November 8, 2016

# Consolidated Financial Results for the Six Months Ended September 30, 2016

(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: Toru Tamaoka, Director and Executive Officer; General Manager of Administration Division
Tel: +81-72-949-5381
Scheduled date to file Quarterly Securities Report: November 11, 2016
Scheduled date to commence dividend payments: December 6, 2016
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, 2016 (from April 1, 2016 to September 30, 2016)

### (1) Consolidated operating results

(Percentages indicate year-on-year changes.)

| | Net sales | | Operating income | | Ordinary income | | Net income attributable to owners of the parent | |
|---|---|---|---|---|---|---|---|---|
| Six months ended | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| September 30, 2016 | 17,752 | (2.9) | 924 | 106.0 | 688 | 88.2 | 405 | 175.5 |
| September 30, 2015 | 18,285 | 13.2 | 448 | 66.0 | 365 | (31.4) | 147 | (60.5) |

Note: Comprehensive income
For the six months ended September 30, 2016: ¥(420) million, (—%)
For the six months ended September 30, 2015: ¥165 million, (81.1%)

| | Net income per share | Diluted net income per share |
|---|---|---|
| Six months ended | Yen | Yen |
| September 30, 2016 | 22.05 | — |
| September 30, 2015 | 8.00 | — |

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 | % |
| September 30, 2016 | 36,653 | 16,318 | 39.7 |
| March 31, 2016 | 37,597 | 16,876 | 39.8 |

Reference: Equity
As of September 30, 2016: ¥14,546 million
As of March 31, 2016: ¥14,972 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, 2016 | – | 6.00 | – | 6.00 | 12.00 |
| Fiscal year ending March 31, 2017 | – | 6.00 | | | |
| Fiscal year ending March 31, 2017 | | | – | 6.00 | 12.00 |

Note: Changes to most recent dividend forecasts: None

## 3. Consolidated financial forecasts for the fiscal year ending March 31, 2017 (from April 1, 2016 to March 31, 2017)

(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, 2017 | 35,000 | (5.1) | 1,700 | 33.5 | 1,400 | 42.9 | 800 | 67.5 | 43.54 |

Note: Changes to most recent consolidated financial forecasts: Yes
For revisions to consolidated financial forecasts, please refer to the press release issued today (November 8, 2016) titled "Notice Concerning the Recording of Non-Operating Expenses, Difference Between Consolidated Business Forecasts and Actual Results for the Six Months Ended September 30, 2016, and Revision of Consolidated Business Forecasts for the Fiscal Year Ending March 31, 2017."

**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: Yes
b. Changes in accounting policies due to reasons other than a. above: No
c. Changes in accounting estimates: No
d. Restatement of revisions: No
Note: For details, please refer to "(3) Changes in Accounting Policies and Estimates, and Restatement of Revisions" in "2. Matters Concerning Summary Information (Notes)" on page 4 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, 2016 18,373,974 shares
As of March 31, 2016 18,373,974 shares

b. Number of shares of treasury stock at the end of the period
As of September 30, 2016 162 shares
As of March 31, 2016 162 shares

c. Average number of shares

| | |
|---|---|
| For the six months ended September 30, 2016 | 18,373,812 shares |
| For the six months ended September 30, 2015 | 18,373,812 shares |

* Disclosure of status of quarterly review procedure

This report falls outside the scope of quarterly review procedures as laid out in the Financial Instruments and Exchange Act. As of the time of the release of this report, the review of the financial statements, etc., outlined in the Act had not yet been concluded.

* 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.

## Attachment Contents

## 1. Qualitative Information Concerning Quarterly Financial Statements

### (1) Description of Business Results

In the first six months of the fiscal year ending March 31, 2017, the global economy attained only a moderate pace of recovery overall, mainly reflecting the decision of the U.K. to exit the European Union and a clear economic deceleration in China and other emerging Asian countries, despite signs of a sustained, gradual economic recovery in the U.S.

In the Japanese economy, the employment environment showed signs of improvement, underpinned by the Japanese government's economic policies and the Bank of Japan's monetary easing policy. However, Japan's progress on economic recovery has reached a standstill, mainly owing to a decline in earnings in the manufacturing sector due to the yen's appreciation and stagnant consumer spending.

Amid these circumstances, the Nitta Gelatin Group has been making a concerted effort to achieve the targets of the medium-term management plan finishing in the fiscal year ending March 31, 2018.

As a result, in the first six months of the fiscal year ending March 31, 2017, net sales declined 2.9% year on year to ¥17,752 million and operating income increased 106.0% to ¥924 million. Ordinary income rose 88.2% to ¥688 million, mainly due to foreign exchange losses. Net income attributable to owners of the parent increased 175.5% year on year to ¥405 million.

