



November 8, 2017

Consolidated Financial Results for the Six Months Ended September 30, 2017

(Japanese Accounting Standards)

Name of the Listed Company: **Nitta Gelatin Inc.**
 Listing: First Section of Tokyo Stock Exchange
 Stock code: 4977
 URL: <http://www.nitta-gelatin.co.jp>
 Representative: Koichi Ogata, Representative Director and President
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Scheduled date to file Quarterly Securities Report: November 10, 2017

Scheduled date to commence dividend payments: December 6, 2017

Supplementary explanatory materials prepared: Yes

Explanatory meeting: Yes (For analysts and institutional investors)

(Millions of yen with fractional amounts discarded, unless otherwise noted.)

1. Consolidated financial results for the six months ended September 30, 2017

(from April 1, 2017 to September 30, 2017)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2017	18,623	4.9	530	(42.6)	605	(12.1)	344	(15.0)
September 30, 2016	17,752	(2.9)	924	106.0	688	88.2	405	175.5

Note: Comprehensive income

For the six months ended September 30, 2017: ¥676 million, (-%)

For the six months ended September 30, 2016: ¥(420) million, (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2017	18.74	—
September 30, 2016	22.05	—

Note: Diluted net income per share is not disclosed due to the absence of latent shares with dilution effect.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2017	40,801	18,319	40.1
March 31, 2017	40,410	17,736	38.9

Reference: Equity

As of September 30, 2017: ¥16,368 million

As of March 31, 2017: ¥15,727 million

2. Cash dividends

	Cash dividends per share				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2017	—	6.00	—	6.00	12.00
Fiscal year ending March 31, 2018	—	6.00			
Fiscal year ending March 31, 2018 (Forecasts)			—	6.00	12.00

Note: Changes to most recent dividend forecasts: None

3. Consolidated financial forecasts for the fiscal year ending March 31, 2018 (from April 1, 2017 to March 31, 2018)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2018	38,500	5.3	1,600	(1.1)	1,600	(12.6)	1,000	44.2	54.43

Note: Changes to most recent consolidated financial forecasts: None

Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in the scope of consolidation): None

New: None

Excluded: None

(2) Adoption of special accounting methods for the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates, and restatement of revisions

a. Changes in accounting policies due to revisions to accounting standards and other guidelines: No

b. Changes in accounting policies due to reasons other than a. above: No

c. Changes in accounting estimates: Yes

d. Restatement of revisions: No

Note: For details, please refer to “(4) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Estimates)” in “2. Quarterly Consolidated Financial Statements and Key Notes” on page 10 of the Attachment to this report.

(4) Number of common shares issued

a. Total number of issued shares at the end of the period (including treasury stock)

As of September 30, 2017 18,373,974 shares

As of March 31, 2017 18,373,974 shares

b. Number of shares of treasury stock at the end of the period

As of September 30, 2017 162 shares

As of March 31, 2017 162 shares

c. Average number of shares

For the six months ended September 30, 2017 18,373,812 shares

For the six months ended September 30, 2016 18,373,812 shares

* This report falls outside the scope of quarterly review procedures.

* Proper use of earnings forecasts, and other special matters

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. These statements do not guarantee that the Company will achieve its earnings forecasts. In addition, actual business and other results may differ substantially due to various factors. For details on the conditions assumed and the cautionary notes and items in the financial forecasts, please refer to “(3) Description of Consolidated Business Forecasts and Other Forward-looking Information” in “1. Qualitative Information Concerning Quarterly Financial Statements” on page 4 of the Attachment to this report.

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1. Qualitative Information Concerning Quarterly Financial Statements

(1) Description of Business Results

In the first six months of the fiscal year ending March 31, 2018, global economies continued to expand gradually, with steady economic expansion in the U.S. and stable economic growth maintained in China. The Japanese economy continued on a moderate recovery trend, supported by demand for semiconductors and expanding investment in automation, among other factors.

Under these conditions, as the Nitta Gelatin Group approaches its 100th founding anniversary in 2018, it formulated a new corporate vision in April 2017.

New Vision

“To stay healthy and feeling young”

Nitta Gelatin Group fulfills this desire of people worldwide through our relentless pursuit of realizing collagen’s enormous potential.

- 1. We will provide products and services that meet our customers’ expectations of continued improvement.*
- 2. We will broaden the range of collagen applications through our ongoing efforts in R&D and production innovation.*
- 3. We will pioneer and create new markets by fostering a corporate culture that encourages facing and overcoming challenges.*

Under this corporate vision, the Nitta Gelatin Group engaged proactively in proposal activities for high value added products based on customer needs, while striving to bolster recognition by holding the Life Science Biomaterial Research Workshop again following the previous fiscal year.

