	**(170)**
Total current assets	**15,319**	14,935	**162,881**
Property, plant and equipment:			
Buildings and structures (Note 6)	**7,204**	6,593	**76,597**
Machinery, equipment and vehicles (Note 6)	**8,554**	7,638	**90,951**
Land (Note 6)	**761**	741	**8,091**
Lease assets (Note 9)	**786**	654	**8,357**
Construction in progress	**777**	365	**8,261**
Other	**1,279**	1,219	**13,599**
Accumulated depreciation	**(13,077)**	(11,827)	**(139,043)**
Net property, plant and equipment	**6,287**	5,387	**66,847**
Intangible assets	**48**	18	**510**
Investments and other assets:			
Investment securities (Notes 5, 6 and 10)	**2,768**	2,055	**29,431**
Long-term loans receivable (Note 10)	**13**	17	**138**
Deferred tax assets (Note 7)	**488**	477	**5,188**
Other	**523**	480	**5,560**
Total investments and other assets	**3,793**	3,030	**40,329**
Total assets	**¥ 25,449**	¥ 23,371	**$ 270,590**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Liabilities			
Current liabilities:			
Notes and accounts payable (Note 10)	**¥ 3,736**	¥ 3,476	**$ 39,723**
Short-term loans payable (Note 6)	**1,145**	925	**12,174**
Current portion of long-term debt (Notes 6 and 10)	**2,068**	1,878	**21,988**
Current portion of bonds (Notes 6 and 10)	**200**	330	**2,126**
Lease obligations (Notes 6, 9 and 10)	**154**	127	**1,637**
Other payable (Note 10)	**1,586**	1,388	**16,863**
Income taxes payable	**81**	387	**861**
Provision for bonuses	**220**	235	**2,339**
Other	**443**	426	**4,710**
Total current liabilities	**9,637**	9,176	**102,466**
Noncurrent liabilities:			
Bonds (Notes 6 and 10)	**–**	200	**–**
Long-term debt (Notes 6 and 10)	**3,142**	3,261	**33,407**
Lease obligations (Notes 6, 9 and 10)	**319**	348	**3,391**
Provision for retirement benefits (Note 8)	**2,276**	2,158	**24,199**
Provision for directors' retirement benefits	**35**	33	**372**
Other	**70**	85	**744**
Total noncurrent liabilities	**5,844**	6,087	**62,137**
Total liabilities	**15,481**	15,263	**164,603**
Commitments and contingent liabilities (Notes 9, 11 and 12)			
Net assets			
Shareholders' equity (Note 15):			
Capital stock:	**1,577**	1,577	**16,767**
Authorized — 50,000,000 shares			
Issued — 15,770,074 shares in 2013 and 15,770,074 shares in 2012			
Capital surplus	**1,398**	1,398	**14,864**
Retained earnings	**8,235**	6,889	**87,559**
Treasury stock — 162 shares in 2013 and 162 shares in 2012	**(0)**	(0)	**(0)**
Total shareholders' equity	**11,210**	9,865	**119,191**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**499**	416	**5,305**
Deferred gains or losses on hedges	**27**	6	**287**
Foreign currency translation adjustment	**(662)**	(1,350)	**(7,038)**
Pension liability adjustment of foreign subsidiaries	**(1,254)**	(903)	**(13,333)**
Total accumulated other comprehensive income	**(1,390)**	(1,832)	**(14,779)**
Minority interests	**147**	74	**1,562**
Total net assets	**9,968**	8,108	**105,986**
Total liabilities and net assets	**¥25,449**	¥23,371	**$270,590**

See notes to consolidated financial statements.

