Progress with a New Perspective

Annual Report 2015 For the fiscal year ended March 31, 2015

Nitta Gelatin Inc.

TO OUR STAKEHOLDERS

From the First 100 Years since Founding to the Next 100 Years

Greetings. My name is Koichi Ogata. I took office as the new representative director and president of Nitta Gelatin Inc. on April 1, 2015.

In 2018, our Company will reach its 100th year since founding. As the 100th anniversary approaches, I believe that my role as president will be to lead all employees in developing the Nitta Gelatin Group further, and to lay down the foundations for the next 100 years of dramatic advancement.

To all our stakeholders, we ask for your continued understanding of Nitta Gelatin's business activities and look forward to your undying support as we strive to make progress.

For the past several years, we had been investing ambitiously to grow further as a top company in the gelatin industry. At this point, we have reached the stage of generating results from those investments. To do this, it will become absolutely crucial to apply our advanced technologies in developing new products that match the needs of our customers.

In the fiscal year ended March 31, 2015, we faced a very tough business environment in which the yen's depreciation drove our raw material prices and energy costs to increase. In April 2013, Nitta Gelatin formulated and launched a new medium-term management plan. However, after doing everything we could as a Group to achieve the plan we decided to suspend it as of the fiscal year ended March 31, 2015. This was in light of a substantial change in business environment that had been brought about by the yen depreciating more than expected. Yet, as an upside, our gelatin sales in Japan have continued to rise, while strong sales trends in the North American market have continued to increase segment sales and profits in our collagen casing business. Overall, demand for our products remains robust, and I believe that the most important issue at this point is how Nitta Gelatin will make certain to capture that demand.

As I touched on earlier, Nitta Gelatin will celebrate its 100th anniversary in 2018. To usher in this major milestone, we have adopted "Progress with a New Perspective" as our corporate slogan, and are heralding "Pursue the Highest Quality" as our basic strategy as we strive to strengthen business foundations for the next 100 years of growth. The new slogan signifies a move forward to the next stage: from the initial stage of the investments we made to expand our global production platform to a new stage of reaping returns on those investments and generating profits. Moreover, our basic strategy in pursuit of high quality will encompass more than the quality of our products to also include the strong commitment we have to refining our marketing and services even further. To this end, employees will strive to upgrade their capabilities to new levels while Nitta Gelatin endeavors to earn the approval of stakeholders and raise corporate value to an even greater extent.

The specific strategic objectives we will be focusing on in taking this route will be to (1) Develop high-value-added products, (2) Ensure optimal production, optimal sales, and (3) Strengthen global business foundations.

(1) Develop High-Value-Added Products

One demographic I would like to emphasize in developing new products is senior citizens, who as a group are seeking to enjoy physically active lifestyles. Many older people these days have a strong desire to lead physically healthy and active lives. This, for example, will likely serve to heighten the attention collagen peptide draws from consumers as a material known to regulate bodily functions. I imagine we can make the most of Nitta Gelatin's unique technologies to develop new collagen peptide products that consumers can ingest while having their daily meals.

(2) Ensure Optimal Production, Optimal Sales

In view of the global production platform we have established, Nitta Gelatin has begun to promote local production for local consumption, whereby we will channel products manufactured in Japan for consumption in Japan and products manufactured in local factories

Company Slogan:

"Progress with a New Perspective"

Basic Strategy:

"Pursue the Highest Quality"

overseas for local consumption overseas. In this way, we will strive to expand sales particularly in the growth markets of Asia, even as we work to optimize manufacturing to reduce costs and bolster profitability.

(3) Strengthen Global Business Foundations

The Nitta Gelatin Group is globalizing its business, mainly in North America and Asia. In order to further this development, we have consolidated Nitta Gelatin India Ltd. as a subsidiary, and will work to strengthen global management through means that will include promotions among human resources from our Group companies overseas.

In some ways, it can be difficult for consumers in general to picture Nitta Gelatin's business because we are more of a manufacturer of materials. To bring this obstacle down, I will continue actively seeking opportunities for conversing face to face with our investors. This means that for our individual investors in particular, we will put extra effort into deepening their understanding of Nitta Gelatin through the active dissemination of information via shareholder benefits, the General Meeting of Shareholders, and the shareholder newsletters and other information we publish. We ask for your continued support as I lead all employees to achieve our targets for the fiscal year ending March 31, 2016, and strive for sustainable growth of the Nitta Gelatin Group.

Koichi Ogata
Representative Director and President

CONTENTS

The earnings forecasts in this Annual Report are forward-looking statements made on the basis of information available at the time they were made and other certain assumptions deemed reasonable. Therefore, actual earnings may differ from forecast figures as a result of changes in business performance and other factors.

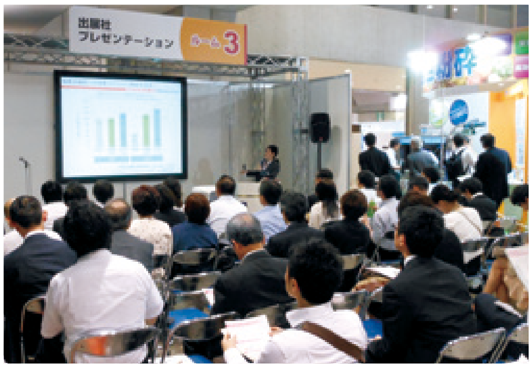
PERFORMANCE HIGHLIGHTS

	Millions of yen			Thousands of U.S. dollars
	74th term From April 1, 2012 to March 31, 2013	75th term From April 1, 2013 to March 31, 2014	**76th term From April 1, 2014 to March 31, 2015**	**76th term From April 1, 2014 to March 31, 2015**
For the year:				
Net sales	¥28,772	¥32,814	**¥31,914**	**$265,617**
Operating income	1,595	955	**392**	**3,262**
Net income	1,525	665	**610**	**5,076**
Comprehensive income	1,913	1,227	**1,530**	**12,734**
Research and development expenses	1,026	1,004	**915**	**7,615**
Capital expenditure	1,193	2,949	**2,449**	**20,382**
Depreciation and amortization	825	914	**1,115**	**9,280**
Net cash provided by (used in) operating activities	2,050	(692)	**2,074**	**17,261**
Net cash used in investing activities	(1,557)	(3,105)	**(2,505)**	**(20,848)**
Net cash provided by (used in) financing activities	(376)	3,875	**544**	**4,527**
Cash and cash equivalents at end of period	2,258	2,406	**2,602**	**21,656**
At year-end:				
Property, plant and equipment	¥ 6,287	¥ 8,804	**¥10,848**	**$ 90,287**
Net assets	9,724	13,781	**15,373**	**127,948**
Noncurrent liabilities	5,828	7,528	**8,283**	**68,938**
Total assets	25,190	31,389	**33,932**	**282,413**
Per share information (yen, U.S. dollars):				
Net assets per share (BPS)	¥607.31	¥742.20	**¥831.15**	**$ 6.91**
Net income per share (EPS)	96.72	37.90	**33.20**	**0.27**
Other:				
Equity ratio (%)	38.0	43.4	**45.0**	
Return on equity (ROE) (%)	17.3	5.7	**4.2**	
Return on assets (ROA) (%)	6.1	2.1	**1.9**	
Payout ratio (%)	14.5	31.7	**36.1**	

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥120.15 = U.S. $1, the prevailing exchange rate at March 31, 2015.

NITTA GELATIN WORKS

Nitta Gelatin products are used not only in food products familiar to you but also in numerous other fields. Here, we introduce you to some of Nitta Gelatin's new business and product initiatives.