Segment business performance was as follows:

**(a) Collagen Material Business**

In the gelatin field, sales and profits both increased in Japan atop steady demand. In North America, delays in the recovery of the health food market, compounded by the impact of foreign exchange movements, caused overall sales to falter.

In the collagen peptide field, demand from inbound tourism has been settling down and under this environment overall collagen peptide sales declined, despite sales growth in Asian markets.

Collagen casing sales were almost level year on year, underpinned by a recovery in market conditions for livestock products in North America.

As a result, net sales in this segment declined 6.6% to ¥12,832 million, while segment profit (operating income) increased 43.0% to ¥1,066 million.

**(b) Formula Solution Business**

In food materials, sales rose steadily owing to growth in the dessert market driven by convenience stores, with profits increasing as well.

Adhesives sales were level year on year for packaging, reflecting inclement summer weather.

In addition, adhesives for hygiene products saw an increase in sales.

Profits increased as a result of cost reduction efforts.

As a result, net sales in the segment were up 8.4% year on year to ¥4,920 million and segment profit (operating income) increased 27.7% year on year to ¥526 million.

## (2) Description of Financial Position

### (a) Assets, liabilities and net assets

**(Assets)**

Total assets amounted to ¥36,653 million at September 30, 2016, ¥944 million lower than at March 31, 2016. This was mainly attributable to decreases in cash and deposits, and property, plant and equipment.

**(Liabilities)**

Total liabilities stood at ¥20,334 million at September 30, 2016, ¥386 million lower than at March 31, 2016. This was mainly attributable to decreases in notes and accounts payable-trade, and net defined benefit liability.

**(Net assets)**

Net assets amounted to ¥16,318 million at September 30, 2016, ¥558 million lower than at March 31, 2016. This was mainly attributable to a decrease in foreign currency translation adjustments. As a result, the equity ratio stood at 39.7% at September 30, 2016, compared to 39.8% at March 31, 2016.

### (b) Cash flows

Cash and cash equivalents ("cash") as of September 30, 2016 was ¥1,823 million, down ¥713 million from March 31, 2016.

Cash flows for each activity and reasons are as follows.

**(Net cash provided by operating activities)**

Operating activities provided net cash of ¥430 million, compared to ¥659 million provided in the same period of the previous fiscal year. The main components were income before provision of income taxes of ¥681 million, depreciation and amortization of ¥709 million, increase in inventories of ¥533 million, increase in notes and accounts receivable-trade of ¥105 million, and income taxes paid of ¥129 million.

**(Net cash used in investing activities)**

Investing activities used net cash of ¥1,668 million, compared to ¥879 million used in the same period of the previous fiscal year. The main uses of cash were ¥897 million for the transfer of business and ¥820 million for the purchase of property, plant and equipment.

**(Net cash provided by financing activities)**

Financing activities provided net cash of ¥372 million, compared to ¥17 million used in the same period of the previous fiscal year. The main source of cash was ¥1,500 million in proceeds from long-term loans payable, which was partly offset by ¥1,142 million used for the repayment of long-term loans payable.

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

The consolidated earnings forecast for the fiscal year ending March 31, 2017 has been revised from the consolidated earnings forecast announced on May 10, 2016 in the "Consolidated Financial Results for the Fiscal Year Ended March 31, 2016 (Japanese Accounting Standards)."

For details, please refer to the press release issued today (November 8, 2016) titled "Notice Concerning the Recording of Non-Operating Expenses, Difference Between Consolidated Business Forecasts and Actual Results for the Six Months Ended September 30, 2016, and Revision of Consolidated Business Forecasts for the Fiscal Year Ending March 31, 2017."

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

## 2. Matters Concerning Summary Information (Notes)

### (1) Significant Changes in Subsidiaries During the Quarterly Period Under Review

None

### (2) Application of Special Accounting Methods in the Preparation of Quarterly Consolidated Financial Statements

None

### (3) Changes in Accounting Policies and Estimates, and Restatement of Revisions

**(Changes in Accounting Policies)**

(Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016)

Following the revision of the Corporation Tax Act, the Company applied "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (ASBJ Practical Issues Task Force

Report No. 32, June 17, 2016) from the first quarter of the fiscal year ending March 31, 2017. Accordingly, the depreciation method for buildings acquired on or after April 1, 2016 will be changed from the declining-balance method to the straight-line method.

The effect of this change on the Company's consolidated profit and loss for the six months ended September 30, 2016 was minor.

