August 8, 2018

Consolidated Financial Results for the Three Months Ended June 30, 2018

(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
Contact Person: Norifumi Nagaoka, Director and Executive Officer; General Manager of General Management Division
Tel: +81-72-949-5381
Scheduled date to file Quarterly Securities Report: August 9, 2018
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, 2018 (from April 1, 2018 to June 30, 2018)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2018	9,043	(2.1)	287	4.5	373	(2.4)	39	(83.3)
June 30, 2017	9,240	2.3	274	(43.6)	383	31.7	234	33.4

Note: Comprehensive income
For the three months ended June 30, 2018: ¥180 million, (39.3)%
For the three months ended June 30, 2017: ¥298 million, —%

	Net income per share	Diluted net income per share
Three months ended	Yen	Yen
June 30, 2018	2.14	—
June 30, 2017	12.77	—

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	Millions of yen	Millions of yen	%
June 30, 2018	37,997	17,264	40.2
March 31, 2018	37,851	17,197	40.1

Reference: Equity
As of June 30, 2018: ¥15,281 million
As of March 31, 2018: ¥15,189 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, 2018	–	6.00	–	6.00	12.00
Fiscal year ending March 31, 2019	–				
Fiscal year ending March 31, 2019 (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, 2019 (from April 1, 2018 to March 31, 2019)

(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, 2018	19,000	2.0	600	13.1	500	(17.4)	600	74.3	32.66
Fiscal year ending March 31, 2019	38,200	1.1	1,300	18.7	1,100	9.0	900	–	48.98

Note: Changes to most recent consolidated financial forecasts: None

(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: No
d. Restatement of revisions: No

(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, 2018 18,373,974 shares
As of March 31, 2018 18,373,974 shares

b. Number of shares of treasury stock at the end of the period
As of June 30, 2018 162 shares
As of March 31, 2018 162 shares

c. Average number of shares
For the three months ended June 30, 2018 18,373,812 shares
For the three months ended June 30, 2017 18,373,812 shares

* This financial report falls outside the scope of quarterly review procedures by Certified Public Accountants or the independent auditor.

* 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.

Attachment Contents

1. Qualitative Information Concerning Quarterly Financial Statements

(1) Description of Business Results

In the first quarter of the fiscal year ending March 31, 2019, the global economy continued to recover gradually, supported partly by major tax cuts in the U.S. and accelerated growth in the Indian economy.

The Japanese economy continued on a moderate recovery trend, owing to an increase in exports driven by global economic growth and firm internal demand reflecting factors such as capital expenditures. The outlook has become increasingly uncertain based in part on concerns about trade friction due to the protectionist trade policies of the U.S., and the risk of an economic downturn in Japan due to the deceleration of the Chinese economy.

In this environment, the Nitta Gelatin Group launched a new three-year Medium-Term Management Plan in April 2018. Under the new Medium-Term Management Plan, the Group will implement the following management policies:

1. Our three core areas will be food solutions, health support, and biomedical.
2. We will globally optimize our production system in Japan, Asia, and North America in response to an era of completely free trade.
3. We will promote selection and concentration and create high-value added products and services to recreate the company as a higher-profit enterprise.

Guided by these management policies, the Group actively worked to conduct research and develop new products in its three core areas. The Group strove to enhance productivity and reduce costs at each of its manufacturing sites. Moreover, as part of efforts to promote selection and concentration, the Company decided to have Bostik-Nitta Co., Ltd., an equity-method affiliate, succeed to the Adhesive Business through a company split.

As a result, for the first quarter of the fiscal year ending March 31, 2019, net sales decreased 2.1% year on year to ¥9,043 million. However, operating income rose 4.5% to ¥287 million as profits were restored at an overseas subsidiary. Ordinary income decreased 2.4% to ¥373 million, mainly reflecting a decline in foreign exchange gains. The Company recorded expenses related to Bostik-Nitta Co., Ltd.'s succession of the Adhesives Business through a company stock split and related items as an extraordinary loss. Consequently, net income attributable to owners of the parent decreased 83.3% to ¥39 million.

Business performance in each segment was as follows:

(a) Collagen Material Business

In the gelatin field, sales of gelatin for capsules were firm, supported by increased demand for health foods. This demand was mainly driven by heightened health consciousness and an increase in the number of drugstores. Meanwhile, sales of gelatin for use in food such as microwaveable delicatessen items and confectionery were mostly unchanged from the previous fiscal year. In North America, sales decreased, reflecting continuing fierce competition in the market for gelatin for capsules. Profits increased owing to a positive contribution from the shift to stable production at plants in North

America and India.

In the collagen peptide field, overall sales decreased owing to lower sales year on year to core customers in Japan, and a decrease in sales to Asia. Profits increased due to reduced manufacturing costs through measures including cost-cutting initiatives.

In the collagen casing field, sales and profits were mostly on par with the previous year, as sales trended firmly in the U.S.