Topics

Nitta Collagen Peptide Symposium 2014

In October 2014, we invited customers, overseas sales agents, and the press, among others, to hold a Nitta Collagen Peptide Symposium 2014 in Tokyo. There, leading authorities from the field of collagen peptide research in Japan gave talks along the theme of "The New Future in Collagen Peptide." The symposium was held in high regard by those in attendance and received extensive coverage by the press.

Exhibit at ifia® JAPAN 2015, the 20th International Food Ingredients & Additives Exhibition and Conference

In May 2015, Nitta Gelatin was an exhibitor at ifia® JAPAN 2015, the 20th International Food Ingredients & Additives Exhibition and Conference, at Tokyo Big Sight. Products introduced at the Company's exhibition booth included gelatin, collagen peptide, food materials and adhesives. Apart from holding a presentation as one of the exhibiting companies, we held presentations for visitors inside our booth, as well as a seminar at HFE JAPAN 2015, the 13th Health Food Exposition & Conference, which was in session on-site at the same time. The response to our exhibit at ifia® JAPAN 2015 was overwhelming, and we subsequently received many product and business inquiries from the visitors.

Consolidation of Indian Affiliates as Subsidiaries

In April 2015, we consolidated Nitta Gelatin India Ltd., Bamni Proteins Ltd., and Reva Proteins Ltd.—our affiliate companies in India—as subsidiaries. Moving ahead, we will continue to strengthen our global business foundation as a company.

Global Brands

Wellnex™

Collagen peptide, produced by fragmenting gelatin into smaller peptide chains, has been known to have benefits effective at maintaining the functional health of skin, joints, bones and muscles. Wellnex™ is the global brand for the highly functional collagen peptide Nitta Gelatin has developed over the years. The name is a word we created by combining "wellness" with the radical "x," as a symbol of infinite potential, to signify our wish for customers to lead healthy and active lives.

We created the information site, Wellnex-Collagen.com, for those interested in learning more about Wellnex™. We encourage you to have a look at this site, which can also be accessed from our corporate website.

G-zain®

Nitta Gelatin's adhesives technology can also be found in high-performance gaskets used to make smartphones and digital cameras airtight. G-zain® is the brand name for the high-performance gaskets developed from Nitta Gelatin's patented adhesive technologies. G-zain® has enabled electronics manufacturers to fully automate the process of attaching gaskets to their products, which previously had to be applied by hand.

In August 2014, Nitta Gelatin completed the construction of a new Adhesive Innovation Center (AIC). This facility will be used by the Group to pursue the potential of high-performance gaskets further and develop new products.

beMatrix®

Collagen developed by Nitta Gelatin was used in the world's first operation to transplant retinal pigment epithelial tissue derived from iPS cells in treating age-related macular degeneration, a major cause of geriatric onset blindness.

Cell-culture collagen developed with Nitta Gelatin's vaunted technology enables medical professionals to multiply cells for transplant both safely and efficiently.

The Group's Cellmatrix® series of cell-culture collagen and beMatrix® series of medical gelatin and collagen are being used as a vital material in the field of regenerative medicine.

In March 2015, numerous research reports involving the use of our medical gelatin and collagen were received in high regard at the 14th Congress of the Japanese Society for Regenerative Medicine at PACIFICO Yokohama.

BUSINESS ACTIVITIES/OVERVIEW OF OPERATIONS

Collagen Material Business

In the Collagen Material business, we manufacture and sell high-value-added gelatin, collagen peptide, collagen casing, collagen and other products made from byproducts of the meat industry, such as animal bones and skin. In the process, we aim to propose products and applications demanded by customers and solve the issues they face.

Gelatin
- For food
- For capsules
- For photographic films and papers

Collagen Peptide
- For dietary food supplements
- For protein drinks and foods
- For cosmetics

Collagen Casing
- Sausage casings

Life Science
- Testing reagent for laboratory research
- Biomaterial

Gelatin Business

Besides its ability to solidify, gelatin has a variety of functions such as water retention, foaming, adhesive and emulsifying properties. For this reason, gelatin has a range of applications, from food to pharmaceuticals and photography. In the gelatin business, we sell gelatin for applications in various industrial sectors. Edible gelatin is marketed as a food material primarily for use in convenience store delicatessen items and the confectionery and dairy product sectors. In other areas, edible gelatin is also marketed to improve the texture and add flavor to foods manufactured in the frozen food, instant noodles and processed food industries. Marketing of gelatin for capsules extends beyond its use in the manufacturing of pharmaceutical capsules to include use in the food processing industry, including for application in nutritional supplements and health foods. Photographic gelatin is marketed to the photosensitive material production industry, as an additive to photosensitive materials, such as photographic film and paper.

Peptide Business

In the peptide business, we manufacture and sell collagen peptide, a lower molecular form of gelatin that has been processed through the hydrolysis of gelatin using proteolytic enzymes. The defining property of collagen peptide is that it does not solidify into jelly. Collagen peptide has been found to have the ability to activate biological functions and regulate bodily functions. As such, collagen peptide is used in nutritional foods and supplements, among other food products, that tout beauty as well as other functional health benefits related to the skin, bones and joints.

Collagen Casing Business

In the collagen casing business, we sell edible collagen casings. Collagen casings are tubular materials that are filled with meat in the sausage production process. Collagen casings are marketed to the livestock food processing sector as an alternative to natural casings made from sheep and pig intestines.

Life Science Business

Collagen is extracted and refined from animal skin and tendons using acid solutions and enzymes, while preserving its triple-spiral molecular structure. Collagen has a close affinity with biological tissue. In addition to applications as a research reagent (Cellmatrix®) for cell cultures, collagen is used as a biomaterial in synthetic tissue and bones, which promote self-regeneration and restoration of tissue. We have also developed a highly refined medical gelatin (beMatrix®) as a biomaterial to promote the self-regeneration and restoration of human tissue in the field of regenerative tissue engineering. Collagen for all of these applications is manufactured by the Company and is marketed to medical equipment manufacturers, as well as universities and other research institutes.

Performance for the Fiscal Year Ended March 31, 2015 and Outlook for the Fiscal Year Ending March 31, 2016

In the gelatin field, sales of edible gelatin and gelatin for capsules increased in the Japanese market. Profits declined, however, as raw material prices remained high and price revisions were unable to mitigate the yen's depreciation. In North America, capsule gelatin sales declined as negative reports regarding fish oil in the U.S. sparked a temporary contraction in the supplement market, while profits declined, partly due to higher raw material prices for pig skin. Consequently, in the gelatin field, sales increased partly due to the impact of the yen's depreciation, while profits fell. Collagen peptide sales decreased overall, as the Japanese market was unable to dispel a slump in consumer sentiment following an increase in the consumption tax rate, despite brisk sales in the Asian region.

Collagen casing sales and earnings increased, due to steady sales in the North American markets.

As a result, net sales in the Collagen Material business increased 2.3% year on year to ¥22,959 million. Segment profit (operating income) was down 22.4% to ¥1,101 million.

In the fiscal year ending March 31, 2016, the Collagen Material business is targeting net sales of ¥28,700 million and segment profit (operating income) of ¥2,000 million.

Formula Solution Business

In the Formula Solution business, we manufacture and sell high-value-added formulations through formulation technologies for a variety of materials. Our goal is to provide product proposals and applications demanded by customers as we help them to solve the issues they face.