As a result, in the first six months of the fiscal year ending March 31, 2018, net sales increased 4.9% year on year to ¥18,623 million and operating income decreased 42.6% to ¥530 million. Ordinary income declined 12.1% to ¥605 million, cushioned by equity in earnings of affiliates, and net income attributable to owners of the parent decreased 15.0% to ¥344 million.

Segment business performance was as follows:

(a) Collagen Material Business

In the gelatin field, in Japan sales of gelatin for use in delicatessen items sold in convenience stores and gelatin for soft capsules used in supplements were firm. Overall sales increased, but profits declined in North America, mainly reflecting an increase in raw material costs.

In the collagen peptide field, sales in the supplement market were firm thanks to a boost in recognition of functionality.

Collagen casings saw profits recover, supported by solid sales in North America.

As a result, net sales in this segment increased 6.7% to ¥13,688 million, while segment profit (operating income) decreased 39.1% to ¥648 million.

(b) Formula Solution Business

In food materials, sales were level year on year overall. However, the Company's product was awarded by the media with the "hit commercial processed food product award." The Company will continue to focus on marketing and customer proposals for this product going forward.

In adhesives, an increase in sales for hygiene products and a decline in production costs contributed to an overall increase in earnings. Sales of high-functional resins remained level year on year despite proactive sales promotion activities.

As a result, net sales in the segment were up 0.3% year on year to ¥4,935 million and segment profit (operating income) increased 7.3% year on year to ¥564 million.

(2) Description of Financial Position

(a) Assets, liabilities and net assets

(Assets)

Total assets amounted to ¥40,801 million at September 30, 2017, ¥390 million higher than at March 31, 2017. This was mainly attributable to increase in notes and accounts receivable-trade, inventories and investment securities.

(Liabilities)

Total liabilities stood at ¥22,482 million at September 30, 2017, ¥191 million lower than at March 31, 2017. This was mainly attributable to decreases in income taxes payable and long-term loans payable.

(Net assets)

Net assets amounted to ¥18,319 million at September 30, 2017, ¥582 million higher than at March 31, 2017. This was mainly attributable to increases in retained earnings and valuation difference on other available-for-sale securities.

As a result, the equity ratio stood at 40.1% at September 30, 2017, compared to 38.9% at March 31, 2017.

(b) Cash flows

Cash and cash equivalents ("cash") as of September 30, 2017 was ¥1,866 million, down ¥683 million from March 31, 2017.

Cash flows for each activity and reasons are as follows.

(Net cash provided by operating activities)

Operating activities provided net cash of ¥146 million, compared to ¥430 million provided in the same period of the previous fiscal year. The main components were income before provision of income taxes of ¥593 million, depreciation and amortization of ¥805 million,

increase in inventories of ¥492 million, increase in notes and accounts receivable-trade of ¥320 million, and income taxes paid of ¥439 million.

(Net cash used in investing activities)

Investing activities used net cash of ¥857 million, compared to ¥1,668 million used in the same period of the previous fiscal year. The main uses of cash were ¥845 million for the purchase of property, plant and equipment.

(Net cash provided by financing activities)

Financing activities provided net cash of ¥3 million, compared to ¥372 million provided in the same period of the previous fiscal year. The main sources of cash were proceeds from long-term loans payable of ¥1,200 million and net increase in short-term loans payable of ¥263 million, which were partially offset by the repayment of long-term loans payable of ¥1,281 million.

(3) Description of Consolidated Business Forecasts and Other Forward-looking Information

The consolidated earnings forecast for the fiscal year ending March 31, 2018 is unchanged from the consolidated earnings forecast announced on May 10, 2017 in the “Consolidated Financial Results for the Fiscal Year Ended March 31, 2017.”

Actual business and other results may differ substantially from projections due to various factors.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Consolidated Balance Sheets

	(Millions of yen)	
	Fiscal 2017 (As of March 31, 2017)	2Q Fiscal 2018 (As of September 30, 2017)
Assets		
Current assets		
Cash and deposits	2,662	1,969
Notes and accounts receivable-trade	8,923	9,306
Merchandise and finished goods	5,043	5,561
Work in process	1,163	1,254
Raw materials and supplies	2,997	2,915
Other	918	991
Allowance for doubtful accounts	(22)	(12)
Total current assets	21,686	21,987
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	4,339	4,251
Machinery, equipment and vehicles, net	4,882	4,862
Other, net	4,688	4,506
Total property, plant and equipment	13,910	13,620
Intangible assets		
Goodwill	454	433
Other	405	398
Total intangible assets	859	832
Investments and other assets		
Investment securities	3,052	3,433
Other	902	927
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	3,954	4,360
Total noncurrent assets	18,724	18,813
Total assets	40,410	40,801