## (4) Additional Information

**(Changes in Presentation Basis)**

(Quarterly Consolidated Statements of Income)

"Rent income" was reported as a separate item under non-operating income in the six months ended September 30, 2015; however, since the materiality of this item has diminished, it has been included in "Other" under non-operating income from the six months ended September 30, 2016.

To reflect this change in presentation basis, the financial statements for the six months ended September 30, 2015 have been restated.

As a result, ¥21 million for "Rent income" has been included in "Other" under non-operating expenses in the statement of income for the six months ended September 30, 2015.

**(Application of Revised Implementation Guidance on Recovery of Deferred Tax Assets)**

The Company has applied "Revised Implementation Guidance on Recovery of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the first quarter of the fiscal year ending March 31, 2017.

# 3. Quarterly Consolidated Financial Statements

## (1) Consolidated Balance Sheets

(Millions of yen)

| | Fiscal 2016 (As of March 31, 2016) | 2Q Fiscal 2017 (As of September 30, 2016) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 2,688 | 1,917 |
| Notes and accounts receivable-trade | 7,375 | 7,239 |
| Merchandise and finished goods | 5,262 | 5,736 |
| Work in process | 1,429 | 1,143 |
| Raw materials and supplies | 2,275 | 2,586 |
| Other | 629 | 749 |
| Allowance for doubtful accounts | (2) | (4) |
| Total current assets | 19,657 | 19,367 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 4,412 | 4,098 |
| Machinery, equipment and vehicles, net | 5,000 | 4,381 |
| Other, net | 4,311 | 4,506 |
| Total property, plant and equipment | 13,724 | 12,986 |
| Intangible assets | | |
| Goodwill | — | 378 |
| Other | 357 | 343 |
| Total intangible assets | 357 | 722 |
| Investments and other assets | | |
| Investment securities | 2,919 | 2,638 |
| Other | 939 | 938 |
| Allowance for doubtful accounts | (0) | (0) |
| Total investments and other assets | 3,858 | 3,577 |
| Total noncurrent assets | 17,940 | 17,286 |
| Total assets | 37,597 | 36,653 |

(Millions of yen)

| | Fiscal 2016 (As of March 31, 2016) | 2Q Fiscal 2017 (As of September 30, 2016) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 4,252 | 4,054 |
| Short-term loans payable | 2,186 | 2,180 |
| Current portion of long-term loans payable | 2,215 | 2,369 |
| Income taxes payable | 145 | 212 |
| Provision for bonuses | 213 | 172 |
| Other | 2,062 | 1,965 |
| Total current liabilities | 11,076 | 10,954 |
| Noncurrent liabilities | | |
| Long-term loans payable | 5,380 | 5,367 |
| Net defined benefit liability | 2,938 | 2,764 |
| Other | 1,325 | 1,247 |
| Total noncurrent liabilities | 9,644 | 9,380 |
| Total liabilities | 20,720 | 20,334 |
| Net Assets | | |
| Shareholders' equity | | |
| Capital stock | 3,144 | 3,144 |
| Capital surplus | 2,966 | 2,966 |
| Retained earnings | 9,569 | 9,862 |
| Treasury stock | (0) | (0) |
| Total shareholders' equity | 15,680 | 15,974 |
| Accumulated other comprehensive income (loss) | | |
| Valuation difference on other available-for-sale securities | 1,024 | 900 |
| Deferred gains (losses) on hedges | (38) | (37) |
| Foreign currency translation adjustments | 466 | (420) |
| Remeasurements of defined benefit plans | (2,160) | (1,870) |
| Total accumulated other comprehensive loss | (707) | (1,427) |
| Non-controlling interests | 1,904 | 1,772 |
| Total net assets | 16,876 | 16,318 |
| Total liabilities and net assets | 37,597 | 36,653 |