Food Material

- **Gelling agents**
- **Stabilizers for meat products**
- **Stabilizers and quality enhancers for heat-and-serve meals**
- **Consumer products for mail-order sales**

Adhesive

- **Hot-melt adhesives**
- **High-performance gaskets**

Food Material Business

In the food material business, we sell edible formulations, such as gelling agents and stabilizers for meat products, to the food processing industry. Leveraging properties such as their jelly-forming ability, water retention, binding, thickening and emulsion stability, these food agents are used mainly to add value to food and maintain food quality by contributing to food shape retention and texture enhancement, and so forth. These edible formulations are also used to improve work efficiency and production yield during food processing. Our food agents are custom made according to their purpose of use. Edible gelling agents are marketed mainly to the dessert, bakery and confectionery, dairy product and beverage manufacturing sectors. Stabilizers for meat products are marketed mainly to the meat product and livestock food processing sectors. We also manufacture and sell consumer products such as collagen beverages and food, and cosmetics, as well as collagen for use in cosmetics. These consumer products are planned and developed by the Company, manufactured by partner companies and sold by our subsidiary Nitta Biolab Inc. Collagen for use in cosmetics is manufactured and sold by the Company.

Adhesive Business

As with the food material business, the adhesive business proposes adhesive applications that are optimized for client production lines, with the view to developing adhesive functions that fit customer needs and applications. Examples include hot-melt adhesives, which are formulated with multiple materials, and animal glue adhesives. Hot-melt adhesives are formulated with such materials as petroleum-based synthetic resins and natural resins such as rosin. They are heated and melted before application. Because they provide bonding after cooling and solidifying from a molten state, hot-melt type adhesives feature a fast bonding speed. Accordingly, hot-melt adhesives are used widely not only in packaging applications for sectors like the food and beverage industry, but also in the sanitary material, bookbinding, construction and woodwork, electrical, housing and other sectors. Moreover, animal glue adhesives are marketed mainly to the paper-processing sectors, such as the bookbinding industry and the paper product and craft sectors, due to their superior adhesive properties with respect to paper. In recent years, we have been marketing high-performance gaskets based on our adhesives technology that cures with ultraviolet exposure mainly to the electric machinery and tool manufacturing sector.

Performance for the Fiscal Year Ended March 31, 2015 and Outlook for the Fiscal Year Ending March 31, 2016

In the Formula Solution business, sales of food materials decreased on lackluster trends in food stabilizers due to reduced demand accompanying a hike in Japan's consumption tax rate and unseasonable summer weather in the fiscal year ended March 31, 2015. In adhesives, there was a large decline in sales of hot-melt adhesives for use in hygiene products due to the shift of production to China, in addition to sluggish sales of hot-melt adhesives for packaging and bookbinding. Meanwhile sales of high-performance gaskets saw sluggish growth because, although their delivery for use in smartphones and smartwatches has begun, these products have yet to be adopted by customers on a full scale.

As a result, net sales in the Formula Solution business decreased 13.7% year on year to ¥8,955 million. Segment profit (operating income) declined 29.6% to ¥647 million.

In the fiscal year ending March 31, 2016, the Formula Solution business is targeting net sales of ¥9,400 million and segment profit (operating income) of ¥800 million.

NITTA GELATIN GROUP HISTORY

Note: The Company name recorded is the current Company name.

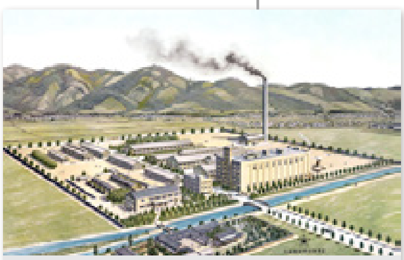
Progress with a New Perspective

1918 1970 1980 1990

Started production of gelatin and animal glue

1918
Started production of animal glue and industrial gelatin for the first time in Japan with industrial production methods introduced from the West

1930
Succeeded in producing thin leaf gelatin
Succeeded in producing edible thin leaf gelatin of a high quality, and began marketing it



1935
Completed the Osaka Plant

1937
Started production of photographic gelatin
After having relied on imports, research yielded Japan's first domestically made photographic gelatin

1968
Established Hikone Gelatin Inc.

1971
Started an adhesives business
Commenced an adhesives business by developing high-speed, hot-melt-type adhesives as a replacement for animal glue

1974
Started a food material business
Began marketing various food products containing natural polysaccharides and other ingredients, in addition to gelatin

1975
Established Nitta Gelatin India Ltd. (India)

1979
Established Nitta Gelatin NA Inc. (U.S.A)

1982
Established Bostik-Nitta Co., Ltd.

1990
Established Nitta Gelatin Canada, Inc. (Canada)

1999
Began production of gelatin in India
Started production of gelatin in India in response to the demand in Asia

2001
Moved into the consumer products business
Began marketing Collagenaid®, a collagen food supplement, to general consumers

2014
Started production of collagen peptide in the U.S.

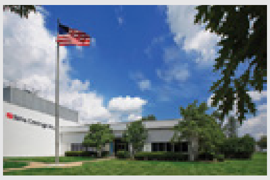
2000
Started a peptide business
Fully entered the collagen peptide business in response to new applications, including as a health food

2010
Established Guangdong Baiwei Bio Material Co., Ltd. (China)

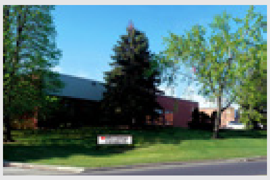
2011
Established Shanghai Nitta Gelatin Co., Ltd. (China)

2000 2010 2015

1996
Started a casing business
Commercialized a collagen casing business in North America, after many years of research



1996
Established Nitta Casings Inc. (U.S.)



Established Nitta Casings (Canada) Inc. (Canada)

2012
Established Beijing Qiushi Collagen Casing Co., Ltd. (China)

2004
Established Nitta Gelatin USA, Inc. (U.S.)

2013
Established Nitta Gelatin Vietnam Co., Ltd. (Vietnam)

BOARD OF DIRECTORS, AUDIT & SUPERVISORY BOARD MEMBERS AND EXECUTIVE OFFICERS

(As of June 25, 2015)

Back row from the left: Raymond Merz, Director and Executive Officer; Toru Tamaoka, Director and Executive Officer; Hiroshi Nitta, Director and Executive Officer; Yasuyuki Nakai, Standing Audit & Supervisory Board Member; Shigeoki Tougou, Outside Audit & Supervisory Board Member; Tamon Tsuda, Outside Audit & Supervisory Board Member

Front row from the left: Hisayuki Suekawa, Outside Director; Tsuneo Sasaki, Director and Senior Managing Executive Officer; Koichi Ogata, Representative Director and President, Executive Officer; Norimichi Soga, Director and Chairman, Executive Officer; Mayumi Ishihara, Outside Director

Board of Directors

Director and Chairman, Executive Officer

Norimichi Soga

Apr.	1971	Joined Kobe Kiito Co., Ltd.
July	1973	Joined the Company
July	1991	General Manager, Overseas Sales and Marketing Division of the Company
July	1992	General Manager, Sales & Marketing Department, Gelatin Division of the Company
Nov.	1996	Director of the Company
July	1997	General Manager, Sales & Marketing Division and General Manager, Tokyo Branch of the Company
June	1999	Managing Director of the Company
Sept.	1999	General Manager, Operating Division of the Company
June	2003	Senior Managing Director of the Company
June	2004	Representative Director, Senior Managing Director of the Company
June	2006	Representative Director and President of the Company
Apr.	2015	Director and Chairman of the Company (to present)
July	2015	Executive Officer of the Company (to present)

Representative Director and President, Executive Officer

Koichi Ogata

Apr.	1981	Joined Kanebo Foods, Ltd. (currently Kracie Foods, Ltd.)
Dec.	2005	Joined the Company
Mar.	2008	General Manager, R&D Department, Sales & Marketing Division of the Company
June	2010	Executive Officer of the Company
June	2012	Director of the Company
Mar.	2013	General Manager, Sales & Marketing Division of the Company
Apr.	2015	Representative Director and President of the Company (to present)
July	2015	Executive Officer of the Company (to present)