Consolidated Statements of Income

Nitta Gelatin Inc. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Net sales	**¥28,772**	¥27,763	**$305,922**
Cost of sales (Note 4)	**22,080**	20,924	**234,768**
Gross profit	**6,691**	6,838	**71,143**
Selling, general and administrative expenses (Note 13)	**5,072**	4,822	**53,928**
Operating income	**1,618**	2,015	**17,203**
Other income (expenses):			
Interest and dividends income	**19**	17	**202**
Interest expenses	**(147)**	(167)	**(1,562)**
Rent income	**29**	28	**308**
Equity in earnings of affiliates	**262**	118	**2,785**
Foreign exchange gains	**179**	3	**1,903**
Going public expenses	**–**	(45)	**–**
Gain on sales of noncurrent assets	**11**	–	**116**
Gain on transfer of business	**–**	15	**–**
Loss on retirement of noncurrent assets	**(58)**	(49)	**(616)**
Loss on valuation of investment securities	**(12)**	–	**(127)**
Loss on valuation of golf club membership	**–**	(4)	**–**
Loss on sales of golf club membership	**(4)**	–	**(42)**
Other, net	**37**	31	**393**
	319	(51)	**3,391**
Income before income taxes and minority interests	**1,938**	1,964	**20,606**
Income taxes (Note 7)**:**			
Current	**402**	568	**4,274**
Deferred	**(16)**	12	**(170)**
Total income taxes	**385**	581	**4,093**
Income before minority interests	**1,552**	1,383	**16,501**
Minority interests in income	**(13)**	7	**(138)**
Net income (Note 17)	**¥ 1,565**	¥ 1,375	**$ 16,640**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Nitta Gelatin Inc. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Income before minority interests	**¥1,552**	¥1,383	**$16,501**
Other comprehensive income (Note 19)**:**			
Valuation difference on available-for-sale securities	**83**	8	**882**
Deferred gains or losses on hedges	**17**	8	**180**
Foreign currency translation adjustment	**605**	(50)	**6,432**
Pension liability adjustment of foreign subsidiaries	**(350)**	(238)	**(3,721)**
Share of other comprehensive income of associates accounted for using equity method	**95**	(123)	**1,010**
Total other comprehensive income	**450**	(396)	**4,784**
Comprehensive income	**¥2,003**	¥ 986	**$21,297**
Comprehensive income attributable to:			
Owners of the parent	**¥2,008**	¥ 978	**$21,350**
Minority interests	**(4)**	7	**(42)**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nitta Gelatin Inc. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at April 1, 2011	¥ 875	¥ 677	¥6,090	¥ (82)	¥ 7,560
Issuance of new shares	702	702			1,404
Dividends from surplus			(48)		(48)
Net income			1,375		1,375
Purchase of treasury stock				(528)	(528)
Disposal of treasury stock		18		82	101
Retirement of treasury stock			(527)	527	–
Net changes of items other than shareholders' equity					–
Balance at March 31, 2012	1,577	1,398	6,889	(0)	9,865
Dividends from surplus			**(220)**		**(220)**
Net income			**1,565**		**1,565**
Net changes of items other than shareholders' equity					**–**
Balance at March 31, 2013	**¥1,577**	**¥1,398**	**¥8,235**	**¥ (0)**	**¥11,210**

	Millions of yen						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Pension liability adjustment of foreign subsidiaries	Total	Minority interests	Total net assets
Balance at April 1, 2011	¥408	¥ 2	¥(1,180)	¥ (665)	¥(1,435)	¥ 59	¥6,185
Issuance of new shares							1,404
Dividends from surplus							(48)
Net income							1,375
Purchase of treasury stock							(528)
Disposal of treasury stock							101
Retirement of treasury stock							–
Net changes of items other than shareholders' equity	7	4	(170)	(238)	(397)	15	(381)
Balance at March 31, 2012	416	6	(1,350)	(903)	(1,832)	74	8,108
Dividends from surplus							**(220)**
Net income							**1,565**
Net changes of items other than shareholders' equity	**83**	**21**	**688**	**(350)**	**442**	**72**	**514**
Balance at March 31, 2013	**¥499**	**¥27**	**¥ (662)**	**¥(1,254)**	**¥(1,390)**	**¥147**	**¥9,968**

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, 2012	$16,767	$14,864	$72,248	$(0)	$104,891
Dividends from surplus			**(2,339)**		**(2,339)**
Net income			**16,640**		**16,640**
Net changes of items other than shareholders' equity					**–**
Balance at March 31, 2013	**$16,767**	**$14,864**	**$87,559**	**$(0)**	**$119,191**

