



May 14, 2019

Consolidated Financial Results for the Fiscal Year Ended March 31, 2019

(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;
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Scheduled date of General Shareholders' Meeting: June 26, 2019
 Scheduled date to file Securities Report: June 27, 2019
 Scheduled date to commence dividend payments: June 26, 2019
 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 fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

(1) Consolidated operating results (Percentages indicate year-on-year changes.)

Fiscal year ended	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	%
March 31, 2019	36,464	(3.5)	898	(17.9)	828	(15.4)	989	—
March 31, 2018	37,777	3.3	1,094	(32.4)	978	(46.6)	(599)	—

Note: Comprehensive income

For the year ended March 31, 2019: ¥495 million (-%)

For the year ended March 31, 2018: ¥(304 million) (-%)

Fiscal year ended	Net income per share	Diluted net income per share	Return on equity (ROE)	Ordinary income / Total assets	Operating margin
	Yen	Yen	%	%	%
March 31, 2019	53.85	—	6.3	2.2	2.5
March 31, 2018	(32.61)	—	(3.9)	2.5	2.9

Reference : Equity in earnings of affiliates

For the year ended March 31, 2019: ¥(132 million)

For the year ended March 31, 2018: ¥180 million

- Notes: 1. Diluted net income per share is not disclosed due to the absence of latent shares with dilution effect.
 2. The consolidated financial results for the fiscal year ended March 31, 2018 have been retrospectively revised. For details, please refer to “(5) Notes to Consolidated Financial Statements in “3. Consolidated Financial Statements and Key Notes” on page 19 of the Attachment to this report.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
March 31, 2019	37,715	17,708	42.0	862.29
March 31, 2018	37,815	17,459	40.7	836.90

Reference: Equity

As of March 31, 2019: ¥15,843 million

As of March 31, 2018: ¥15,376 million

Note: The consolidated financial position as of March 31, 2018 has been retrospectively revised. For details, please refer to “(5) Notes to Consolidated Financial Statements in “3. Consolidated Financial Statements and Key Notes” on page 19 of the Attachment to this report.

(3) Consolidated cash flows

	Net cash provided by operating activities	Net cash used in investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of year
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2019	2,232	(708)	(1,009)	2,051
March 31, 2018	1,423	(1,377)	(1,160)	1,538

Note: The consolidated cash flows for the fiscal year ended March 31, 2018 has been retrospectively revised. For details, please refer to “(5) Notes to Consolidated Financial Statements in “3. Consolidated Financial Statements and Key Notes” on page 19 of the Attachment to this report.

2. Cash dividends

	Cash dividends per share					Total amount of dividends (annual)	Payout ratio (consolidated)	Dividends on net assets (consolidated)
	First quarter	Second quarter	Third quarter	Fiscal year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended March 31, 2018	—	6.00	—	6.00	12.00	220	—	1.4
Fiscal year ended March 31, 2019	—	6.00	—	10.00	16.00	293	29.7	1.9
Fiscal year ending March 31, 2020(Forecasts)	—	6.00	—	6.00	12.00		27.6	

Note: Breakdown of fiscal year-end dividend for the fiscal year ended March 31, 2019: ¥6.00 in ordinary dividend and ¥4.00 in commemorative dividend per share

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, 2019	18,800	4.4	600	39.9	500	(15.9)	300	(76.1)	16.33
Fiscal year ending March 31, 2019	38,200	4.8	1,400	55.9	1,300	56.9	800	(19.1)	43.54

Notes:

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in the scope of consolidation): Yes

New: One company

Excluded: One company; Company name: Reva Proteins Ltd.

(2) 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

(3) Number of common shares issued

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

As of March 31, 2019 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 March 31, 2019 163 shares

As of March 31, 2018 162 shares

c. Average number of shares

For the year ended March 31, 2019 18,373,812 shares

For the year ended March 31, 2018 18,373,812 shares

(Reference) Summary of non-consolidated operating results**1. Non-consolidated financial results for the fiscal year ended March 31, 2019****(from April 1, 2018 to March 31, 2019)****(1) Non-consolidated operating results**

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended March 31, 2019	22,311	(3.9)	316	(63.4)	997	(4.0)	1,005	—
March 31, 2018	23,210	1.3	863	(29.8)	1,039	(36.9)	(1,256)	—

	Net income per share	Diluted net income per share
Fiscal year ended	Yen	Yen
March 31, 2019	54.72	—
March 31, 2018	(68.37)	—

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

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
March 31, 2019	26,749	13,682	51.1	744.65
March 31, 2018	26,307	12,929	49.1	703.69

Reference: Equity

As of March 31, 2019: ¥13,682 million

As of March 31, 2018: ¥12,929 million

* This financial report is not subject to audits 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 “(4) Outlook” under “1. Overview of Business Results” on page 5 of the Attachment to this report.