Board of Directors

Director and Senior Managing Executive Officer
Tsuneo Sasaki

Apr. 1974 Joined Mitsui Bank (currently Sumitomo Mitsui Banking Corporation)
Nov. 2002 Dispatched to the Company
Nov. 2003 Joined the Company
Mar. 2004 General Manager, Finance Department, General Administration Division of the Company
Sept. 2004 General Manager, Production Planning Department, Operating Division of the Company
Mar. 2005 General Manager, Production Management Department, Operating Division of the Company
Mar. 2006 General Manager, Finance Division, General Administration Division of the Company
June 2006 Director of the Company (to present)
June 2006 Executive Officer of the Company
Sept. 2006 General Manager, Finance Division of the Company
June 2010 Managing Executive Officer of the Company
June 2011 General Manager, General Affairs Division of the Company
June 2012 Senior Managing Executive Officer of the Company (to present)
Mar. 2013 General Manager, General Affairs Division of the Company (to present)

Director and Executive Officer
Toru Tamaoka

Apr. 1984 Joined the Company
Mar. 2008 General Manager, Planning and Management Department, Gelatin Division of the Company
July 2010 General Manager, Adhesives Division of the Company (to present)
June 2012 Executive Officer of the Company (to present)
June 2014 Director of the Company (to present)

Director and Executive Officer
Raymond Merz

Sept. 1984 Joined Alcan Aluminium Limited (Canada)
Jan. 1995 Joined Cangel Inc. (currently Nitta Gelatin Canada, Inc.)
Jan. 1996 General Manager, Production Division of Nitta Gelatin Canada, Inc.
Jan. 2000 Director and Vice President of Nitta Gelatin Canada, Inc.
May 2002 Chief Operating Officer (COO) of Nitta Gelatin Canada, Inc.
Dec. 2004 Director and CEO of Nitta Gelatin USA, Inc.
Apr. 2006 Director and CEO of Nitta Gelatin Canada, Inc.
June 2013 Executive Officer of the Company (to present)
Mar. 2014 General Manager, Gelatin Division of the Company (to present)
June 2014 Director of the Company (to present)

Director and Executive Officer
Hiroshi Nitta

Apr. 2003 Joined Nitta Corporation
Apr. 2003 Dispatched to Nitta Haas Inc.
June 2009 Director of the Company (to present)
Jan. 2011 Deputy General Manager, Gelatin Division of the Company
Mar. 2011 Deputy General Manager, Manufacturing Division of the Company
July 2015 Executive Officer of the Company (to present)

Outside Director
Mayumi Ishihara

Apr. 1986 Worked at Kobe District Court
Oct. 1994 Passed the bar exam
Apr. 1997 Registered as an attorney at law
Apr. 1997 Joined Oh-Ebashi LPC & Partners (to present)
June 2010 Outside Director of the Company (to present)

Outside Director
Hisayuki Suekawa

Apr. 1982 Joined Shiseido Company, Limited
Feb. 2007 General Manager of the Business Planning Department of Shiseido Company, Limited
Apr. 2008 Corporate Officer, General Manager of the Corporate Planning Department of Shiseido Company, Limited
June 2009 Director of Shiseido Company, Limited
Apr. 2011 Representative Director, President & CEO of Shiseido Company, Limited
Apr. 2013 Senior Adviser of Shiseido Company, Limited (to present)
June 2014 Outside Director of the Company (to present)

Audit & Supervisory Board Members

Standing Audit & Supervisory Board Member
Yasuyuki Nakai

Apr. 1978 Joined Mitsui Bank (currently Sumitomo Mitsui Banking Corporation)
Nov. 2007 Dispatched to the Company
Mar. 2008 General Manager, Corporate Planning Division of the Company
June 2008 Joined the Company
June 2008 Executive Officer of the Company
July 2009 General Manager, GRM Division of the Company
July 2010 General Manager, Planning and Management Department, Gelatin Division of the Company
Mar. 2011 General Manager, Planning and Management Department, Manufacturing Division of the Company
Mar. 2013 General Manager, Planning and Management Department, Gelatin Division of the Company
June 2013 Standing Audit & Supervisory Board Member of the Company

Outside Audit & Supervisory Board Member
Shigeoki Tougou

Apr. 1966 Joined Bank of Japan
July 1993 General Manager, Secretariat of the Policy Board of Bank of Japan
Apr. 1995 General Manager, International Department of Bank of Japan
June 1996 Managing Director of The Nippon Credit Bank, Ltd. (currently Aozora Bank, Ltd.)
Aug. 1997 President of Aozora Bank, Ltd.
June 2000 President and Representative Director of Osaka Shipbuilding Co., Ltd. (currently Daizo Corporation)
June 2010 President of Nippon RAD Inc.
June 2011 Chief Executive Officer of Nippon RAD Inc.
June 2012 Outside Audit & Supervisory Board Member of the Company (to present)
Oct. 2012 President of Higashi Nippon Gakuen University (to present)

Outside Audit & Supervisory Board Member
Tamon Tsuda

Apr. 1975 Joined The Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation)
Oct. 1981 Joined Arthur Andersen, LLP
Mar. 1985 Registered as a certified public accountant
Dec. 1994 Partner of Century Audit Corporation (currently Ernst & Young ShinNihon LLC)
Nov. 2000 Representative Partner of Century Ota Showa & Co. (currently Ernst & Young ShinNihon LLC)
July 2008 Senior Partner of Ernst & Young ShinNihon LLC
July 2012 Head of Tsuda Certified Public Accountant Office (to present)
June 2014 Outside Audit & Supervisory Board Member of the Company (to present)

Managing Executive Officer

Takeo Yamaki

Executive Officers

Hidenori Takemiya
Yuji Yamamoto
Yoshitaka Oda
Hiroshi Takase
Yoshihisa Sugimoto
Juergen Gallert

INVESTOR INFORMATION

Stock Information (As of March 31, 2015)

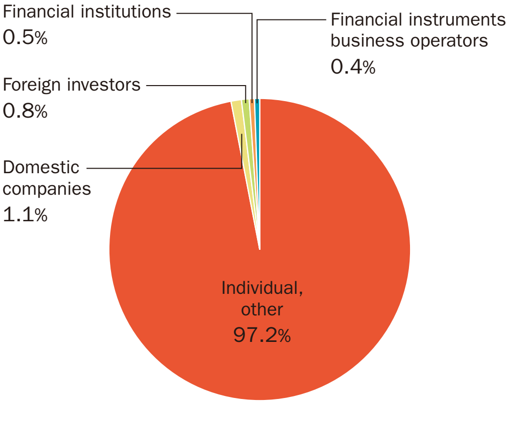
- **Number of Shares Authorized:** 50,000,000 shares
- **Number of Shares Issued:** 18,373,974 shares (including treasury stock of 162 shares)
- **Number of Shareholders:** 6,960
- **Major Shareholders** (Top 10)

Shareholder name	Number of shares	Shareholding percentage
IBP Co., Ltd.	2,966,516	16.15%
Nitta Corporation	840,014	4.57
Sumitomo Mitsui Banking Corporation	630,286	3.43
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	621,074	3.38
The Master Trust Bank of Japan, Ltd. (trust account)	603,500	3.28
Iwaki Co., Ltd.	533,600	2.90
Nitta Gelatin Employees Shareholding Association	469,000	2.55
Ishizuka Corporation	382,014	2.08
Resona Bank, Limited	334,672	1.82
Japan Trustee Services Bank, Ltd. (trust account)	250,000	1.36

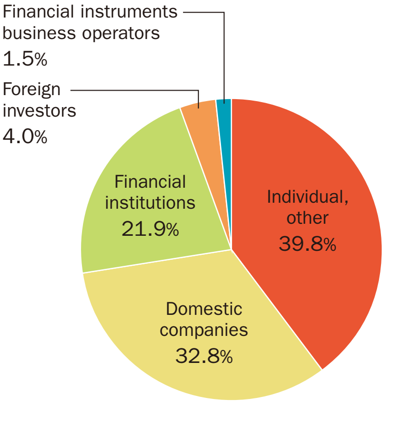
Note: Shareholding percentages are calculated based on the total number of shares issued minus treasury stock (162 shares). Percentages are rounded to two decimal places.