	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	Pension liability adjustment of foreign subsidiaries	Total	Minority interests	Total net assets
Balance at March 31, 2012	$4,423	$ 63	$(14,354)	$ (9,601)	$(19,479)	$ 786	$ 86,209
Dividends from surplus							**(2,339)**
Net income							**16,640**
Net changes of items other than shareholders' equity	**882**	**223**	**7,315**	**(3,721)**	**4,699**	**765**	**5,465**
Balance at March 31, 2013	**$5,305**	**$287**	**$ (7,038)**	**$(13,333)**	**$(14,779)**	**$1,562**	**$105,986**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nitta Gelatin Inc. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Operating activities:			
Income before income taxes and minority interests	**¥ 1,938**	¥1,964	**$ 20,606**
Depreciation and amortization	**825**	841	**8,771**
Decrease in provision for retirement benefits	**(104)**	(165)	**(1,105)**
Increase in provision for directors' retirement benefits	**1**	1	**10**
Increase (decrease) in provision for bonuses	**(21)**	25	**(223)**
Increase in allowance for doubtful accounts	**1**	4	**10**
Interest and dividends income	**(19)**	(17)	**(202)**
Interest expenses	**147**	167	**1,562**
Foreign exchange losses (gains)	**(71)**	12	**(754)**
Equity in earnings of affiliates	**(262)**	(118)	**(2,785)**
Gain on sales of property, plant and equipment	**(11)**	–	**(116)**
Loss on retirement of noncurrent assets	**58**	49	**616**
Loss on valuation of investment securities	**12**	–	**127**
Loss on valuation of golf club membership	**–**	4	**–**
Loss on sales of golf club membership	**4**	–	**42**
Decrease (increase) in notes and accounts receivable	**897**	(842)	**9,537**
Increase in inventories	**(650)**	(631)	**(6,911)**
Increase (decrease) in notes and accounts payable	**40**	(50)	**425**
Increase (decrease) in accrued consumption taxes	**(66)**	22	**(701)**
Other, net	**13**	(194)	**138**
Subtotal	**2,732**	1,072	**29,048**
Interest and dividends income received	**153**	45	**1,626**
Interest expenses paid	**(148)**	(167)	**(1,573)**
Income taxes paid	**(686)**	(382)	**(7,293)**
Net cash provided by operating activities	**2,050**	568	**21,796**
Investing activities:			
Payments into time deposits	**(20)**	(20)	**(212)**
Proceeds from withdrawal of time deposits	**20**	20	**212**
Purchase of property, plant and equipment	**(1,193)**	(673)	**(12,684)**
Proceeds from sales of property, plant and equipment	**14**	7	**148**
Purchase of intangible assets	**(40)**	(7)	**(425)**
Purchase of investment securities	**(38)**	(4)	**(404)**
Purchase of stocks of affiliates	**(302)**	(28)	**(3,211)**
Proceeds from cancellation of insurance funds	**29**	16	**308**
Purchase of insurance funds	**(4)**	(10)	**(42)**
Payments of loans receivable	**(0)**	(0)	**(0)**
Collection of loans receivable	**4**	5	**42**
Other, net	**(26)**	(38)	**(276)**
Net cash used in investing activities	**¥(1,557)**	¥ (733)	**$(16,555)**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Financing activities:			
Net increase (decrease) in short-term loans payable	**¥ 84**	¥ (94)	**$ 893**
Proceeds from long-term debt	**2,124**	2,047	**22,583**
Repayment of long-term debt	**(2,103)**	(1,987)	**(22,360)**
Redemption of bonds	**(330)**	(260)	**(3,508)**
Proceeds from issuance of common stock	**–**	1,404	**–**
Proceeds from stock issuance to minority shareholders	**85**	15	**903**
Proceeds from sale and leaseback transaction	**132**	183	**1,403**
Repayments of lease obligations	**(140)**	(111)	**(1,488)**
Proceeds from disposal of treasury stock	**–**	101	**–**
Purchase of treasury stock	**–**	(528)	**–**
Cash dividends paid	**(220)**	(48)	**(2,339)**
Cash dividends paid to minority shareholders	**(8)**	(7)	**(85)**
Net cash provided by (used in) financing activities	**(376)**	713	**(3,997)**
Effect of exchange rate change on cash and cash equivalents	**63**	(8)	**669**
Net increase in cash and cash equivalents	**180**	540	**1,913**
Cash and cash equivalents at beginning of period	**2,078**	1,538	**22,094**
Cash and cash equivalents at end of period (Note 18)	**¥ 2,258**	¥ 2,078	**$ 24,008**

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 2012 financial statements to conform to the classifications used in 2013.

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 ¥94.05 = U.S. $1, the approximate rate of exchange at March 29, 2013, and were then rounded down to the nearest thousand. As a result, the totals shown in the accompanying consolidated financial statements in U.S. dollars do not necessarily agree with the sums of the individual amounts. This translation of Japanese yen amounts into U.S. dollars 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, 2013 include the accounts of the Company and its 14 significant subsidiaries (12 significant subsidiaries in 2012). The fiscal year-end of three consolidated subsidiaries (December 31) is different than the consolidated fiscal year-end (March 31), and necessary adjustments are made for any significant transactions between their fiscal year-end and the consolidated fiscal year-end.

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

For the year ended March 31, 2013, three affiliates (three affiliates in 2012) 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 has a minimal effect on the accompanying consolidated financial statements and is 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 retirement benefits

The Company and certain consolidated subsidiaries record provision for retirement benefits based on the estimated amounts of the retirement benefit obligation and the fair value of pension plan assets as of the consolidated balance sheet date to cover future payments of employees' retirement benefits.

Actuarial gains and losses are mainly amortized by the straight-line method over a certain period (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.

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

(12) 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.

(13) Hedge accounting

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

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

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

2012

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 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

(Changes in Depreciation Method)

In accordance with the amendment of the Corporation Tax Act, effective April 1, 2012, the Company and its domestic consolidated subsidiaries have changed the method of depreciation for property, plant and equipment acquired on or after April 1, 2012 to the method of depreciation stipulated by the amended Corporation Tax Act.

