



August 8, 2017

Consolidated Financial Results for the Three Months Ended June 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: August 9, 2017

Scheduled date to commence dividend payments: —

Supplementary explanatory materials prepared: No

Explanatory meeting: No

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

1. Consolidated financial results for the three months ended June 30, 2017

(from April 1, 2017 to June 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 | % |
| Three months ended June 30, 2017 | 9,240 | 2.3 | 274 | (43.6) | 383 | 31.7 | 234 | 33.4 |
| June 30, 2016 | 9,031 | (1.6) | 486 | 64.7 | 290 | (4.4) | 175 | 225.9 |

Note: Comprehensive income

For the three months ended June 30, 2017: ¥298 million, (—%)

For the three months ended June 30, 2016: ¥(595) million, (—%)

| | Net income per share | Diluted net income per share |
|----------------------------------|----------------------|------------------------------|
| Three months ended June 30, 2017 | Yen 12.77 | Yen — |
| June 30, 2016 | 9.57 | — |

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 |
|---------------------|---------------------------|---------------------------|--------------|
| As of June 30, 2017 | Millions of yen 39,646 | Millions of yen 18,010 | % 40.4 |
| March 31, 2017 | 40,410 | 17,736 | 38.9 |

Reference: Equity

As of June 30, 2017: ¥16,029 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 | — | | | | |
| Fiscal year ending March 31, 2018 (Forecasts) | | 6.00 | — | 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 |
| Six months ending September 30, 2017 | 18,700 | 5.3 | 650 | (29.7) | 650 | (5.6) | 400 | (1.3) | 21.77 |
| Fiscal year ending March 31, 2018 | 38,500 | 5.3 | 1,500 | (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 “(3) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Estimates)” in “2. Quarterly Consolidated Financial Statements and Key Notes” on page 9 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 June 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 June 30, 2017 162 shares

As of March 31, 2017 162 shares

c. Average number of shares

| | |
|--|-------------------|
| For the three months ended June 30, 2017 | 18,373,812 shares |
| For the three months ended June 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 3 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 quarter of the fiscal year ending March 31, 2018, global economies continued to recovery gradually, mainly supported by the recovery in advanced economies, primarily the U.S., and rapid growth of the Indian economy. Nevertheless, risk factors remain, such as the policies of the new U.S. administration and the U.K.'s serious discussion about departure from the EU.

The Japanese economy continued on a moderate recovery trend, supported by capital expenditures in response to labor shortages and growth in exports to the U.S. and China.

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

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 worked to strengthen its competitive capabilities by reducing costs through production efficiency improvements and ensuring optimal production and optimal sales. It also focused on providing products that create new value, and on research and development in the fields of health and beauty and regenerative medicine.

As a result, for the first quarter of the fiscal year ending March 31, 2018, net sales increased 2.3% year on year to ¥9,240 million and operating income decreased 43.6% to ¥274 million. Ordinary income rose 31.7% to ¥383 million, mainly due to foreign exchange gains. Net income attributable to owners of the parent increased 33.4% year on year to ¥234 million.

Segment business performance was as follows:

(a) Collagen Material Business

In the gelatin field, in Japan gelatin-for-food sales increased, such as delicatessen items sold in convenience stores, but sales of gelatin-for-capsules were weak. In North America, sales of gelatin-for-capsules showed signs of recovery, and sales expansion of gelatin-for-food also

contributed to overall sales growth. Profits declined, mainly reflecting an increase in raw material prices.

In the collagen peptide field, earnings recovered, partly due to the contribution of a boost in sales from increased recognition. In collagen casings, sales continued to trend firmly in North America.

As a result, net sales in this segment increased 3.3% to ¥6,694 million, while segment profit (operating income) decreased 48.6% to ¥267 million.

(b) Formula Solution Business

In food materials, sales were level year on year overall. Sales in the delicatessen foods market were strong, but sales for use in confectionery and desserts trended slightly lower year on year.

In adhesives, overall sales were lifted by a contribution from an increase in sales for hygiene products. Sales also increased due to an expansion in applications for high-functional resins.