Share Distribution

Breakdown of Shareholding by Investor Type



Breakdown of Shareholding by Number of Shares Held



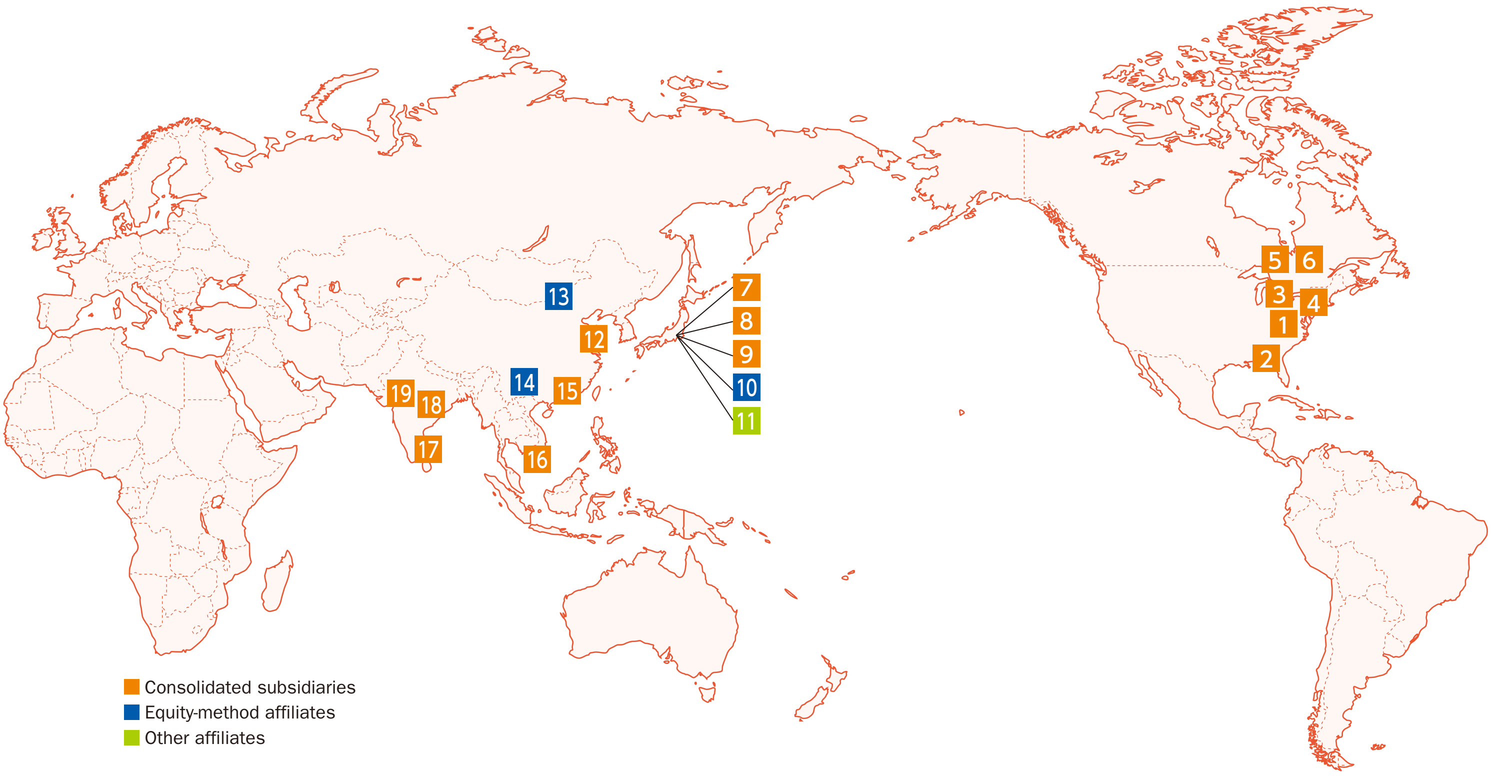
CORPORATE INFORMATION

Company Outline

Headquarters:	4-26, Sakuragawa 4-chome, Naniwa-ku, Osaka 556-0022, Japan
Establishment:	January 1918
Incorporation:	February 1945
Capital:	¥3,144,929,440
Number of Shares Issued:	18,373,974 shares
Net Sales:	Non-consolidated: ¥21,872 million (Year ended March 31, 2015) Consolidated: ¥31,914 million (Year ended March 31, 2015)
Employees:	Non-consolidated: 253 (As of March 31, 2015) Consolidated: 595 (As of March 31, 2015)
Main Businesses:	Production and sales of edible gelatin, pharmaceutical gelatin and photographic gelatin Production and sales of collagen peptides Production and sales of collagen casings Production and sales of collagen for cosmetics, biomaterials and biochemical products Production and sales of edible gelling agents, stabilizers and other food materials Production and sales of adhesives for packaging, bookbinding, building materials and hygiene products
Operating Facilities:	10 locations in Japan, 15 locations overseas

Affiliates (As of October 1, 2015)

1. Nitta Gelatin NA Inc. (U.S.A.)
2. Nitta Gelatin USA, Inc. (U.S.A.)
3. Nitta Casings Inc. (U.S.A.)
4. Nitta Gelatin Holding, Inc. (U.S.A.)
5. Nitta Gelatin Canada, Inc. (Canada)
6. Nitta Casings (Canada) Inc. (Canada)
7. Alma Corporation (Japan)
8. Nitta Biolab Inc. (Japan)
9. Hikone Gelatin Inc. (Japan)
10. Bostik-Nitta Co., Ltd. (Japan)
11. Shinju Service Co., Ltd. (Japan)
12. Shanghai Nitta Gelatin Co., Ltd. (China)
13. Beijing Qiushi Collagen Casing Co., Ltd. (China)
14. Guangdong Baiwei Bio Material Co., Ltd. (China)
15. Nitta Hong Kong Ltd. (China)
16. Nitta Gelatin Vietnam Co., Ltd. (Vietnam)
17. Nitta Gelatin India Ltd. (India)
18. Bamni Proteins Ltd. (India)
19. Reva Proteins Ltd. (India)



MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Performance Summary for the Fiscal Year Ended March 31, 2015

In the fiscal year ended March 31, 2015, the outlook for the global economy was uncertain, despite an ongoing recovery in the U.S. business climate. This outlook reflected the fact that the European economy has yet to start recovering in earnest, along with slowing growth in emerging countries such as China and Southeast Asian nations. Meanwhile, Japan's economy showed a gradual recovery trend, due partly to an improvement in corporate and individual incomes supported by economic policies and quantitative and qualitative monetary easing. This was despite a downturn in demand following an increase in the consumption tax in April 2014 and the yen's sharp depreciation.

Amid these circumstances, the Nitta Gelatin Group encountered very challenging business conditions, including increased overseas prices of raw materials, a temporary decline in demand in overseas markets, rising energy costs in Japan, and continuing high import procurement costs due to the yen's depreciation.