This change will have only a negligible impact on operating income and income before income taxes and minority interests for the year ended March 31, 2013.

(17) New accounting standards

The Accounting Standards Board of Japan ("ASBJ") issued "Accounting Standard for Retirement Benefits" (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), which replaced the previous Accounting Standard for Retirement Benefits that had been issued and the other related practical guidance.

1. Outline

(1) Treatment in the consolidated balance sheets

Actuarial gains and losses and past service costs that have yet to be recognized in profit or loss will in the future be recognized after adjustment for tax effect under net assets and other comprehensive income, with the amount recorded as a liability or asset indicating the status of reserve provision.

(2) Treatment in the consolidated statements of income and the consolidated statements of comprehensive income

The un-expensed portion of actuarial gains and losses and past service costs arising in any given accounting period will in the future be recognized under other comprehensive income.

Moreover, the expensed portion of actuarial gains and losses and past service costs recognized under other comprehensive income will in the future be adjusted as a reclassification under other comprehensive income.

2. Effective date

The end of the fiscal year starting on or after April 1, 2013

3. Impact of application of the accounting standard and guidance

The Company is currently evaluating the impact of application of the accounting standard and guidance on financial statements when preparing the accompanying consolidated financial statements.

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 and 2012 were bank holidays, the following notes receivable were included in the balances as of March 31, 2013 and 2012.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Notes receivable	**¥106**	¥113	**$1,127**

4. Inventories

The balances of inventories as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Merchandise and finished goods	**¥4,404**	¥4,011	**$46,826**
Work in process	**918**	651	**9,760**
Raw materials and supplies	**1,508**	1,308	**16,034**
Inventories, total	**¥6,831**	¥5,971	**$72,631**

The inventory write-downs of ¥39 million ($414 thousand) and ¥23 million were recorded in cost of sales for the years ended March 31, 2013 and 2012, respectively, due to decline in profitability.

5. Investment Securities

Information of available-for-securities as of March 31, 2013 and 2012 was as follows:

	Millions of yen					
	2013			2012		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥ 977**	**¥201**	**¥775**	¥820	¥158	¥661
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	**29**	**30**	**(1)**	30	48	(17)
Total	**¥1,006**	**¥232**	**¥774**	¥850	¥206	¥644

	Thousands of U.S. dollars		
	2013		
	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	**$10,388**	**$2,137**	**$8,240**
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	**308**	**318**	**(10)**
Total	**$10,696**	**$2,466**	**$8,229**

Unlisted equity securities of ¥18 million ($191 thousand) as of March 31, 2013 and 2012 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 ¥1,743 million ($18,532 thousand) and ¥1,185 million were included in investment securities as of March 31, 2013 and 2012, 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 ($127 thousand).

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

	Millions of yen			Millions of yen	Thousands of U.S. dollars
	2013			2012	2013
	Amount	Weighted average interest rate (%)	Due	Amount	Amount
Current portion of long-term debt	**¥ 2,068**	**1.928%**	**–**	¥ 1,878	**$ 21,988**
Lease obligations (current portion)	**154**	**–**	**–**	127	**1,637**
Long-term debt excluding current portion	**3,142**	**1.346**	**2014 to 2018**	3,261	**33,407**
Lease obligations excluding current portion	**319**	**–**	**2014 to 2018**	348	**3,391**
No. 14 unsecured corporate bonds	**–**	**–**	**–**	330	**–**
No. 16 unsecured corporate bonds	**200**	**1.82**	**Aug. 2013**	200	**2,126**
	5,884			6,145	**62,562**
Less: Current portion	**(2,422)**			(2,335)	**(25,752)**
	¥ 3,461			¥ 3,809	**$ 36,799**

The weighted average interest rate of short-term loans payable at March 31, 2013 was 2.487%. 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, 2013 were as follows:

	Millions of yen			Thousands of U.S. dollars		
Year ending March 31,	Bonds	Long-term debt	Lease obligations	Bonds	Long-term debt	Lease obligations
2014	¥200	¥2,068	¥154	$2,126	$21,988	$1,637
2015	–	1,429	134	–	15,194	1,424
2016	–	974	107	–	10,356	1,137
2017	–	539	56	–	5,730	595
2018	–	198	21	–	2,105	223
Total	¥200	¥5,210	¥474	$2,126	$55,396	$5,039