As a result, net sales in this segment decreased 2.6% to ¥6,519 million, while segment profit (operating income) increased 43.6% to ¥383 million.

(b) Formula Solution Business

In food materials, overall sales were mostly unchanged from the previous fiscal year, as sales of stabilizers for processed meat products largely offset the decline in sales of food materials for confectionery and desserts. Profits decreased due to the impact of rising raw materials prices.

In adhesives, sales and profits both decreased from the previous fiscal year, mainly due to the impact of inventory adjustments at core customers in adhesives for use in hygiene materials.

As a result, net sales in the segment were down 0.8% year on year to ¥2,523 million and segment profit (operating income) decreased 17.0% year on year to ¥281 million.

(2) Description of Financial Position

(Assets)

Total assets amounted to ¥37,997 million at June 30, 2018, ¥145 million higher than at March 31, 2018. This was mainly attributable to increases in inventories and property, plant and equipment.

(Liabilities)

Total liabilities stood at ¥20,733 million at June 30, 2018, ¥79 million higher than at March 31, 2018. This was mainly attributable to increases in notes and accounts payable-trade and short-term loans payable.

(Net assets)

Net assets amounted to ¥17,264 million at June 30, 2018, ¥66 million higher than at March 31, 2018. This was mainly attributable to increases in valuation difference on other available-for-sale securities and foreign currency translation adjustments.

As a result, the equity ratio stood at 40.2% at June 30, 2018, compared to 40.1% at March 31, 2018.

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

The consolidated earnings forecast for the fiscal year ending March 31, 2019 is unchanged from the consolidated earnings forecast announced on May 17, 2018 in the "Notice Concerning Revision of Consolidated Business Forecasts."

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 2018 (As of March 31, 2018)	1Q Fiscal 2019 (As of June 30, 2018)
Assets		
Current assets		
Cash and deposits	1,626	1,463
Notes and accounts receivable-trade	8,966	8,362
Merchandise and finished goods	5,152	5,443
Work in process	1,240	1,239
Raw materials and supplies	2,944	3,248
Other	338	383
Allowance for doubtful accounts	(11)	(10)
Total current assets	20,256	20,130
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,621	3,620
Machinery, equipment and vehicles, net	4,809	4,851
Other, net	3,819	4,017
Total property, plant and equipment	12,251	12,489
Intangible assets		
Goodwill	384	387
Other	395	388
Total intangible assets	780	775
Investments and other assets		
Investment securities	3,451	3,458
Other	1,174	1,211
Allowance for doubtful accounts	(63)	(68)
Total investments and other assets	4,563	4,601
Total noncurrent assets	17,595	17,866
Total assets	37,851	37,997

(Millions of yen)

	Fiscal 2018 (As of March 31, 2018)	1Q Fiscal 2019 (As of June 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	4,159	4,463
Short-term loans payable	2,504	2,857
Current portion of long-term loans payable	2,497	2,410
Income taxes payable	95	108
Provision for bonuses	249	397
Other	2,550	2,508
Total current liabilities	12,056	12,745
Noncurrent liabilities		
Long-term loans payable	4,684	4,158
Net defined benefit liability	2,709	2,693
Other	1,203	1,135
Total noncurrent liabilities	8,597	7,987
Total liabilities	20,654	20,733
Net Assets		
Shareholders' equity		
Capital stock	3,144	3,144
Capital surplus	2,966	2,966
Retained earnings	9,206	9,135
Treasury stock	(0)	(0)
Total shareholders’ equity	15,317	15,246
Accumulated other comprehensive income		
Valuation difference on other available-for-sale securities	1,331	1,413
Deferred gains (losses) on hedges	(43)	(21)
Foreign currency translation adjustments	142	227
Remeasurements of defined benefit plans	(1,558)	(1,584)
Total accumulated other comprehensive income	(127)	34
Non-controlling interests	2,008	1,982
Total net assets	17,197	17,264
Total liabilities and net assets	37,851	37,997

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

Consolidated Statements of Income

(First quarter consolidated cumulative accounting period)

(Millions of yen)

	Three Months Ended June 30, 2017 (From April 1, 2017 to June 30, 2017)	Three Months Ended June 30, 2018 (From April 1, 2018 to June 30, 2018)
Net sales	9,240	9,043
Cost of sales	7,351	7,066
Gross profit on sales	1,888	1,976
Selling, general and administrative expenses	1,614	1,689
Operating income	274	287
Non-operating income		
Interest income	0	2
Dividend income	27	18
Foreign exchange gains	85	69
Equity in earnings of affiliates	39	37
Other	21	23
Total non-operating income	174	151
Non-operating expenses		
Interest expenses	57	58
Other	8	5
Total non-operating expenses	66	64
Ordinary income	383	373
Extraordinary losses		
Disposal costs for noncurrent assets	-	0
Loss on retirement of noncurrent assets	-	91
Advisory fees	-	180
Total extraordinary losses	-	272
Income before provision for income taxes	383	101
Income taxes	127	42
Net income	255	58
Net income attributable to non-controlling interests	20	19
Net income attributable to owners of the parent	234	39