(Millions of yen)

	Fiscal 2017 (As of March 31, 2017)	2Q Fiscal 2018 (As of September 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	4,347	4,354
Short-term loans payable	2,866	3,157
Current portion of long-term loans payable	2,432	2,508
Income taxes payable	509	346
Provision for bonuses	259	226
Other	2,622	2,292
Total current liabilities	13,037	12,885
Noncurrent liabilities		
Long-term loans payable	5,425	5,269
Net defined benefit liability	2,851	2,901
Other	1,359	1,425
Total noncurrent liabilities	9,636	9,596
Total liabilities	22,674	22,482
Net Assets		
Shareholders' equity		
Capital stock	3,144	3,144
Capital surplus	2,966	2,966
Retained earnings	10,042	10,319
Treasury stock	(0)	(0)
Total shareholders' equity	16,153	16,430
Accumulated other comprehensive income (loss)		
Valuation difference on other available-for-sale securities	1,107	1,369
Deferred gains on hedges	43	10
Foreign currency translation adjustments	331	452
Remeasurements of defined benefit plans	(1,907)	(1,894)
Total accumulated other comprehensive income	(426)	(62)
Non-controlling interests	2,009	1,950
Total net assets	17,736	18,319
Total liabilities and net assets	40,410	40,801

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Six months ended September 30)

	(Millions of yen)	
	Six Months Ended September 30, 2016 (From April 1, 2016 to September 30, 2016)	Six Months Ended September 30, 2017 (From April 1, 2017 to September 30, 2017)
Net sales	17,752	18,623
Cost of sales	13,634	14,808
Gross profit on sales	4,118	3,815
Selling, general and administrative expenses	3,194	3,285
Operating income	924	530
Non-operating income		
Interest income	8	10
Dividend income	17	30
Foreign exchange gains	—	18
Equity in earnings of affiliates	68	89
Other	48	47
Total non-operating income	143	195
Non-operating expenses		
Interest expenses	113	106
Foreign exchange losses	246	—
Other	19	14
Total non-operating expenses	379	120
Ordinary income	688	605
Extraordinary losses		
Disposal costs for noncurrent assets	—	1
Loss on retirement of noncurrent assets	7	10
Total extraordinary losses	7	12
Income before provision of income taxes	681	593
Income taxes	240	230
Net income	441	362
Net income attributable to non-controlling interests	36	18
Net income attributable to owners of the parent	405	344

Consolidated Statements of Comprehensive Income
(Six months ended September 30)

	(Millions of yen)	
	Six Months Ended September 30, 2016 (From April 1, 2016 to September 30, 2016)	Six Months Ended September 30, 2017 (From April 1, 2017 to September 30, 2017)
Net income	441	362
Other comprehensive income (loss)		
Valuation difference on other available-for-sale securities	(123)	262
Deferred gains (losses) on hedges	16	(67)
Foreign currency translation adjustments	(903)	119
Pension liability adjustment	290	14
Share of other comprehensive income of associates accounted for using equity method	(141)	(14)
Total other comprehensive income	(862)	314
Total comprehensive income (loss)	(420)	676
Comprehensive income (loss) attributable to:		
Owners of the parent	(314)	707
Non-controlling interests	(106)	(31)

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	Six Months Ended September 30, 2016 (From April 1, 2016 to September 30, 2016)	Six Months Ended September 30, 2017 (From April 1, 2017 to September 30, 2017)
Cash flows from operating activities		
Income before provision of income taxes	681	593
Depreciation and amortization	709	805
Amortization of goodwill	3	22
Increase (decrease) in allowance for doubtful accounts	2	(9)
Decrease in provision for houses	(37)	(34)
Increase in net defined benefit liability	2	76
Interest and dividend income	(26)	(40)
Interest expenses	113	106
Foreign exchange losses (gains)	13	(0)
Equity in earnings of affiliates	(68)	(89)
Loss on sales of property, plant and equipment	—	1
Loss on retirement of noncurrent assets	7	10
Increase in notes and accounts receivable-trade	(105)	(320)
Increase in inventories	(533)	(492)
Increase (decrease) in notes and accounts payable-trade	123	(4)
Decrease in accrued consumption taxes	(22)	(72)
Other, net	(232)	37
Subtotal	630	589
Interest and dividend income received	43	100
Interest paid	(113)	(104)
Income taxes paid	(129)	(439)
Net cash provided by operating activities	430	146
Cash flows from investing activities		
Payment into time deposits	(20)	(105)
Proceeds from withdrawal of time deposits	65	109
Purchase of property, plant and equipment	(820)	(845)
Proceeds from sales of property, plant and equipment	—	1
Purchase of intangible assets	(13)	(12)
Purchase of investment securities	(3)	(4)
Purchase of insurance funds	(0)	(0)
Payment for the transfer of business	(897)	—
Proceeds from surrender of insurance funds	20	—
Payments of loans receivable	(0)	(0)
Collection of loans receivable	2	0
Other, net	(0)	(0)
Net cash used in investing activities	(1,668)	(857)