The following assets were pledged as collateral as of March 31, 2013 and 2012.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Time deposits	**¥ –**	¥ 20	**$ –**
Buildings and structures	**1,199**	1,192	**12,748**
Machinery, equipment and vehicles	**122**	155	**1,297**
Land	**191**	191	**2,030**
Investment securities	**373**	314	**3,965**
Total	**¥1,886**	¥1,873	**$20,053**
Assets pledged as factory foundation mortgage included in the above assets:			
Buildings and structures	**¥1,199**	¥1,192	**$12,748**
Machinery, equipment and vehicles	**122**	155	**1,297**
Land	**191**	191	**2,030**
Total	**¥1,513**	¥1,539	**$16,087**

The obligations collateralized by the above assets as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Long-term debt	**¥3,733**	¥4,249	**$39,691**
Accounts payable (accrued liabilities such as customs duty)	**–**	42	**–**
Total	**¥3,733**	¥4,291	**$39,691**
Factory foundation mortgage included in the above liabilities:			
Long-term debt	**¥3,277**	¥3,865	**$34,843**
Total	**¥3,277**	¥3,865	**$34,843**

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 ($52,631 thousand) in total with five banks at March 31, 2013 and 2012. There was no borrowing outstanding under these agreements as of March 31, 2013 and 2012.

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% and 40.69% for the years ended March 31, 2013 and 2012, respectively. The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2013 and 2012 differ from the statutory tax rate for the following reasons:

	2013	2012
Statutory tax rate	**38.01%**	40.69%
Adjustments for:		
Non-deductible expenses for income tax purposes	**0.76**	0.53
Non-taxable income	**(0.37)**	(0.36)
Inhabitants taxes—per capita levy	**0.24**	0.35
Tax credit for research and development, etc.	**(2.36)**	(1.66)
Adjustment to deferred tax assets due to changes in tax rates	**–**	4.88
Unrecognized tax benefits of net operating losses of subsidiaries	**(9.87)**	(9.66)
Difference in tax rates between the Company and subsidiaries	**(1.44)**	(1.92)
Equity in earnings of affiliates	**(5.15)**	(2.45)
Other	**0.09**	(0.81)
Effective tax rates	**19.91%**	29.59%

The significant components of deferred tax assets and liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Deferred tax assets:			
Loss on valuation of inventories	**¥ 67**	¥ 44	**$ 712**
Provision for bonuses	**70**	84	**744**
Accrued enterprise tax	**12**	30	**127**
Loss on valuation of golf club membership	**1**	11	**10**
Loss on valuation of investment securities	**250**	246	**2,658**
Provision for retirement benefits	**807**	763	**8,580**
Provision for directors' retirement benefits	**28**	30	**297**
Interest expenses	**9**	38	**95**
Impairment loss	**29**	31	**308**
Net loss carried forward	**853**	801	**9,069**
Other	**47**	79	**499**
Subtotal	**2,179**	2,164	**23,168**
Valuation allowance	**(959)**	(999)	**(10,196)**
Total deferred tax assets	**1,220**	1,164	**12,971**
Deferred tax liabilities:			
Depreciation	**(245)**	(242)	**(2,604)**
Valuation difference on available-for-sale securities	**(274)**	(228)	**(2,913)**
Provision for retirement benefits	**(81)**	(56)	**(861)**
Other	**(15)**	(7)	**(159)**
Total deferred tax liabilities	**(617)**	(534)	**(6,560)**
Net deferred tax assets	**¥ 602**	¥ 629	**$ 6,400**

8. Retirement Benefit Plans

The Company and certain consolidated subsidiaries primarily have defined benefit plans, i.e., lump-sum payment plans and defined benefit corporate pension plans.

The company and three consolidated subsidiaries have defined benefit retirement pension plans as of March 31, 2013.

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 and 2012 for the Company's and the consolidated subsidiaries' defined benefit plans.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Retirement benefit obligation	**¥(7,632)**	¥(6,817)	**$(81,148)**
Plan assets at fair value	**5,458**	4,572	**58,032**
Unfunded retirement benefit obligation	**(2,173)**	(2,244)	**(23,104)**
Unrecognized actuarial loss	**286**	451	**3,040**
Unrecognized prior service benefit and cost	**(66)**	(89)	**(701)**
Net retirement benefit obligation	**(1,953)**	(1,882)	**(20,765)**
Prepaid pension cost	**322**	275	**3,423**
Provision for retirement benefits	**¥(2,276)**	¥(2,158)	**$(24,199)**

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 and 2012 were outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Service cost	**¥ 166**	¥ 168	**$ 1,765**
Interest cost	**243**	245	**2,583**
Expected return on plan assets	**(239)**	(222)	**(2,541)**
Amortization of actuarial loss	**67**	49	**712**
Amortization of prior service benefit and cost	**(19)**	(23)	**(202)**
Retirement benefit expenses	**¥ 218**	¥ 217	**$ 2,317**

Note: Retirement benefit expenses of consolidated subsidiaries which apply the simplified method are included in "Service cost."

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 and 2012 were mainly 2.10%.