## (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, 2015 (From April 1, 2015 to September 30, 2015) | Six Months Ended September 30, 2016 (From April 1, 2016 to September 30, 2016) |
|---|---|---|
| Net sales | 18,285 | 17,752 |
| Cost of sales | 14,660 | 13,634 |
| Gross profit on sales | 3,624 | 4,118 |
| Selling, general and administrative expenses | 3,175 | 3,194 |
| Operating income | 448 | 924 |
| Non-operating income | | |
| Interest income | 8 | 8 |
| Dividend income | 15 | 17 |
| Foreign exchange gains | 19 | — |
| Equity in earnings of affiliates | — | 68 |
| Other | 45 | 48 |
| Total non-operating income | 90 | 143 |
| Non-operating expenses | | |
| Interest expenses | 154 | 113 |
| Foreign exchange losses | — | 246 |
| Equity in losses of affiliates | 7 | — |
| Other | 10 | 19 |
| Total non-operating expenses | 172 | 379 |
| Ordinary income | 365 | 688 |
| Extraordinary gains | | |
| Gain on sales of noncurrent assets | 1 | — |
| Gain on negative goodwill | 502 | — |
| Gain on change in equity | 157 | — |
| Total extraordinary gains | 661 | — |
| Extraordinary losses | | |
| Loss on retirement of noncurrent assets | 19 | 7 |
| Loss on stepped acquisitions | 620 | — |
| Total extraordinary losses | 640 | 7 |
| Income before provision for income taxes | 387 | 681 |
| Income taxes | 249 | 240 |
| Net income | 137 | 441 |
| Net income (loss) attributable to non-controlling interests | (9) | 36 |
| Net income attributable to owners of the parent | 147 | 405 |

Consolidated Statements of Comprehensive Income

(Six months ended September 30)

(Millions of yen)

| | Six Months Ended September 30, 2015 (From April 1, 2015 to September 30, 2015) | Six Months Ended September 30, 2016 (From April 1, 2016 to September 30, 2016) |
|---|---|---|
| Net income | 137 | 441 |
| Other comprehensive income (loss) | | |
| Valuation difference on other available-for-sale securities | (101) | (123) |
| Deferred gains (losses) on hedges | (79) | 16 |
| Foreign currency translation adjustments | (293) | (903) |
| Pension liability adjustment | 27 | 290 |
| Share of other comprehensive loss of associates accounted for using equity method | 474 | (141) |
| Total other comprehensive income (loss) | 27 | (862) |
| Total comprehensive income | 165 | (420) |
| Comprehensive income attributable to: | | |
| Owners of the parent | 286 | (314) |
| Non-controlling interests | (121) | (106) |

## (3) Consolidated Statements of Cash Flows

(Millions of yen)

| | Six Months Ended September 30, 2015 (From April 1, 2015 to September30, 2015) | Six Months Ended September 30, 2016 (From April 1, 2016 to September 30, 2016) |
|---|---|---|
| Cash flows from operating activities | | |
| Income before provision of income taxes | 387 | 681 |
| Depreciation and amortization | 789 | 709 |
| Amortization of goodwill | — | 3 |
| Increase in allowance for doubtful accounts | 9 | 2 |
| Decrease in provision for bonuses | (22) | (37) |
| Increase in provision for directors' retirement benefits | 0 | — |
| Increase in net defined benefit liability | 56 | 2 |
| Interest and dividend income | (24) | (26) |
| Interest expenses | 154 | 113 |
| Foreign exchange losses | 2 | 13 |
| Equity in (earnings) losses of affiliates | 7 | (68) |
| Gain on sales of property, plant and equipment | (1) | — |
| Loss on retirement of noncurrent assets | 19 | 7 |
| Gain on change in equity | (157) | — |
| Gain on negative goodwill | (502) | — |
| Loss on stepped acquisitions | 620 | — |
| Increase in notes and accounts receivable-trade | (184) | (105) |
| Increase in inventories | (275) | (533) |
| Increase in notes and accounts payable-trade | 352 | 123 |
| Decrease in accrued consumption taxes | (38) | (22) |
| Other, net | (180) | (232) |
| Subtotal | 1,014 | 630 |
| Interest and dividend income received | 58 | 43 |
| Interest paid | (154) | (113) |
| Income taxes paid | (258) | (129) |
| Net cash provided by operating activities | 659 | 430 |

(Millions of yen)

| | Six Months Ended September 30, 2015 (From April 1, 2015 to September 30, 2015) | Six Months Ended September 30, 2016 (From April 1, 2016 to September 30, 2016) |
|---|---|---|
| Cash flows from investing activities | | |
| Payments into time deposits | (20) | (20) |
| Proceeds from withdrawal of time deposits | 20 | 65 |
| Purchase of property, plant and equipment | (866) | (820) |
| Proceeds from sales of property, plant and equipment | 2 | — |
| Purchase of intangible assets | (8) | (13) |
| Purchase of investment securities | (3) | (3) |
| Purchase of insurance funds | (2) | (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 | 0 | 2 |
| Other, net | (0) | (0) |
| Net cash used in investing activities | (879) | (1,668) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term loans payable | (302) | 216 |
| Proceeds from long-term loans payable | 1,766 | 1,500 |
| Repayment of long-term loans payable | (1,290) | (1,142) |
| Proceeds from sale-and-leaseback transactions | 82 | 60 |
| Repayments of lease obligations | (132) | (125) |
| Repayments to non-controlling interests | (21) | — |
| Cash dividends paid | (110) | (110) |
| Cash dividends paid to non-controlling interests | (10) | (25) |
| Net cash (used) provided by financing activities | (17) | 372 |
| Effect of exchange rate change on cash and cash equivalents | (36) | 152 |
| Net decrease in cash and cash equivalents | (274) | (713) |
| Cash and cash equivalents, beginning of period | 2,602 | 2,536 |
| Increase in cash and cash equivalents from newly consolidated subsidiaries | 24 | — |
| Decrease in cash and cash equivalents from exclusion of subsidiary from consolidation | (38) | — |
| Cash and cash equivalents, end of period | 2,313 | 1,823 |