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1. Overview of Business Results

(1) Operating Results for the fiscal year ended March 31, 2019

In the fiscal year ended March 31, 2019, the global economy showed increasing signs of deceleration as the European and Chinese economies clearly entered a recession, although the U.S. maintained gradual economic growth. The Japanese economy experienced increasing uncertainty over the future as the downturns in overseas economies caused exports to falter, despite robust capital expenditures and corporate performance.

In this environment, management policies of the Group as shown in the three-year Medium-Term Management Plan launched in April 2018 are as follows.

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 cultivate new markets and to develop new applications and products in its three core areas. The Group strove to enhance productivity and reduce costs at each of its manufacturing sites. It also conducted a company split of its Adhesive Business (excluding manufacturing), transferring it to Bostik-Nitta Co., Ltd. for the purposes of focusing even more on core areas. In other developments, the Company took steps to reorganize its businesses, with Nitta Gelatin India Ltd. of India conducting an absorption-type merger with Reva Proteins Ltd. and the Company deciding to transfer shares of Nitta Hong Kong Ltd. in the Chinese collagen casing business.

As a result, in the fiscal year ended March 31, 2019, net sales decreased 3.5% year on year to ¥36,464 million, and operating income decreased 17.9% year on year to ¥898 million, mainly due to a rise in the price of fish used as raw materials and a decrease in casing sales in North America. Ordinary income decreased 15.4% to ¥828 million, mainly due to equity in losses of affiliates. Under extraordinary gains, the Company recorded transfer gain on business divestiture of ¥1,301 million associated with the company split and transfer of the adhesive business (excluding manufacturing), while extraordinary losses included impairment loss of ¥1,098 million recognized for Nitta Gelatin India Ltd. Consequently, the Company posted net income attributable to owners of the parent of ¥989 million (net loss attributable to owners of the parent of ¥599 million in the previous fiscal year).

The Company changed the reporting segment to a single business segment of “Collagen business” effective from the fiscal year ended March 31, 2019.

Products are categorized into the following sales categories.

Sales Category	Products
Food solutions	Gelatin for food use, food materials, collagen casings, and others
Health support	Gelatin for capsules, collagen peptide for health foods and beauty applications, gelatin and collagen for advanced medical care, and others
Specialties	Adhesives, gelatin for industrial use, and others

Sales were as follows:

Food solutions

In Japan, sales for use in microwaveable delicatessen items increased as demand for ready-made meals continued to increase, driven by an increase in households where both spouses work and a growing trend of eating alone. Sales for processed meat products used in ready-made meals and restaurants increased, along with sales for food-service frozen products, offsetting a decline in sales of gelatin for confectionery and food preparation. Sales for high sugar content confectionery applications such as gummy candy and for desserts were level year on year. Overseas, net sales of collagen casing in snack sausages were lower than the previous fiscal year.

As a result, overall sales in the food solutions category decreased 1.9% year on year to ¥15,290 million.

Health support

In Japan, net sales increased due to robust demand for capsules for health foods, partly aided by rising health awareness and an expanding market for foods with nutrient function claims. Net sales of collagen peptide for beauty applications increased due to penetration of revised pricing and sales expansion.

Overseas, net sales increased due to robust sales of capsules in the U.S. market following market recovery and market expansion for collagen peptide in North America and China in health and beauty applications. Net sales of capsules in the Asian market declined, affected in part by the outbreak of floods in southern India in August 2018.

As a result, overall sales in the health support category increased 1.7% year on year to ¥14,521 million.

Specialties

In adhesives, overall sales decreased 15.9% year on year to ¥6,653 million, influenced by declining sales in adhesives for hygiene products due to a change in demand by customers.

(2) Financial Position

(Assets)

Total assets amounted to ¥37,715 million at March 31, 2019, ¥99 million lower than at March 31, 2018. This was mainly attributable to decreases in noncurrent assets.

(Liabilities)

Total liabilities stood at ¥20,007 million at March 31, 2019, ¥348 million lower than at March 31, 2018. This was mainly attributable to decreases in long-term loans payable (including the current portion).

(Net assets)

Net assets amounted to ¥17,708 million at March 31, 2019, ¥249 million higher than at March 31, 2018. This was mainly attributable to an increase in retained earnings.

As a result, the equity ratio stood at 42.0% at March 31, 2019 compared with 40.7% at March 31, 2018.

(3) Cash Flows

Cash and cash equivalents (“cash”) as of March 31, 2019 was ¥2,051 million, up ¥513 million from March 31, 2018.

Cash flows for each activity and reasons are as follows.

(Net cash provided by operating activities)

Operating activities provided net cash of ¥2,232 million. The main components were income before provision of income taxes of ¥1,031 million, depreciation and amortization of ¥1,568 million, increase in inventories of ¥753 million, transfer gain on business divestiture of ¥655 million, impairment loss of ¥634 million, and increase in notes and accounts payable-trade of ¥567 million.