	(Millions of yen)	
	Six Months Ended September 30, 2016 (From April 1, 2016 to September 30, 2016)	Six Months Ended September 30, 2017 (From April 1, 2017 to September 30, 2017)
Cash flows from financing activities		
Net increase in short-term loans payable	216	263
Proceeds from long-term loans payable	1,500	1,200
Repayment of long-term loans payable	(1,142)	(1,281)
Proceeds from sale-and-leaseback transactions	60	84
Repayments of lease obligations	(125)	(125)
Cash dividends paid	(110)	(110)
Cash dividends paid to non-controlling interests	(25)	(27)
Net cash provided by financing activities	372	3
Effect of exchange rate change on cash and cash equivalents	152	23
Net decrease in cash and cash equivalents	(713)	(683)
Cash and cash equivalents, beginning of period	2,536	2,550
Cash and cash equivalents, end of period	1,823	1,866

(4) Notes to Quarterly Consolidated Financial Statements

(Note Concerning Going Concern Assumption)

None

(Note Concerning Significant Changes in Shareholders' Equity)

None

(Changes in Accounting Estimates)

(Change in the useful life)

The machinery and equipment owned by certain consolidated subsidiaries had been estimated to have a useful life of eight years for depreciation purposes, based on its usage status. In the fiscal year ending March 31, 2018, the useful life has been revised based on the actual number of years of use and other factors in conjunction with plan to operate new machinery and equipment, and is now clearly expected to be longer than the previous estimate. From the first quarter of the fiscal year ending March 31, 2018, the useful life has therefore been changed to 10 years.

As a result, for the first six months of the fiscal year ending March 31, 2018 the amount of depreciation and amortization has declined by ¥22 million compared to the previous estimation method, and operating income, ordinary income, and income before provision of income taxes have all increased by the same amount.

(Segment Information)

I. Six months ended September 30, 2016 (From April 1, 2016 to September 30, 2016)

1. Information on net sales, income and loss by reporting segment

(Millions of yen)

Reporting segment			Total	Adjustments ^{*1}	Amounts in the consolidated income statement ^{*2}
	Collagen material business	Formula solution business			
Net sales					
Sales to third parties	12,832	4,920	17,752	—	17,752
Inter-segment sales and transfers	893	4	898	(898)	—
Total	13,725	4,925	18,651	(898)	17,752
Segment income	1,066	526	1,592	(668)	924

(Notes) 1. Adjustment for segment income of ¥(668) million comprises elimination of intersegment transactions of ¥2 million and unallocated expenses of ¥(671) million.

2. Segment income is adjusted against the operating income recorded in the consolidated income statement.

2. Information on impairment loss on noncurrent assets and goodwill by reporting segments (Significant changes in the amount of goodwill)

In the Collagen Material Business segment, Vyse Gelatin, LLC was newly established, and the new company took over a portion of the business of Vyse Gelatin Company, resulting in the recording of goodwill.

The increase in goodwill due to these events was ¥379 million in the six months ended September 30, 2016. The amount of goodwill is a provisional estimate, as the allocation of the acquisition cost has not yet been completed.

II. Six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)

1. Information on net sales, income and loss by reporting segment

(Millions of yen)

Reporting segment			Total	Adjustments ^{*1}	Amounts in the consolidated income statement ^{*2}
	Collagen material business	Formula solution business			
Net sales					
Sales to third parties	13,688	4,935	18,623	—	18,623
Inter-segment sales and transfers	837	4	841	(841)	—
Total	14,526	4,939	19,465	(841)	18,623
Segment income	648	564	1,213	(683)	530

(Notes) 1. Adjustment for segment income of ¥(683) million comprises elimination of intersegment transactions of ¥7 million and unallocated expenses of ¥(690) million.

2. Segment income is adjusted against the operating income recorded in the consolidated income statement.

2. Information on impairment loss on noncurrent assets and goodwill by reporting segments

None