As a result, net sales in the segment were down 0.2% year on year to ¥2,545 million and segment profit (operating income) increased 17.0% year on year to ¥339 million.

(2) Description of Financial Position

(Assets)

Total assets amounted to ¥39,646 million at June 30, 2017, ¥764 million lower than at March 31, 2017. This was mainly attributable to decreases in cash and deposits and notes and accounts receivable-trade.

(Liabilities)

Total liabilities stood at ¥21,636 million at June 30, 2017, ¥1,038 million lower than at March 31, 2017. This was mainly attributable to decreases in notes and accounts payable-trade, income taxes payable, and long-term loans payable.

(Net assets)

Net assets amounted to ¥18,010 million at June 30, 2017, ¥274 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 40.4% at June 30, 2017, compared to 38.9% at March 31, 2017.

(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) | 1Q Fiscal 2018 (As of June 30, 2017) |
| Assets | | |
| Current assets | | |
| Cash and deposits | 2,662 | 2,045 |
| Notes and accounts receivable-trade | 8,923 | 8,615 |
| Merchandise and finished goods | 5,043 | 5,400 |
| Work in process | 1,163 | 1,201 |
| Raw materials and supplies | 2,997 | 2,808 |
| Other | 918 | 940 |
| Allowance for doubtful accounts | (22) | (23) |
| Total current assets | 21,686 | 20,988 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 4,339 | 4,271 |
| Machinery, equipment and vehicles, net | 4,882 | 4,842 |
| Other, net | 4,688 | 4,665 |
| Total property, plant and equipment | 13,910 | 13,779 |
| Intangible assets | | |
| Goodwill | 454 | 441 |
| Other | 405 | 399 |
| Total intangible assets | 859 | 841 |
| Investments and other assets | | |
| Investment securities | 3,052 | 3,143 |
| Other | 902 | 893 |
| Allowance for doubtful accounts | (0) | (0) |
| Total investments and other assets | 3,954 | 4,037 |
| Total noncurrent assets | 18,724 | 18,658 |
| Total assets | 40,410 | 39,646 |

(Millions of yen)

| | Fiscal 2017 (As of March 31, 2017) | 1Q Fiscal 2018 (As of June 30, 2017) |
|---|---------------------------------------|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 4,347 | 4,141 |
| Short-term loans payable | 2,866 | 3,029 |
| Current portion of long-term loans payable | 2,432 | 2,322 |
| Income taxes payable | 509 | 272 |
| Provision for bonuses | 259 | 413 |
| Other | 2,622 | 2,414 |
| Total current liabilities | 13,037 | 12,593 |
| Noncurrent liabilities | | |
| Long-term loans payable | 5,425 | 4,862 |
| Net defined benefit liability | 2,851 | 2,888 |
| Other | 1,359 | 1,292 |
| Total noncurrent liabilities | 9,636 | 9,042 |
| Total liabilities | 22,674 | 21,636 |
| Net Assets | | |
| Shareholders' equity | | |
| Capital stock | 3,144 | 3,144 |
| Capital surplus | 2,966 | 2,966 |
| Retained earnings | 10,042 | 10,257 |
| Treasury stock | (0) | (0) |
| Total shareholders' equity | 16,153 | 16,369 |
| Accumulated other comprehensive income | | |
| Valuation difference on other available-for-sale securities | 1,107 | 1,210 |
| Deferred gains (losses) on hedges | 43 | 7 |
| Foreign currency translation adjustments | 331 | 330 |
| Remeasurements of defined benefit plans | (1,907) | (1,888) |
| Total accumulated other comprehensive income | (426) | (339) |
| Non-controlling interests | 2,009 | 1,981 |
| Total net assets | 17,736 | 18,010 |
| Total liabilities and net assets | 40,410 | 39,646 |