(Net cash used in investing activities)

Investing activities used net cash of ¥708 million. This was mainly attributable to ¥475 million in proceeds from the sale of property, plant and equipment, ¥1,967 million in purchase of property, plant and equipment, and ¥887 million in proceeds from business divestiture.

(Net cash used in financing activities)

Financing activities used net cash of ¥1,009 million. The main uses of cash were repayment of long-term loans payable of ¥2,664 million and repayments of lease obligations of ¥212 million, which were partially offset by proceeds from long-term loans payable of ¥1,800 million.

(Reference)

Trends in cash flow indicators are as shown below:

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Equity ratio (%)	45.0	39.8	38.9	40.7	42.0
Market value equity ratio (%)	44.1	35.9	34.3	39.3	33.4
Interest-bearing debt to cash flow ratio (Years)	4.5	4.4	5.9	7.2	4.3
Interest coverage ratio (Times)	13.6	7.6	8.1	6.0	9.2

Equity ratio: equity / total assets

Market value equity ratio: market capitalization / total assets

Interest-bearing debt to cash flow ratio: interest-bearing debt / cash flow

Interest coverage ratio: cash flow / paid interest

- Notes:
1. All indicators are calculated using consolidated financial figures.
 2. Market capitalization is calculated based on the number of issued shares, excluding treasury stock, as of the end of the fiscal year.
 3. The figure used for cash flow is “net cash provided by operating activities” on the consolidated statements of cash flows.
 4. Interest-bearing debt includes all liabilities recorded on the consolidated balance sheets on which interest was paid. Furthermore, regarding the paid interest, we use “interest expenses paid” recorded on the consolidated statements of cash flows.

(4) Outlook

(Outlook for Business Performance in the Fiscal Year Ending March 31, 2020)

The fiscal year ending March 31, 2020 marks the first of the Company’s next 100 years. To provide products and services that meet our customers’ expectations and requests for continued improvement, the Company will continue to pursue the enormous potential of collagen as a unique natural material. Moreover, the Company will develop products that take full advantage of its research accomplishments in the fields of collagen and collagen peptide. By doing so, the Company will help to fulfill the desire of its customers “To stay healthy and feeling young,” as laid out in its vision.

In Japan, demand for collagen and collagen peptide for use in general food products and health food products is forecast to remain firm, but there are concerns such as persistently high prices for fish used as raw material and rising costs of energy and logistics. In North America, demand for use in capsules is expected to trend strongly, and the Company will respond to expanding collagen peptide demand for beauty applications by taking steps to provide more stable supplies at lower cost. In growing Asia, the Company will strive to bolster sales and marketing activities and to expand its business.

With regard to capital investment, in Japan the Company will look to increase product quality and invest in energy-efficient equipment, as well as equipment for research and development. Overseas, the Company will execute investments aimed at equipment and facilities that enhance productivity as well as measures to address environmental conservation.

Forecast for Consolidated Financial Results for the Next Fiscal Year

	Consolidated financial forecasts for the fiscal year ending March 31, 2020	Year on year change
	(Millions of yen)	(%)
Net sales	38,200	4.8
Operating income	1,400	55.9
Ordinary income	1,300	56.9
Net income attributable to owners of the parent	800	(19.1)

(5) Basic Policies Concerning Management

1) Basic Management Policies

At its heart, our management policy is to contribute to the creation of a prosperous society for all humankind. The Group's approach to achieve this is to make full use of collagen materials that have been utilized over the years and to add high market value to them for return to society as products for the food, health and beauty and medical markets. Our policy also calls for management from a global perspective, as a Company working towards the conservation of the Earth's environment.

Corporate Philosophy

Based on a spirit of empathy and sincerity, we, the members of the Nitta Gelatin Family, are dedicated to the development of our business and contributions to the global community. We will lead prosperous and fulfilling lives through our competence and utmost efforts.

Vision

"To stay healthy and feeling young"

Nitta Gelatin group fulfills this desire of people worldwide through our relentless pursuit of meeting 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.*

Aiming to realize this vision and further strengthen and expand its business foundations, the Group will implement the following three management policies:

- a. Our three core areas will be food solutions, health support, and biomedical.

Food solutions	To realize “more delicious and easy” food solutions, we will provide solutions that solve customers’ issues through applications development utilizing gelatin and gelling agents, etc., and through our unique product development and formulation technologies.
Health support	We will respond to people’s needs to maintain their youth and beauty by research into the functional characteristics of collagen peptides and product development capabilities over many years to fulfill the desire for health of people around the world.
Biomedical	In the cutting-edge medical field, where ambitious initiatives are being undertaken to develop innovative medical technology, we will contribute to the manufacture of regenerative medicine and biomaterial through the expansion of safe collagen and gelatin in the medical field for use in vivo.

- b. We will globally optimize our production system in Japan, Asia, and North America in response to an era of completely free trade.

We will need to address intensified competition from overseas manufacturers entering the Japanese market when tariffs are withdrawn through trade agreements such as the Trans-Pacific Partnership (TPP) and Economic Partnership Agreements (EPAs). To do so, we will push ahead with production innovation at each of the Group’s manufacturing facilities in order to enhance our global competitiveness.