As a result, in the fiscal year ended March 2015, net sales decreased 2.7% year on year to ¥31,914 million. In Japan, the Group revised prices, but this was outweighed by rising raw material and procurement costs reflecting the yen's depreciation. Consequently, operating income fell 58.9% to ¥392 million. Ordinary income declined by 13.2% to ¥967 million, cushioned by foreign exchange gains, and net income decreased 8.3% to ¥610 million.

Consolidated Business Performance for the Fiscal Year Ended March 31, 2015

Net Sales and Earnings

» Net Sales

Looking at the Group's net sales in the fiscal year ended March 2015, the Group posted strong sales of gelatin in the Japanese market. However, sales of food materials were sluggish due to reduced demand accompanying the consumption tax hike in April 2014 and unseasonable summer weather. Other downsides included a decline in sales of hot-melt adhesives. Consequently, sales on the whole were lackluster. As a result, in the fiscal year ended March 31, 2015, net sales decreased ¥899 million, or 2.7%, year on year to ¥31,914 million.

» Gross Profit

Consolidated gross profit declined ¥513 million, or 7.9%, year on year to ¥5,970 million, mainly reflecting increased overseas prices of raw materials, a temporary decline in demand in overseas markets, rising energy costs in Japan, and continuing high import procurement costs due to the yen's depreciation.

» Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased ¥49 million, or 0.9%, year on year to ¥5,577 million.

» Operating Income

As a result of the foregoing, operating income decreased ¥562 million, or 58.9%, year on year to ¥392 million.

» Net Income

Net income decreased ¥55 million, or 8.3%, year on year to ¥610 million.

We booked a loss on retirement of noncurrent assets of ¥34 million as extraordinary losses.

Segment Performance

» Collagen Material Business

In the gelatin field, sales of edible gelatin and capsule gelatin in Japan increased, but earnings declined as raw material prices remained high and price revisions were unable to mitigate the yen's depreciation. In North America, capsule gelatin sales declined as negative reports regarding fish oil in the U.S. sparked a temporary contraction in the supplement market, while earnings decreased, partly due to higher raw material prices for pig skin. Consequently, in the gelatin field, sales increased partly due to the impact of the yen's depreciation, but earnings decreased.

Collagen peptide sales decreased overall, as the Japanese market was unable to dispel a slump in consumer sentiment following the increase in the consumption tax in April 2014, despite brisk sales in the Asian region.

Collagen casing sales and earnings increased, due to steady sales in the North American markets.

As a result, net sales in the Collagen Material business increased 2.3% year on year to ¥22,959 million. Segment profit (operating income) was down 22.4% to ¥1,101 million.

» Formula Solution Business

Sales of food materials decreased on lackluster trends in food stabilizers due to reduced demand accompanying the consumption tax hike in April 2014 and unseasonable summer weather.

In adhesives, there was a large decline in sales of hot-melt adhesives for use in hygiene products due to the shift of production to China, in addition to sluggish sales of hot-melt adhesives for use in packaging and bookbinding. Meanwhile, sales of high-performance gaskets saw sluggish growth because although their delivery for use in smartphones and smartwatches has begun, these products have yet to be adopted by customers on a full scale.

As a result, net sales in the Formula Solution business decreased 13.7% year on year to ¥8,955 million. Segment profit (operating income) declined 29.6% to ¥647 million.

Research and Development

"As a world-leading gelatin manufacturer, the Group uses its proprietary technology to quickly and efficiently provide superior products and services to global customers. The Group produces healthy, functional and valuable products in multinational facilities that are safe, reliable and environmentally friendly." Guided by this vision, we are advancing both the Collagen Material and Formula Solution businesses with the aim of establishing Nitta Gelatin as a global brand that is chosen first by customers.

The markets we face are constantly evolving and diversifying on a daily basis. Our basic R&D policy is to quickly and efficiently develop products and services that are a half step or a whole step ahead of customer expectations in order to enhance the Company's brand value and contribute to sustained business expansion and growth. We have organized a product development structure that is as close to customers as possible in an effort to energize R&D activities and identify shifts in market and customer needs with a constantly positive mindset. In other words, we have stationed sales, development and production personnel across the R&D organization to ensure that requests from customers, markets and others are directly conveyed to technology, service, product development and production technology development units, so that timely responses are made. While the internal research personnel are focused on product development and customer service, we also actively conduct joint research with and commission research to external research institutes, universities and other entities for the purpose of promoting basic research into food ingredients, obtaining new fundamental technologies and meeting other priorities.

Since 2007, we have held TPM (Technology, Product, Market) Presentations under the guidance of external consultants, in an initiative to promote and encourage R&D activities. These presentations are based on the "TPM cycle" approach of obtaining market recognition through product development driven by technology. Meanwhile, we are making efforts to enhance the technological capabilities and knowledge of the development divisions and individuals by holding Technical Discussion sessions in all the development divisions.

The following is a breakdown of R&D activities by division in each business during the fiscal year ended March 31, 2015. Total R&D expenses were ¥915 million.

» Collagen Material Business

Gelatin

- Improve and upgrade production technology for raw material and gelatin processes
- Develop new gelatin (new materials, new functions)
- Provide optimal quality for each application

Collagen Peptide

- Develop collagen peptide production technology (peptide synthesis, refining technology)
- Research functional characteristics of collagen peptide

Collagen Casing

- Improve and upgrade collagen casing production
- Develop new markets and products

Life Science

- Research and development of collagen for biomaterials and cell cultures
- Research and development of gelatin and collagen for advanced medical care

R&D expenses in the Collagen Material business were ¥498 million.

» Formula Solution Business

Food Material

- Develop applications utilizing application laboratories
- Develop novel products (for delicatessen items and food products for seniors, such as medical foods)
- Plan and develop consumer products (collagen supplements, collagen-added cosmetics)

Adhesive

- Develop high-performance gasket applications
- Environmentally friendly hot-melt adhesives

R&D expenses in the Formula Solution business were ¥416 million.

Cash Flows

■ Net cash provided by operating activities

Net cash provided by operating activities was ¥2,074 million, compared with ¥692 million used in the previous fiscal year. The main contributing factors were income before income taxes and minority interests of ¥933 million, depreciation and amortization of ¥1,115 million, and a decrease in notes and accounts receivable of ¥1,740 million. These inflows were partly offset by a decrease in notes and accounts payable of ¥802 million.

■ Net cash used in investing activities

Net cash used in investing activities was ¥2,505 million, compared with ¥3,105 million in the previous fiscal year. The main use of cash was the purchase of property, plant and equipment of ¥2,449 million.

■ Net cash provided by financing activities

Net cash provided by financing activities was ¥544 million, compared to ¥3,875 million in the previous fiscal year. This mainly reflected a net increase in short-term loans payable of ¥454 million and proceeds from long-term debt of ¥2,495 million, which were partly offset by ¥2,147 million in repayment of long-term debt.

As a result, cash and cash equivalents were ¥2,602 million as of March 31, 2015, an increase of 8.2% from a year earlier.

Capital Investment

Based on business strategies, we executed capital investments of ¥2,381 million centered on the Collagen Material business, mainly to achieve global cost competitiveness in gelatin products, strengthen collagen peptide supply capability, and enhance collagen casing productivity.

In the Collagen Material business, we executed capital investments of ¥1,759 million. Looking at the main capital investments, we invested ¥806 million to construct a new collagen peptide plant at Nitta Gelatin USA, Inc. and ¥370 million to introduce and renew collagen casing manufacturing plant and equipment at Nitta Casings Inc. In other areas, we spent ¥582 million on renewing plant and equipment and introducing facilities for saving energy at our Osaka plant and subsidiary, Hikone Gelatin Inc., and at Nitta Gelatin Canada, Inc. to maintain production capacity and enhance quality.

In the Formula Solution business, we executed capital investments of ¥562 million. Looking at the main capital investments, we invested ¥543 million to construct a new office and laboratory and upgrade production facilities for the Adhesives Division.