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

Consolidated Statements of Income

(First quarter consolidated cumulative accounting period)

| | (Millions of yen) | |
|---|--|--|
| | 1Q Fiscal 2017 (From April 1, 2016 to June 30, 2016) | 1Q Fiscal 2018 (From April 1, 2017 to June 30, 2017) |
| Net sales | 9,031 | 9,240 |
| Cost of sales | 6,979 | 7,351 |
| Gross profit on sales | 2,052 | 1,888 |
| Selling, general and administrative expenses | 1,565 | 1,614 |
| Operating income | 486 | 274 |
| Non-operating income | | |
| Interest income | 4 | 0 |
| Dividend income | 14 | 27 |
| Foreign exchange gains | — | 85 |
| Equity in earnings of affiliates | 39 | 39 |
| Other | 40 | 21 |
| Total non-operating income | 99 | 174 |
| Non-operating expenses | | |
| Interest expenses | 62 | 57 |
| Foreign exchange losses | 228 | — |
| Other | 3 | 8 |
| Total non-operating expenses | 294 | 66 |
| Ordinary income | 290 | 383 |
| Extraordinary losses | | |
| Loss on retirement of noncurrent assets | 1 | — |
| Total extraordinary losses | 1 | — |
| Income before provision for income taxes | 289 | 383 |
| Income taxes | 120 | 127 |
| Net income | 168 | 255 |
| Net income (loss) attributable to non-controlling interests | (7) | 20 |
| Net income attributable to owners of the parent | 175 | 234 |

Consolidated Statements of Comprehensive Income
(First quarter consolidated cumulative accounting period)

| | (Millions of yen) | |
|---|--|--|
| | 1Q Fiscal 2017 (From April 1, 2016 to June 30, 2016) | 1Q Fiscal 2018 (From April 1, 2017 to June 30, 2017) |
| Net income | 168 | 255 |
| Other comprehensive income (loss) | | |
| Valuation difference on other available-for-sale securities | (162) | 103 |
| Deferred losses on hedges | (23) | (69) |
| Foreign currency translation adjustments | (743) | 14 |
| Pension liability adjustment | 212 | 19 |
| Share of other comprehensive loss of associates accounted for using equity method | (46) | (23) |
| Total other comprehensive income (loss) | (763) | 42 |
| Total comprehensive income | (595) | 298 |
| Comprehensive income attributable to: | | |
| Owners of the parent | (450) | 320 |
| Non-controlling interests | (144) | (22) |

(3) 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 quarter of the fiscal year ending March 31, 2018 the amount of depreciation and amortization has declined by ¥11 million compared to the previous estimation method, and operating income, ordinary income, and income before income taxes and minority interests have all increased by the same amount.

(Segment Information)

I. First three months of the fiscal year ended March 31, 2017 (From April 1, 2016 to June 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 financial statements ^{*2} |
|-----------------------------------|----------------------------|---------------------------|-------|---------------------------|--|
| | Collagen material business | Formula solution business | | | |
| Net sales | | | | | |
| Sales to third parties | 6,481 | 2,549 | 9,031 | — | 9,031 |
| Inter-segment sales and transfers | 455 | 4 | 460 | (460) | — |
| Total | 6,937 | 2,554 | 9,491 | (460) | 9,031 |
| Segment income | 519 | 290 | 809 | (322) | 486 |

(Notes) 1. Adjustment for segment income of ¥(322) million comprises elimination of intersegment transactions of ¥(4) million and unallocated expenses of ¥(318) 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

II. First three months of the fiscal year ending March 31, 2018 (From April 1, 2017 to June 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 financial statements ^{*2} |
|-----------------------------------|----------------------------|---------------------------|-------|---------------------------|--|
| | Collagen material business | Formula solution business | | | |
| Net sales | | | | | |
| Sales to third parties | 6,694 | 2,545 | 9,240 | — | 9,240 |
| Inter-segment sales and transfers | 401 | 3 | 405 | (405) | — |
| Total | 7,096 | 2,549 | 9,646 | (405) | 9,240 |
| Segment income | 267 | 339 | 606 | (331) | 274 |

(Notes) 1. Adjustment for segment income of ¥(331) million comprises elimination of intersegment transactions of ¥(0) million and unallocated expenses of ¥(331) 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