- c. We will promote selection and concentration and create high-value added products and services to recreate the company as a higher-profit enterprise.

In the fiscal year ended March 31, 2019, the Company conducted a company split of its adhesive business (excluding manufacturing) and transferred it to Bostik-Nitta Co., Ltd. Nitta Gelatin India Ltd. conducted an absorption-type merger with Reva Proteins Ltd. and in the Chinese collagen business, the Company decided to transfer the shares of Nitta Hong Kong Ltd. Furthermore, in April 2019, the Company conducted an absorption-type merger with Nitta Gelatin Foods Inc. Looking ahead, the Company will recreate itself as a higher-profit enterprise by optimizing our product portfolio, along with steadily pushing ahead with our business strategies in the core businesses laid out in our vision.

2) Target Management Indicators

From the viewpoint of improving both business growth and profitability, management indicators important to the Nitta Gelatin Group are consolidated net sales, and consolidated operating income. The Group aims to maximize earnings based on sustained business growth by providing products and services that satisfy customers’ needs, and by continually reducing cost and improving productivity to remain competitive as a manufacturer.

3) Medium- to Long-term Management Strategies and Issues Facing the Company

The number of foreign tourists visiting Japan in 2018 surpassed 30 million, and the Tokyo Olympics

planned for 2020 are expected to drive further expansion in demand in the hotel, restaurant, and restaurant chain industries. Meanwhile, as more women enter the workforce, ordinary households are using convenience store and supermarket delicatessen items for meals on increasing occasions. Moreover, the Japanese language has a larger number of words to express food texture than other countries, and Japanese people are thought to have a more acute sense of texture, leading them to constantly seek new textures, such as light and airy or sticky and chewy textures.

Japan is in a unique position as it rapidly becomes a super-aged society. A rising health consciousness has seen an increase in joggers and walkers among the population, seeking to maintain their physical strength. These background trends are driving an expanding sports nutrition market (foods generally developed for sports people, such as sports drinks, sports food, and sports supplements), which aims to aid post-sport fatigue recovery or injury prevention. Furthermore, to cope with the sudden increase in the senior population, there is a focus on initiatives to improve conditions at the “frail” stage (the intermediate stage where people make a transition from good health to requiring nursing care as they age).

In Asia, income levels are rising in each country, and major supermarkets are now stocking a large number of dairy products and desserts. Moreover, new needs are emerging with an increase in Japanese-affiliated convenience stores and so forth.

In the medical market, research institutions around the world are promoting cutting-edge therapies and innovative treatments such as next-generation pharmaceuticals. Collagen and gelatin can be used not only for cell cultures, but also for its biocompatibility and bioabsorbent properties. These unique inherent properties are increasingly being used to create artificial bone and skin, and for drug delivery and other purposes.

Food solutions

In the restaurant industry, including hotels and restaurants, while the market is expanding, driven in part by an increase in foreign visitors to Japan, chronic labor shortages are driving needs around food preparation that requires little work. To meet these needs, in addition to its existing sales of ingredients, the Company will provide highly processed products for commercial use to resolve customers’ issues such as labor shortages.

For the ready-made meal market, which is seeing high demand for microwavable delicatessen items and frozen foods, the Company will develop specialized products to realize “more delicious and easy” food solutions. Meanwhile, in Asia, the Company will utilize application technologies acquired in Japan to meet local needs, thereby expanding its business and building a new business model.

Health support

Collagen peptides are drawing attention for their efficacy in anti-aging products. The Company will collaborate with external research institutions with a focus on research and development of foods with nutrient function claims that contribute to healthy longevity, such as rejuvenation of blood vessels and blood sugar reducing effects that can improve diabetes, aiming to realize the desire of people “To stay healthy and feeling young.” Other areas of focus will be the development of new products for the rapidly growing sports nutrition market, and the development of new markets.

In North America, the capsule market for pharmaceutical and health food products is performing strongly, and the collagen peptide market for beauty applications and health foods is expanding sharply. In China, the functionality of collagen peptides has been recognized anew in growing demand for use in health foods. The Company will expand its business globally to meet these demands.

Biomedical

The Company’s gelatin and collagen are highly safe products that do not cause an exothermal reaction when entering the body directly. This property has led to their used in the field of regenerative medicine from cell cultivation to treatment. Overseas, gelatin and collagen are earning a reputation for use in biopharmaceuticals, and going forward the Company will strive to achieve even greater recognition of medical collagen and to increase its sales with a view to contributing to the future of medical care.

Since the Nitta Gelatin Group’s main raw materials are by-products of the livestock and marine products industries, they are susceptible to price surges caused by supply and demand effects. The Group will continue to develop new suppliers for reliable and safe raw materials to strengthen its global supply system. Moreover, by improving productivity at its plants, the Group will reduce costs and strengthen its environmental measures, thereby increasing its competitive advantages.