9. Leases

(1) Finance leases (lessee)

The Company leases production facilities (machinery, equipment and vehicles) in connection with the collagen material business as a lessee through finance lease transactions that do not transfer ownership of the leased property to the lessee. 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 and 2012, 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			2012		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	**¥240**	**¥197**	**¥42**	¥623	¥476	¥147
Total	**¥240**	**¥197**	**¥42**	¥623	¥476	¥147

	Thousands of U.S. dollars		
	2013		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	**$2,551**	**$2,094**	**$446**
Total	**$2,551**	**$2,094**	**$446**

Future minimum lease payments subsequent to March 31, 2013 for finance leases accounted for as operating leases were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥45	$478
2015 and thereafter	–	–
Total	¥45	$478

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, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Lease payments	**¥66**	¥140	**$701**
Depreciation expenses	**56**	118	**595**
Interest expenses	**4**	11	**42**

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, 2013 and 2012.

(2) Operating leases

Future minimum lease payments subsequent to March 31, 2013 for non-cancelable operating leases are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥392	$4,167
2015 and thereafter	436	4,635
Total	¥829	$8,814

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 relationships and are exposed to market risk. The Company also provides long-term loans to companies with business relationships.

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 five 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 relationships) 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, 2013 and 2012, 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		
	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.

	Millions of yen		
	2012		
	Carrying value	Fair value	Difference
Cash and deposits	¥ 2,098	¥ 2,098	¥ –
Notes and accounts receivable	6,449	6,449	–
Investment securities	850	850	–
Total assets	¥ 9,398	¥ 9,398	¥ –
Notes and accounts payable	¥ 3,476	¥ 3,476	¥ –
Other payable	1,388	1,388	–
Long-term debt (including its current portion)	5,139	5,175	36
Total liabilities	¥10,005	¥10,041	¥36
Derivative transactions (*)	¥ 13	¥ 13	¥ –

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

	Thousands of U.S. dollars		
	2013		
	Carrying value	Fair value	Difference
Cash and deposits	**$ 24,221**	**$ 24,221**	**$ –**
Notes and accounts receivable	**62,083**	**62,083**	**–**
Investment securities	**10,696**	**10,696**	**–**
Total assets	**$ 97,022**	**$ 97,022**	**$ –**
Notes and accounts payable	**$ 39,723**	**$ 39,723**	**$ –**
Other payable	**16,863**	**16,863**	**–**
Long-term debt (including its current portion)	**55,396**	**55,619**	**223**
Total liabilities	**$111,993**	**$112,216**	**$223**
Derivative transactions (*)	**$ 425**	**$ 425**	**$ –**

(*) 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
	2013	2012	**2013**
Carrying value:			
Unlisted equity securities	**¥18**	¥18	**$191**

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, 2013 and 2012, monetary receivables with maturities were deposits of ¥2,275 million ($24,189 thousand) and ¥2,094 million and notes and accounts receivable of ¥5,839 million ($62,083 thousand) and ¥6,449 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, 2013 and 2012, 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					
	2013			2012		
	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	**¥248**	**¥–**	**¥41**	¥457	¥–	¥18

	Thousands of U.S. dollars		
	2013		
	Contract or notional amount	Maturing after one year	Fair value
Deferral hedge accounting			
Foreign exchange forward contracts			
Buy: USD and CAD	**$2,636**	**$–**	**$435**

Interest related:

	Millions of yen					
	2013			2012		
	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)**	¥1,500	¥150	¥(5)
Exceptional treatment						
Interest rate swaps						
Receive/floating and pay/fixed	**1,950**	**290**	(*)	2,450	680	(*)

	Thousands of U.S. dollars		
	2013		
	Contract or notional amount	Maturing after one year	Fair value
Deferral hedge accounting			
Interest rate swaps			
Receive/floating and pay/fixed	**$15,948**	**$ –**	**$(10)**
Exceptional treatment			
Interest rate swaps			
Receive/floating and pay/fixed	**20,733**	**3,083**	(*)

(*) 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 and 2012, the Group was contingently liable for the assignment of receivables with recourse in the amount of ¥475 million ($5,050 thousand) and ¥249 million, respectively.

13. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Packing and freightage expenses	**¥ 740**	¥ 741	**$ 7,868**
Salaries	**1,138**	1,145	**12,099**
Bonuses	**236**	226	**2,509**
Provision for bonuses	**61**	75	**648**
Provision for retirement benefits	**81**	89	**861**
Provision for directors' retirement benefits	**1**	1	**10**
Provision of allowance for doubtful accounts	**4**	2	**42**
Depreciation	**78**	81	**829**
Research and development expenses	**793**	730	**8,431**

For the years ended March 31, 2013 and 2012, research and development expenses included in general and administrative expenses and manufacturing costs were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
General and administrative expenses	**¥ 793**	¥730	**$ 8,431**
Manufacturing costs	**233**	164	**2,477**
Total	**¥1,026**	¥895	**$10,909**

14. Information on Related Party Transactions

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	Thousands of U.S. dollars
Reva Proteins Ltd. (Gujarat, India)	(Thousands of rupees) 405,675	Manufacture of ossein	Direct 25.4% Indirect 34.6%	Subscription of capital stock	¥196	$2,083

For the years ended March 31, 2013 and 2012, 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
	2013	2012	**2013**
Total current assets	**¥3,371**	¥2,401	**$35,842**
Total noncurrent assets	**1,599**	1,585	**17,001**
Total current liabilities	**1,837**	1,410	**19,532**
Total noncurrent liabilities	**142**	127	**1,509**
Total net assets	**2,990**	2,448	**31,791**
Net sales	**7,849**	7,026	**83,455**
Income before income taxes	**1,189**	594	**12,642**
Net income	**747**	337	**7,942**

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, 2013 and 2012 were as follows:

As of March 31,	2011	Increase/(decrease)	2012	Increase/(decrease)	**2013**
Issued:					
Common stock	6,366,937	9,403,137	15,770,074	–	**15,770,074**
Type A preferred stock	1,000,000	(1,000,000)	–	–	**–**
Total	7,366,937	8,403,137	15,770,074	–	**15,770,074**
Treasury stock:					
Common stock	109,503	(109,341)	162	–	**162**

For the year ended March 31, 2012, the increase in the number of issued shares of common stock was due to a two-for-one stock split on April 1, 2011 (6,366,937 shares) and issuance of new shares by public offering, the payment date of which was December 19, 2011, (2,781,000 shares) and issuance of new shares by third-party allotment, the payment date of which was January 18, 2012 (255,200 shares).

For the year ended March 31, 2012, the number of issued shares of Type A preferred stock decreased by 1,000,000 shares due to retirement of shares after acquisition.

For the year ended March 31, 2012, the number of shares of treasury stock of common stock increased by 109,503 shares due to a two-for-one stock split on April 1, 2011 and by 156 shares due to the acquisition of shares less than one unit.

For the year ended March 31, 2012, the number of shares of treasury stock of common stock decreased by 219,000 shares due to the disposal of treasury stock by public offering, the payment date of which was December 19, 2011.

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

(1) Dividends paid to shareholders

2013							
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 27, 2012 Annual general meeting of shareholders	**Common stock**	**¥126**	**$1,339**	**¥8.00**	**$0.08**	**March 31, 2012**	**June 28, 2011**
November 9, 2012 Board of directors	**Common stock**	**94**	**999**	**6.00**	**0.06**	**September 30, 2012**	**December 7, 2011**

2012					
Resolution	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Record date	Effective date
June 28, 2011 Annual general meeting of shareholders	Common stock	¥23	¥3.75	March 31, 2011	June 29, 2011
November 7, 2011 Board of directors	Common stock	25	2.00	September 30, 2011	December 8, 2011

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

2013								
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, 2013 Annual general meeting of shareholders	**Common stock**	**¥126**	**$1,339**	**Retained earnings**	**¥8.00**	**$0.08**	**March 31, 2013**	**June 27, 2013**

2012						
Resolution	Type of shares	Amount (Millions of yen)	Paid from	Amount per share (Yen)	Record date	Effective date
June 27, 2012 Annual general meeting of shareholders	Common stock	¥126	Retained earnings	¥8.00	March 31, 2012	June 28, 2012

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 15,769,912 shares and 13,496,766 shares for the years ended March 31, 2013 and 2012, respectively.

	Yen		U.S. dollars
	2013	2012	**2013**
Net assets per share	**¥622.75**	¥509.41	**$6.62**
Net income per share	**99.30**	99.87	**1.05**

Diluted net income per share is not disclosed due to the absence of dilutive shares for the years ended March 31, 2013 and 2012.

18. Cash Flow Information

Reconciliations between cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2013 and 2012 and cash and deposits in the consolidated balance sheets as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Cash and deposits	**¥2,278**	¥ 2,098	**$24,221**
Time deposits with a maturity in excess of three months	**(20)**	(20)	**(212)**
Cash and cash equivalents	**¥2,258**	¥2,078	**$24,008**