The funds required for the abovementioned capital investments were sourced from our own capital and borrowings.

Expenses amounting to ¥21 million were booked as a loss on retirement of noncurrent assets for relocation and removal of plant and equipment in constructing the new office and laboratory for the Adhesives Division, in addition to ¥13 million in ongoing replacement of machinery and other plant and equipment.

Financial Position

» Assets

Total assets amounted to ¥33,932 million at March 31, 2015, ¥2,542 million higher than at March 31, 2014. This was mainly attributable to a ¥579 million increase in inventories including merchandise and finished goods, a ¥2,044 million increase in property, plant and equipment in line with the renewal of an adhesives office and a laboratory, and the construction of a collagen peptide plant at Nitta Gelatin USA, Inc., and a ¥908 million increase in investment securities due to the higher fair value of securities. These increases were partly offset by a ¥1,438 million decrease in notes and accounts receivable owing to the securitization of receivables.

» Liabilities

Total liabilities stood at ¥18,558 million at March 31, 2015, ¥949 million higher than at March 31, 2014. This was mainly due to a ¥583 million increase in short-term loans payable, a ¥646 million increase in long-term loans payable (current portion included), and a ¥185 million increase in deferred tax liabilities. These increases were partly offset by a ¥486 million decrease in notes and accounts payable.

» Net Assets

Net assets stood at ¥15,373 million at March 31, 2015, ¥1,592 million higher than at March 31, 2014. This was mainly attributable to a ¥688 million increase in retained earnings, a ¥498 million increase in valuation difference on available-for-sale securities, and an increase of ¥788 million in foreign currency translation adjustment. These increases were partly offset by a decrease of ¥379 million in accumulated adjustments for retirement benefits.

As a result, the equity ratio stood at 45.0% as of March 31, 2015, compared to 43.4% as of March 31, 2014.

Basic Profit Distribution Policy and Dividends

Our basic policy on profit distribution is to continuously pay steady dividends, while securing the internal reserves needed to develop future businesses and strengthen our operating structure.

Furthermore, our basic policy is to pay dividends twice every fiscal year, with interim and year-end dividends determined by the Board of Directors and the Annual General Meeting of Shareholders, respectively.

In regard to dividends for the fiscal year ended March 31, 2015, in accordance with the aforementioned policies, management has decided to pay a year-end dividend of ¥6.00 per common share. Combined with the interim dividend of ¥6.00, the annual dividend per common share is ¥12.00.

In regard to funds set aside as internal reserves, we intend to effectively invest these funds in enhancing cost competitiveness even more than before, bolstering our technology and product development structure in response to market needs, as well as implementing global strategies. These investments will help us to address anticipated changes in the business environment going forward.

BUSINESS RISKS

This section provides information about the principal business risks concerning the Nitta Gelatin Group's operations and related matters that may have a material impact on the decisions of investors. Matters that do not necessarily constitute such risks but are considered to have a material impact on the investment decisions of investors are also disclosed below from the standpoint of actively disclosing information to investors. Recognizing the possibility for such risks to occur, we endeavor to prevent the occurrence of such risks and to respond properly in the event that such risks occur.

This section includes forward-looking statements determined based on information available to us as of June 25, 2015.

(1) Product Development

Guided by our motto of quickly and efficiently providing products and services that address shifting market conditions and customer needs, we actively conduct R&D and capital investment. However, there is no guarantee that we can successfully develop new products. In addition, even if a new product is successfully developed, it may not match customer needs and thus fail to gain their acceptance.

In regard to products for medical applications, customers using our products require an extensive lead time to develop and launch medical products. During this period, the customer may suspend product development or face protracted development delays, among other contingencies, mainly on account of shifting market conditions, changes in operating performance, or delays in obtaining approval from regulatory authorities.

In the event that we face delays or are unable to recover R&D expenses and capital investment as a result, our operating results and financial position may be negatively impacted.

(2) Overseas Markets

Ever since the establishment of our first overseas sales subsidiary in the U.S. in July 1979, we have been actively working to expand sales in overseas markets. In the fiscal year ended March 31, 2015, sales in overseas markets accounted for 42.2% of our net sales. In the North American market, our primary region for business development so far, our sales expansion may be negatively impacted by competition arising between our products and those of our competitors in the same industry.

In addition, in the future strategic Chinese, Indian and Southeast Asian markets, our sales expansion may be negatively impacted by even greater competition than in North America between our products and those of our competitors in the same industry.

The Group is working to enhance its competitiveness, mainly by reducing costs, improving quality, developing unique new products, and conducting production in optimal locations. However, if these measures prove ineffective, sales growth could stagnate. This could have a negative impact on our operating results and financial position.

(3) Exchange Rate Movements

When selling products to overseas customers either directly or through a subsidiary, we export products on a U.S. dollar-denominated basis. On the procurement front, we purchase raw materials for gelatin, such as bovine bones and ossein, primarily using U.S. dollars. We also import pig skin gelatin from overseas on a Canadian dollar-denominated basis. For this reason, we hedge our foreign exchange risk by concluding foreign exchange forward contracts with financial institutions with respect to U.S. dollar-denominated exports, as well as U.S. dollar- and Canadian dollar-denominated imports. Through these measures, we reduce our exposure to foreign exchange risk related to operating transactions. However, in the event of unforeseeable foreign exchange rate movements, our operating results and financial position could be negatively impacted.

Furthermore, gains and losses arising from foreign currency-denominated transactions, as well as the translation into Japanese yen of foreign currency-denominated receivables and payables and the financial statements of overseas consolidated subsidiaries prepared in foreign currencies, are subject to foreign exchange rate movements. This could have a negative impact on our operating results and financial position.

(4) Price Fluctuations for Primary Raw Materials

Raw material costs accounted for 57.7% of our cost of manufacturing in the fiscal year ended March 31, 2015. Raw material prices fluctuate for a variety of reasons. In the Collagen Material business, primary raw materials such as bovine bones and hides, pig skin and fish scales are all byproducts of the livestock and fishery industries. The raw material price may fluctuate depending on changes in meat consumption reflecting global economic conditions, as well as changes in supply-demand dynamics driven by regulations governing food processing and distribution in response to various animal epidemics and other factors. In the Formula Solution business, prices of natural polysaccharides, the primary raw material in the food material divisions may fluctuate due to changes in the climate of growing regions and other factors. Prices of petroleum resins, the key raw material for adhesives, may fluctuate due to changes in commodity prices and supply-demand dynamics for heavy oil and naphtha.

Meanwhile, in some cases the market environment and other factors can make it difficult to transfer the impact of price fluctuations for these key raw materials to the selling price of our products. Accordingly, fluctuations in raw materials prices could have a negative impact on our operating results and financial position.

(5) Animal Diseases

Our primary products, including gelatin, collagen peptide, collagen casing and collagen, are made from animal byproducts derived from livestock and fishery production, such as bovine bones and hides, pig skins, and fish scales. Accordingly, these materials are subject to the risk of animal diseases. We therefore procure these materials only after confirming that they are free from any animal infectious diseases, while working to diversify the sourcing region of raw materials in order to ensure their safety.

Despite these efforts, in the event that an extensive outbreak of animal disease occurs in a region from which we procure raw materials, the supply of raw material bones and skins may decline or stop due to a suspension or stoppage of meat production, or may cause us to switch to an alternative region for sourcing raw materials. These and other related factors may have a negative impact on the stable procurement of raw materials.

In addition, our product sales may be affected by the outbreak of an animal disease in countries in which raw materials are produced or products are manufactured. Specifically, product sales may stagnate due to import restrictions and other measures imposed on animal products made from raw materials originating from or products manufactured in these countries.