The Company’s core material, collagen, holds unlimited potential. Through joint research with universities and external research institutes, the Company will uncover new properties of collagen to assist people’s health and daily lives, developing new applications and creating new markets.

2. Basic Approach to Selection of Accounting Standard

The Nitta Gelatin Group plans to prepare its consolidated financial statements based on Japanese accounting standards in the near future. This is in consideration of the need to ensure that the consolidated financial statements can be readily compared between different periods and different companies.

Looking ahead, considering its management policies and various conditions in Japan and abroad, Nitta Gelatin plans to examine the adoption of International Financial Reporting Standards (IFRS). In doing so, the Company will take into account trends such as the adoption of IFRS by its peer companies.

3. Consolidated Financial Statements and Key Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Assets		
Current assets		
Cash and deposits	1,626	2,092
Notes and accounts receivable-trade	8,966	8,589
Merchandise and finished goods	5,152	5,884
Work in process	1,240	1,350
Raw materials and supplies	2,943	2,911
Other	338	558
Allowance for doubtful accounts	(11)	(9)
Total current assets	20,255	21,378
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	10,045	10,660
Accumulated depreciation	(6,423)	(6,871)
Buildings and structures, net	3,621	3,788
Machinery, equipment and vehicles	16,796	17,514
Accumulated depreciation	(11,986)	(12,865)
Machinery, equipment and vehicles, net	4,809	4,648
Land	2,537	2,166
Lease assets	1,179	948
Accumulated depreciation	(684)	(453)
Lease assets, net	495	494
Construction in process	572	184
Other	1,455	1,383
Accumulated depreciation	(1,240)	(1,115)
Other, net	215	268
Total property, plant and equipment	12,251	11,551
Intangible assets		
Goodwill	384	353
Other	395	231
Total intangible assets	780	585
Investments and other assets		
Investment securities	3,451	3,260
Long-term loans receivable	128	138
Deferred tax assets	133	152
Net defined benefit asset	672	572
Other	204	270
Allowance for doubtful accounts	(63)	(193)
Total investments and other assets	4,527	4,200
Total noncurrent assets	17,559	16,337
Total assets	37,815	37,715

(Millions of yen)

	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	4,159	4,794
Short-term loans payable	2,504	2,657
Current portion of long-term loans payable	2,497	2,386
Lease obligations	196	196
Accounts payable-other	1,729	1,614
Income taxes payable	16	237
Provision for bonuses	249	205
Other	623	468
Total current liabilities	11,977	12,559
Noncurrent liabilities		
Long-term loans payable	4,684	4,000
Lease obligations	345	343
Deferred tax liabilities	558	371
Net defined benefit liability	2,709	2,731
Other	80	—
Total noncurrent liabilities	8,378	7,447
Total liabilities	20,355	20,007
Net Assets		
Shareholders' equity		
Capital stock	3,144	3,144
Capital surplus	2,966	2,966
Retained earnings	9,386	10,155
Treasury stock	(0)	(0)
Total shareholders' equity	15,497	16,266
Accumulated other comprehensive income (loss)		
Valuation difference on other available-for-sale securities	1,331	1,274
Deferred gains (losses) on hedges	(43)	(8)
Foreign currency translation adjustments	149	174
Remeasurements of defined benefit plans	(1,558)	(1,863)
Total accumulated other comprehensive loss	(120)	(423)
Non-controlling interests	2,082	1,865
Total net assets	17,459	17,708
Total liabilities and net assets	37,815	37,715

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

Consolidated Statements of Income

(Millions of yen)

	Fiscal 2018 (From April 1, 2017 to March 31, 2018)	Fiscal 2019 (From April 1, 2018 to March 31, 2019)
Net sales	37,777	36,464
Cost of sales	29,815	29,079
Gross profit on sales	7,961	7,384
Selling, general and administrative expenses	6,867	6,486
Operating income	1,094	898
Non-operating income		
Interest income	15	10
Dividend income	45	39
Rent income	30	47
Outsourcing service income	9	32
Insurance claim income	—	34
Foreign exchange gains	—	119
Equity in earnings of affiliates	180	—
Other	33	34
Total non-operating income	316	317
Non-operating expenses		
Interest expenses	235	236
Foreign exchange losses	154	—
Equity in losses of affiliates	—	132
Commissions paid	9	9
Other	31	9
Total non-operating expenses	431	387
Ordinary income	978	828
Extraordinary gains		
Gain on sales of noncurrent assets	—	81
Subsidy income	—	147
Transfer gain on business divestiture	—	655
Gain on change in equity	—	416
Total extraordinary gains	—	1,301
Extraordinary losses		
Provision of allowance for doubtful accounts	63	127
Disposal costs for noncurrent assets	4	3
Loss on retirement of noncurrent assets	35	171
Loss on tax purpose reduction entry of noncurrent assets	—	147
Loss on disaster	—	13
Impairment loss	862	634
Total extraordinary losses	965	1,098
Income before provision of income taxes	12	1,031
Income taxes	304	431
Income taxes-deferred	185	(217)
Total income taxes	490	214
Net income (loss)	(477)	817
Net income (loss) attributable to non-controlling interests	121	(171)
Net income (loss) attributable to owners of the parent	(599)	989