19. Comprehensive Income

Reclassification adjustments and income tax benefit (expense) on components of other comprehensive income for the year ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Valuation difference on available-for-sale securities:			
Losses arising during the period	**¥ 117**	¥ (40)	**$ 1,244**
Reclassification adjustments	**12**	–	**127**
Pre-tax amount	**129**	(40)	**1,371**
Income tax benefit	**(46)**	48	**(489)**
Valuation difference on available-for-sale securities	**83**	8	**882**
Deferred gains or losses on hedges:			
Losses arising during the period	**75**	(17)	**797**
Reclassification adjustments	**4**	8	**42**
Adjustments to acquisition cost of assets	**(52)**	22	**(552)**
Pre-tax amount	**27**	13	**287**
Income tax expense	**(10)**	(4)	**(106)**
Deferred gains or losses on hedges	**17**	8	**180**
Foreign currency translation adjustment:			
Losses arising during the period	**605**	(50)	**6,432**
Pension liability adjustment of foreign subsidiaries:			
Losses arising during the period	**(381)**	(256)	**(4,051)**
Reclassification adjustments	**30**	18	**318**
Pension liability adjustment of foreign subsidiaries	**(350)**	(238)	**(3,721)**
Share of other comprehensive income of associates accounted for using equity method:			
Losses arising during the period	**95**	(123)	**1,010**
Total other comprehensive income	**¥ 450**	¥(396)	**$ 4,784**

20. Segment Information

(1) Overview of reportable segments

Reportable segments are defined as components 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 their 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:

The "Collagen material business" produces gelatin, collagen peptide, collagen casings and others.

The "Formula solution business" produces various materials for foods, adhesives and others.

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

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

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

	Millions of yen				
	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	**1,817**	**1,151**	**2,968**	**(1,349)**	**1,618**
Segment assets	**18,629**	**4,528**	**23,158**	**2,290**	**25,449**
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**

	Millions of yen				
	2012				
	Collagen material business	Formula solution business	Total	Reconciliation (Note 1)	Amounts on consolidated financial statements (Note 2)
Net sales:					
Sales to third parties	¥17,433	¥10,329	¥27,763	¥ –	¥27,763
Intersegment sales and transfers	1,352	–	1,352	(1,352)	–
Total	18,786	10,329	29,115	(1,352)	27,763
Segment profit	2,255	1,082	3,338	(1,323)	2,015
Segment assets	16,389	4,867	21,256	2,115	23,371
Other items:					
Depreciation and amortization	722	78	801	40	841
Increase in property, plant and equipment and intangible assets	670	55	726	43	769

	Thousands of U.S. dollars				
	2013				
	Collagen material business	Formula solution business	Total	Reconciliation (Note 1)	Amounts on consolidated financial statements (Note 2)
Net sales:					
Sales to third parties	**$198,553**	**$107,357**	**$305,922**	**$ –**	**$305,922**
Intersegment sales and transfers	**13,864**	**–**	**13,864**	**(13,864)**	**–**
Total	**212,429**	**107,357**	**319,787**	**(13,864)**	**305,922**
Segment profit	**19,319**	**12,238**	**31,557**	**(14,343)**	**17,203**
Segment assets	**198,075**	**48,144**	**246,230**	**24,348**	**270,590**
Other items:					
Depreciation and amortization	**7,666**	**765**	**8,431**	**329**	**8,771**
Increase in property, plant and equipment and intangible assets	**13,067**	**776**	**13,843**	**1,318**	**15,162**

Note 1. "Reconciliation" included the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Segment profit:			
Intersegment elimination	**¥ 2**	¥ 3	**$ 21**
Corporate expense (*)	**(1,352)**	(1,326)	**(14,375)**
Total	**¥(1,349)**	¥(1,323)	**$(14,343)**

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Segment assets:			
Intersegment elimination	**¥ (458)**	¥ (498)	**$ (4,869)**
Corporate assets (*)	**2,749**	2,614	**29,229**
	¥2,290	¥2,115	**$24,348**

(*) "Corporate assets" presents mainly cash and deposits, 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, 2013 and 2012

(a) Information by geographical area

Net sales:

Millions of yen				
2013				
Japan	Asia	North America	Other	Total
¥19,098	**¥1,239**	**¥7,727**	**¥707**	**¥28,772**

Millions of yen				
2012				
Japan	Asia	North America	Other	Total
¥20,037	¥1,082	¥6,255	¥387	¥27,763

Thousands of U.S. dollars				
2013				
Japan	Asia	North America	Other	Total
$203,062	**$13,173**	**$82,158**	**$7,517**	**$305,922**

Property, plant and equipment:

Millions of yen			
2013			
Japan	Asia	North America	Total
¥2,955	**¥91**	**¥3,240**	**¥6,287**

Millions of yen			
2012			
Japan	Asia	North America	Total
¥2,675	¥0	¥2,711	¥5,387

Thousands of U.S. dollars			
2013			
Japan	Asia	North America	Total
$31,419	**$967**	**$34,449**	**$66,847**

(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 customers accounting for 10% or more of the consolidated sales.

(Supplementary Note)

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

The Group's consolidated financial statements for the years ended March 31, 2013 and 2012, 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.