Consolidated Statements of Comprehensive Income

(First quarter consolidated cumulative accounting period)

(Millions of yen)

	Three Months Ended June 30, 2017 (From April 1, 2017 to June 30, 2017)	Three Months Ended June 30, 2018 (From April 1, 2018 to June 30, 2018)
Net income	255	58
Other comprehensive income		
Valuation difference on other available-for-sale securities	103	81
Deferred gains (losses) on hedges	(69)	15
Foreign currency translation adjustments	14	71
Pension liability adjustment	19	(25)
Share of other comprehensive loss of associates accounted for using equity method	(23)	(20)
Total other comprehensive income	42	122
Total comprehensive income	298	180
Comprehensive income attributable to:		
Owners of the parent	320	202
Non-controlling interests	(22)	(21)

(3) Notes to Quarterly Consolidated Financial Statements

(Note Concerning Going Concern Assumption)

None

(Note Concerning Significant Changes in Shareholders' Equity)

None

(Additional Information)

Adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc."

The Company has adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) from the beginning of the first quarter of the fiscal year ending March 31, 2019. Accordingly, deferred tax assets have been presented under investments and other assets and deferred tax liabilities have been presented under noncurrent liabilities.

(Segment Information)

I. First three months of the fiscal year ended 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

II. First three months of the fiscal year ending March 31, 2019 (From April 1, 2018 to June 30, 2018)

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	6,519	2,523	9,043	—	9,043
Inter-segment sales and transfers	453	3	456	(456)	—
Total	6,973	2,527	9,500	(456)	9,043
Segment income	383	281	665	(378)	287

(Notes) 1. Adjustment for segment income of ¥(378) million comprises elimination of intersegment transactions of ¥0 million and unallocated expenses of ¥(378) 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

(Significant Subsequent Events)

(Capital increase in equity-method affiliate)

On August 1, 2018, Bostik-Nitta Co., Ltd., an equity-method affiliate of the Company, conducted a capital increase of ¥2,665 million and Arkema Asie SAS underwrote the capital increase.

As a result, the Company's equity interest in Bostik-Nitta Co., Ltd. decreased from 34.0% to 20.0%. Accordingly, the Company expects to record a gain on change in equity of ¥410 million as an extraordinary gain for the three months ending September 30, 2018.

(Company split)

Pursuant to a resolution passed at a meeting of the board of directors held on May 17, 2018, the Company conducted a company split on August 1, 2018, with the Company (Adhesive Business (excluding manufacturing)) as the splitting company and Bostik-Nitta Co., Ltd. as the succeeding company.

1. Outline of Business Divestiture
   (1) Name of company that succeeded the divested business
       Bostik-Nitta Co., Ltd.
   (2) Business description of divested business
       Adhesive Business (excluding manufacturing)
   (3) Primary reason for business divestiture
       In the Adhesive Business field, the business environment is changing at an accelerated pace. In this environment, the Company is set to make intensive investments to pursue its strategy for the core businesses and new businesses according to its new corporate vision. With this in mind, the Company believes that it will be able to realize further growth in the covered business by having Bostik-Nitta Co., Ltd., an equity-method affiliate of the Company, succeed the covered business.
   (4) Date of business divestiture
       August 1, 2018
   (5) Outline of the transaction including legal format
       An absorption-type split with only cash and equivalent assets provided as consideration

2. Outline of Accounting Treatment Applied (Estimate)
   (1) Gain on transfer of business
       ¥650 million
   (2) Appropriate book values of assets and liabilities of business transferred and major components

Noncurrent assets	¥23 million
Total assets	¥23 million
Current liabilities	¥11 million
Noncurrent liabilities	¥169 million
Total liabilities	¥180 million

(3) Accounting treatment

The Company plans to recognize the difference between the consideration for the transfer and an amount equivalent to the shareholders' equity corresponding to the transferred business, net of advisory fees for the company split, as a "Transfer gain on business divestiture" in the consolidated statement of income for the six months ending September 30, 2018. The Company has recorded advisory fees related to the company split that were incurred in the three months ended June 30, 2018 as "Advisory fees" in the consolidated statement of income for the three months ended June 30, 2018.

3. Reportable segment in which the divested business was included

Formula solution business

4. Estimated net sales and operating income attributable to the divested business recorded on the quarterly consolidated statement of income for the quarterly period under review

Net sales	¥1,106 million
Operating income	¥43 million

Note: The above amounts represent the net sales and operating income of the entire Adhesive Business, as it is impractical to determine the net sales and operating income of the Adhesive Business (excluding manufacturing).

5. Outline of continued involvement

The Company has entered into a business outsourcing agreement with Bostik-Nitta Co., Ltd.