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2018 (From April 1, 2017 to March 31, 2018)	Fiscal 2019 (From April 1, 2018 to March 31, 2019)
Net income (loss)	(477)	817
Other comprehensive income		
Valuation difference on other available-for-sale securities	224	(57)
Deferred gains (losses) on hedges	(126)	47
Foreign currency translation adjustments	(290)	46
Pension liability adjustment	336	(306)
Share of other comprehensive income of associates accounted for using equity method	28	(52)
Total other comprehensive income	173	(321)
Total comprehensive income	(304)	495
Comprehensive income attributable to:		
Owners of the parent	(405)	687
Non-controlling interests	100	(191)

(3) Consolidated Statements of Changes in Net Assets

Fiscal 2018 (From April 1, 2017 to March 31, 2018)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of fiscal year	3,144	2,966	10,042	(0)	16,153
Cumulative impact of merger with consolidated subsidiary			120		120
Balance at start of year after retrospective application of	3,144	2,966	10,162	(0)	16,273
Changes during the fiscal year					
Dividends from surplus			(220)		(220)
Net income (loss) attributable to owners of the parent			(599)		(599)
Increase by merger			43		43
Net changes of items other than shareholders' equity					—
Total changes during fiscal year	—	—	(776)	—	(776)
Balance at the end of fiscal year	3,144	2,966	9,386	(0)	15,497

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of fiscal year	1,107	43	331	(1,907)	(426)	2,009	17,736
Cumulative impact of merger with consolidated subsidiary						159	280
Balance at start of year after retrospective application of	1,107	43	331	(1,907)	(426)	2,168	18,016
Changes during the fiscal year							
Dividends from surplus					—		(220)
Net income (loss) attributable to owners of the parent					—		(599)
Increase by merger					—		43
Net changes of items other than shareholders' equity	224	(86)	(182)	349	305	(86)	218
Total changes during fiscal year	224	(86)	(182)	349	305	(86)	(557)
Balance at the end of fiscal year	1,331	(43)	149	(1,558)	(120)	2,032	17,459

Fiscal 2019 (From April 1, 2018 to March 31, 2019)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of fiscal year	3,144	2,966	9,386	(0)	15,497
Changes during the fiscal year					
Dividends from surplus			(220)		(220)
Net income attributable to owners of the parent			989		989
Purchase of treasury stock				(0)	(0)
Net changes of items other than shareholders' equity					—
Total changes during fiscal year	—	—	768	(0)	768
Balance at the end of fiscal year	3,144	2,966	10,155	(0)	16,266

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of fiscal year	1,331	(43)	149	(1,558)	(120)	2,082	17,459
Changes during the fiscal year							
Dividends from surplus					—		(220)
Net income attributable to owners of the parent					—		989
Purchase of treasury stock							(0)
Net changes of items other than shareholders' equity	(57)	35	25	(305)	(302)	(216)	(519)
Total changes during fiscal year	(57)	35	25	(305)	(302)	(216)	249
Balance at the end of fiscal year	1,274	(8)	174	(1,863)	(423)	1,865	17,708

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal 2018 (From April 1, 2017 to March 31, 2018)	Fiscal 2019 (From April 1, 2018 to March 31, 2019)
Cash flows from operating activities		
Income before provision of income taxes	12	1,031
Depreciation and amortization	1,675	1,568
Amortization of goodwill	47	47
Increase in allowance for doubtful accounts	53	128
Decrease in provision for bonuses	(5)	(47)
Increase in net defined benefit liability	49	20
Interest and dividends income	(61)	(49)
Interest expenses	235	236
Foreign exchange losses	7	(99)
Equity in earnings of affiliates	(180)	132
Loss on sales of property, plant and equipment	4	(78)
Loss on retirement of noncurrent assets	35	171
Impairment loss	862	634
Gain on change in equity	—	(416)
Transfer gain on business divestiture	—	(655)
Loss on tax purpose reduction entry of noncurrent assets	—	147
Subsidy income	—	(147)
Loss on disaster	—	13
Increase in notes and accounts receivable-trade	(181)	412
Decrease (increase) in inventories	(294)	(753)
Increase (decrease) in notes and accounts payable-trade	(6)	567
Increase (decrease) in accrued consumption taxes	(67)	(158)
Other, net	164	(221)
Subtotal	2,350	2,484
Interest and dividends income received	179	238
Interest paid	(235)	(237)
Income taxes paid	(871)	(252)
Net cash provided by operating activities	1,423	2,232
Cash flows from investing activities		
Payments into time deposits	(92)	(21)
Proceeds from withdrawal of time deposits	111	65
Proceeds from the sale of property, plant and equipment	1	475
Purchase of property, plant and equipment	(1,347)	(1,967)
Purchase of intangible assets	(35)	(19)
Subsidies received	—	147
Proceeds from the sale of investment securities	—	0
Purchase of investment securities	(7)	(7)
Proceeds from business divestiture	—	887
Payment of expenses related to business divestiture	—	(180)
Other, net	(8)	(89)
Net cash used in investing activities	(1,377)	(708)