## (4) Notes to Quarterly Consolidated Financial Statements

### (Note Concerning Going Concern Assumption)

None

### (Note Concerning Significant Changes in Shareholders' Equity)

None

### (Segment Information)

I. Six months ended September 30, 2015 (From April 1, 2015 to September 30, 2015)

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 | 13,744 | 4,540 | 18,285 | — | 18,285 |
| Inter-segment sales and transfers | 851 | — | 851 | (851) | — |
| Total | 14,595 | 4,540 | 19,136 | (851) | 18,285 |
| Segment income | 745 | 412 | 1,158 | (709) | 448 |

(Notes) 1. Adjustment for segment income of ¥(709) million comprises elimination of intersegment transactions of ¥(4) million and unallocated expenses of ¥(705) million.

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

2. Information on reporting segment assets

Segment assets of the Collagen Material Business had increased by ¥4,048 million at September 30, 2015 as a result of the conversion of Nitta Gelatin India Ltd., Bamni Proteins Ltd. and Reva Proteins Ltd. into subsidiaries within the scope of Nitta Gelatin Inc.'s consolidation in the first quarter ended June 30, 2015.

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

(Material gain on negative goodwill)

The Collagen Material Business segment recorded a ¥502 million gain on negative goodwill in the six months ended September 30, 2015 as a result of the conversion of Nitta Gelatin India Ltd., Bamni Proteins Ltd. and Reva Proteins Ltd. into subsidiaries within the scope of Nitta Gelatin Inc.'s consolidation.

II. 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 financial statements[*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.

**(Business combinations)**

Business combinations due to acquisitions (Business taken over by a consolidated subsidiary)

Nitta Gelatin NA Inc., a consolidated subsidiary of Nitta Gelatin Inc., established Vyse Gelatin, LLC (renamed from Project Vector, LLC) with a 100% ownership interest in the company, and decided at a Board of Directors meeting held on August 8, 2016 to take over a portion of business from Vyse Gelatin Company (hereinafter, “the former Vyse Gelatin”). Moreover, on August 26, 2016, the new company and the former Vyse Gelatin entered into a business transfer agreement, with the new company taking over the business on the same day.

1. Outline of business combination

(1) Name of the counterparty company involved in the business acquisition and description of the acquired business

Name of the counterparty company involved in the transfer of business

Former Vyse Gelatin

Business description

Processing and sale of gelatin and collagen peptide

(2) Main reason for undertaking the business combination

The purpose of the business combination is to expand sales of gelatin and collagen peptide and boost market share for these products in North America by incorporating the customers and product lineups held by the former Vyse Gelatin in North America.

(3) Business combination date

August 26, 2016

(4) Legal format of business combination

Business transfer

(5) Main rationale for determining the acquiring company

Because Vyse Gelatin, LLC, a consolidated subsidiary of Nitta Gelatin Inc., took over the business with cash as consideration.

(6) Name of company after business combination

Vyse Gelatin, LLC

2. The period of the acquired company's business results that were included in the quarterly consolidated statements of income for the period under review

From August 26, 2016 to September 30, 2016

3. Acquisition cost of the acquired business and breakdown by type of consideration

Consideration for acquisition

| | |
|---|---|
| Cash and deposits | US$8.41 million (¥846 million) |
| Acquisition cost | |
| | US$8.41 million (¥846 million) |

4. Description and amounts of major acquisition-related costs

Advisory fees, etc. US$190,000 (¥20 million)

5. Amount of goodwill generated, reason for generating goodwill, and amortization method and period

(1) Amount of goodwill generated

US$3.77 million (¥379 million)

Given that the allocation of the acquisition cost has not yet been completed, the amount of goodwill is a provisional estimate based on sound information currently available to management.

(2) Reason for generating goodwill

The goodwill primarily represents the surplus earnings power expected in the future based on business expansion going forward.

(3) Amortization method and period

Straight-line amortization over 10 years