(Millions of yen)

	Fiscal 2018 (From April 1, 2017 to March 31, 2018)	Fiscal 2019 (From April 1, 2018 to March 31, 2019)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(236)	118
Proceeds from long-term loans payable	2,000	1,800
Repayment of long-term loans payable	(2,586)	(2,664)
Proceeds from sale-and-leaseback transactions	160	195
Repayments of lease obligations	(250)	(212)
Cash dividends paid	(220)	(220)
Purchase of treasury stock	—	0
Cash dividends paid to non-controlling interests	(27)	(25)
Net cash (used in) provided by financing activities	(1,160)	(1,009)
Effect of exchange rate change on cash and cash equivalents	102	(0)
Net increase (decrease) in cash and cash equivalents	(1,012)	513
Cash and cash equivalents, beginning of the fiscal year	2,550	1,538
Cash and cash equivalents at end of the fiscal year	1,538	2,051

(5) Notes to Consolidated Financial Statements
(Note Concerning Going Concern Assumption)

None.

(Changes in Presentation Basis)

(Consolidated Statements of Income)

“Outsourcing service income” was included in “other” under “non-operating income” in the previous fiscal year. However, in the fiscal year under review it has been presented as a separate item because the total amount of outsourcing service income exceeded 10% of the total amount of non-operating income. The consolidated financial statements for the previous fiscal year have been restated to reflect this change in presentation.

As a result, ¥43 million recorded as “other” under “non-operating income” in the consolidated statements of income for the previous fiscal year has been restated as “outsourcing service income” of ¥9 million and “other” of ¥34 million.

(Changes associated with the 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 fiscal year ended March 31, 2019. Accordingly, the presentation method has changed so that deferred tax assets have been presented under investments and other assets, deferred tax liabilities have been presented under noncurrent liabilities, and the notes related to tax effect accounting have also changed.

As a result, in the consolidated balance sheet for the previous fiscal year, “deferred tax assets” under “current assets” has decreased by ¥196 million, and “deferred tax assets” under “investment and other assets” has increased by ¥32 million.

Furthermore, deferred tax assets and deferred tax liabilities for the same tax-paying entities have been offset against each other, reducing total assets by ¥164 million compared to before the change.

(Business Combinations)

1. Transactions under common control, etc.

(Share exchange and absorption-type merger of consolidated affiliate by a consolidated subsidiary)

The Company's consolidated subsidiary, Nitta Gelatin India Ltd. resolved at a Board of Directors meeting held on November 8, 2018, to merge with its subsidiary Reva Proteins Ltd., and conducted the merger effective from April 1, 2017. The merger reference date is set retrospectively as the beginning of the fiscal year in which the merger application was filed, in accordance with the merger system in India.

1. Outline of business combination

1) Names of the combining companies and business activities

a. Merging company

Name: Nitta Gelatin India Ltd.

Business activities: Production and sales of ossein from bovine bones, bovine gelatin and collagen peptide

b. Merged company (dissolving company)

Name; Reva Proteins Ltd.

Business activities: Production of ossein from bovine bones

2) Business combination date

April 1, 2017

3) Legal form of the business combination

Nitta Gelatin India Ltd. exchanged its newly issued classified stock for all of the Company's shares of Reva Proteins Ltd., after which it conducted an absorption type merger with Nitta Gelatin India Ltd. as the surviving company and Reva Proteins Ltd. as the dissolving company.

4) Company name after the business combination

Nitta Gelatin India Ltd.

5) Other matters related to the outline of the transaction

The business combination was conducted to increase the efficiency of management by enabling unified business management.

2. Outline of accounting treatment

The business combination was treated as a transaction under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, September 13, 2013).

2. Business Divestitures

(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

1) Gain on transfer of business
655 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 recognizes the difference between the consideration for the transfer and an amount equivalent to the shareholders' equity corresponding to the transferred business and 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 ended September 30, 2018.

3. Reporting segment in which the divested business was included

Collagen 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 1,482 million

Operating income 45 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.

(Segment Information)

Fiscal year ended March 31, 2018 (From April 1, 2017 to March 31, 2018)

1. Overview of reporting segments

The Company's reporting segments are the compositional units of the Company for which separate financial information is available. They are periodically examined by the Board of Directors for the purpose of deciding on allocation of management resources and evaluating business results.

The Company formulates a comprehensive worldwide strategy for the products and services it handles and conducts business activities based on operations that are divided along product and service lines.

As a result, the Company is composed of product and service segments based on business activity, with two reporting segments: "Collagen Material" and "Formula Solution."

In Collagen Material Business, the Company manufactures gelatin, collagen peptide, collagen casings and other products.

In Formula Solution Business, the Company manufactures various food materials, adhesives and other products.

2. Calculation methods for net sales, income and loss, assets and other items by reporting segment

The accounting methods used for the reported business segments are the same as the accounting methods the Company applies for consolidated financial reporting purposes.

Segment income for reporting segments represents operating income.

Intersegment sales and transactions are based on prevailing market prices.

3. Information on net sales, income and loss, assets and other items by reporting segment

Fiscal year ended March 31, 2018 (From April 1, 2017 to March 31, 2018)

(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	27,870	9,907	37,777	—	37,777
Inter-segment sales and transfers	1,999	6	2,005	(2,005)	—
Total	29,869	9,914	39,783	(2,005)	37,777
Segment income	1,482	1,016	2,498	(1,404)	1,094
Segment assets	29,508	5,759	35,267	2,547	37,815
Other items					
Depreciation and amortization	1,551	75	1,627	48	1,675
Impairment loss	862	—	862	—	862
Increase in property, plant and equipment and intangible assets	1,146	38	1,185	83	1,269

Notes: 1. Adjustments are as follows:

- (1) Adjustment for segment income of (¥1,404) million comprises elimination of intersegment transactions of ¥6 million and unallocated expenses of (¥1,410) million. Unallocated expenses are mainly general and administrative expenses.
 - (2) Adjustment for segment assets of ¥2,547 million comprises elimination of intersegment transactions of (¥752) million and unallocated assets of ¥3,299 million. Major components of the unallocated assets are cash and deposits, property, plant and equipment, and investment securities.
2. Segment income is adjusted against the operating income recorded in the consolidated income statement.
 3. Segment liabilities have not been reported, as they are serviced periodically in consolidation by the Company's highest decision making authority.
 4. Revisions have been applied retrospectively to the previous fiscal year. For details, refer to "(Business Combinations)" under "(5) Notes to Consolidated Financial Statements" in "3. Consolidated Financial Statements and Key Notes."

Fiscal year ended March 31, 2019 (From April 1, 2018 to March 31, 2019)

The Nitta Gelatin Group's collagen business has become the standalone reporting segment, so information is omitted.

(Matters Concerning Changes in Reporting Segments)

The Nitta Gelatin Group's reporting segments until now have been categorized into two businesses: collagen material business and formula solution business. To make intensive investments to pursue its strategy for core businesses and new businesses according to its new corporate vision, the Company conducted a reorganization centered on transforming the production and sales management system and reviewed the allocation of Group management resources and the management system.

On August 1, 2018, the Company conducted a company split of the adhesive business (excluding manufacturing), which was included in the Formula Solutions Business. As the Company shifted its business activities to integrated management of the Collagen Business, the Company made the Collagen Business its standalone reporting segment from the fiscal year ended March 31, 2019.

As a result, disclosure of segment information for the fiscal year ended March 31, 2019 is omitted since there is only a single segment.

(Per Share Information)

	Fiscal 2018 (From April 1, 2017 to March 31, 2018)	Fiscal 2019 (From April 1, 2018 to March 31, 2019)
Net assets per share	¥836.90	¥862.29
Net income (loss) per share	(32.61)	(53.85)

Notes: 1. Diluted net income per share for fiscal 2018 is not disclosed due to the recording of a net loss per share and the absence of latent shares with dilution effect.

2. Diluted net income per share for fiscal 2019 is not disclosed due to the absence of latent shares with dilution effect.

3. Basis for calculating net income (loss) per share data is shown below.

	Fiscal 2018 (From April 1, 2017 to March 31, 2018)	Fiscal 2019 (From April 1, 2018 to March 31, 2019)
Net income (loss) per share		
Net income (loss) attributable to owners of the parent (Millions of yen)	(599)	989
Amounts not attributable to common shareholders (Millions of yen)	—	—
Net income (loss) attributable to owners of the parent related to common stock (Millions of yen)	(599)	989
Average number of common shares during the period (shares)	18,373,812	18,373,812

(Subsequent Events)

No items to report

4. Others

(1) Change in Appointment of Board Members and Executive Officers

1) Change in appointment of representative Director

None.

2) Change in appointment of other Board Members

Candidate for newly appointed Director

Outside Director

Yoko Hori

Candidate for newly appointed Standing Audit & Supervisory Board Member

Standing Audit & Supervisory Board Member

Masaki Kataoka

(currently Manager of Administration Dept., General Management Div.)

Outside Audit & Supervisory Board Member

Kuniki Sato

Audit & Supervisory Board Members scheduled to resign

Standing Audit & Supervisory Board Member

Hiroshi Takase

Outside Audit & Supervisory Board Member

Shigeoki Tougou

3) Scheduled dates for appointment and retirement

June 26, 2019

(2) Others

None.