As a result of the foregoing, the Group may be impacted by higher raw material procurement costs, reduced revenue due to lower product sales, higher inventories and so forth. This could negatively affect our operating results and financial position.

(6) Laws and Regulations

In the course of executing business activities, the Group's business is subject to Japanese laws and regulations, including the Food Sanitation Law, the Japanese Agricultural Standard and the Pharmaceutical and Medical Device Act as well as directives issued by the competent authorities. In the event that these laws and regulations are amended or abolished, or if new laws and regulations are established, we may incur additional costs and other outlays to address these developments, or face restrictions in terms of the scope of our business activities.

Furthermore, the Group is subject to various laws and regulations in overseas countries where it conducts business. Our operating results and financial position could be negatively impacted by changes to these laws and regulations and our status of legal compliance.

In regard to the environment, gelatin production requires large amounts of water in the whole process, from raw materials to gelatin. For this reason, our plants are supplied with and release large amounts of water, and are subject to the laws and regulations of each country and region in regard to wastewater volume and water quality. Efforts are made at each plant to recycle and reuse water and to upgrade production processes so as to reduce the volume of water supplied and released and to maintain water quality. In the event of a major amendment to national or regional laws and regulations, we may incur costs associated with addressing such new legislative changes.

The foregoing impacts could negatively affect our operating results and financial position.

(7) Religious Rules

Gelatin is an animal-derived product that is widely used in food, pharmaceutical capsules and other items. However, due to religious injunctions, consumption of some of these items may be forbidden, depending on the animal species and the manufacturing methods. Main examples of such religious rules include the Halal (Islam) and Kosher (Judaism). Followers of these religions are forbidden from consuming pig-derived products. In order to sell proper gelatin to business customers who manufacture products for these consumers, we produce gelatin by procuring raw materials derived from permissible animal species and by using appropriate manufacturing methods in line with religious rules. To make certain that our products conform to religious rules, we obtain certification through audits by certifying entities of each religion. In this context, we strictly manage our raw materials and manufacturing. However, in the event that our certification is revoked as a result of a breach of a religious rule due to a management deficiency, we will lose sales opportunities, which could have a negative impact on our operating results and financial position.

(8) Natural Disasters, Accidents, Terrorism, War and Other Contingencies

In the event of natural disasters such as earthquakes, storms and floods, accidents, problems with local communities, regional terrorism, wars and other contingencies at our business locations, the procurement of raw materials and the production and sale of products could be disrupted, which could have a negative impact on our operating results and financial position. Our business locations include our main offices and major outsourcing partners (including those in Osaka, Shiga and Tochigi prefectures, Japan; Province of Ontario, Canada; State of North Carolina and New Jersey, U.S.A.; State of Kerala, India; Guangdong Province, China; and Long An Province, Vietnam), regions from which primary raw materials are procured (including India, Canada, U.S.A., New Zealand, Thailand, Pakistan and China), and primary regions where products are sold (including Japan, North America, India, China and various other Asian countries).

(9) Product Quality

We endeavor to put quality first in order to earn our customers' trust. To this end, we develop products focused on customer needs, and manufacture products under an internationally accepted quality assurance system. One particular focus lies in ensuring traceability from raw materials to finished products in an effort to market safe products.

We have enrolled in product liability insurance policies, among other safeguards. However, in the event that a customer suffers damages as a result of defects in our products, there is no guarantee that our liability for damages will be covered within the compensation limits of these insurance policies.

Accordingly, in the event of a serious quality problem, the ensuing claims for damages, loss of public trust in the Group and other factors could negatively impact our operating results and financial position.

(10) Alternative Products

There is a growing trend to switch the raw materials used in certain pharmaceuticals, cosmetics and food from animal to plant-derived materials. In the capsule market, one of our core markets for gelatin, this trend has given impetus to the development of plant-derived (starch and cellulose derivatives) capsule products. Certain pharmaceutical and health food manufacturers have adopted these capsules as an alternative to gelatin capsules. We believe that the popularization of plant-derived capsules has been limited only to certain segments of the market.

Nevertheless, in the event of new regulations on animal-derived products or a change in consumer sentiment, the rapid popularization of plant-derived capsules could reduce demand for gelatin capsules, and have a negative impact on our operating results and financial position.

(11) Interest-Rate Fluctuations

We primarily borrow funds from financial institutions to finance capital investments. The percentage of interest-bearing liabilities relative to total assets was 27.7% (including lease obligations) in the fiscal year ended March 31, 2015.

We endeavor to reduce borrowings and other interest-bearing liabilities. However, in the event of an increase in market interest rates going forward, our operating results and financial position could be negatively impacted.

(12) Taxation

In Japan, a 17% tariff is levied on imported gelatin except for photographic use. Going forward, the selling price of these imports may decrease as a result of the reduction or abolition of this tariff. A price difference may arise between imports such as South American bovine hide gelatin and Indian bovine bone gelatin, and bovine bone gelatin produced at the Company's Osaka Plant. In such an event, our operating results and financial position could be negatively affected.

Moreover, the Group conducts production and sales activities on a global scale, and materials, semi-finished goods and other items are mutually supplied within the Group. Each Group business entity complies with the tax laws to follow the proper procedures for calculating and paying taxes in the country of its jurisdiction. While the Group pays close attention to international taxation risks such as the transfer pricing taxation applicable in each country, additional taxes may be imposed in the event that the Group's views on this matter conflict with those of the tax authorities.

(13) Information Security

We have established an information system that enables us to obtain and analyze necessary information in real time in various processes, including purchasing, production, sales and management. We put particular emphasis on the strict management of access rights to the system for the purpose of ensuring stable system operation and preventing any leaks of sales data, including client data and personal information stored on the system. These efforts notwithstanding, in the event of difficulty in maintaining the stable operation of the information system due to a software malfunction, unauthorized external access or other factors, our business activities could be disrupted. In the event that sales or client data is leaked outside our Group, we could face consequences such as claims for damages from customers, and a loss of public trust in our Group. As a result, our operating results and financial position could be negatively affected.

(14) Infringement of Intellectual Property Rights

We protect our intellectual property rights through such means as obtaining patents on proprietary technology and other innovations we have developed. Efforts are also made in the product development process to prevent any infringement of rights held by third parties, including intellectual property rights. These efforts notwithstanding, we cannot completely rule out the possibility of becoming subject to allegations and claims by third parties concerning the ownership or infringement of intellectual property and other rights. In the event that we are subject to claims for damages or cease-and-desist orders as a result, our operating results and financial position could be negatively affected.

(15) Legal Disputes and Litigation

In the course of our business activities, we endeavor to enhance our internal control system and strengthen compliance, encompassing legal compliance and observance of social norms, while reducing our exposure to various forms of risk. At the same time, the Group receives advice from lawyers and other experts as necessary.

These efforts notwithstanding, the Group may be subject to lawsuits in the course of business activities, irrespective of whether or not there is a breach of laws or regulations. In such an event, our operating results and financial position could be negatively affected.

CONSOLIDATED BALANCE SHEETS

Nitta Gelatin Inc. and Consolidated Subsidiaries
As of March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Assets			
Current assets:			
Cash and deposits (Notes 5, 9 and 17)	**¥ 2,622**	¥ 2,426	**$ 21,822**
Notes and accounts receivable (Note 9)	**6,726**	8,164	**55,980**
Inventories (Note 3)	**8,221**	7,642	**68,422**
Deferred tax assets (Note 6)	**139**	158	**1,156**
Other	**330**	306	**2,746**
Allowance for doubtful accounts	**(2)**	(13)	**(16)**
Total current assets	**18,038**	18,685	**150,129**
Property, plant and equipment:			
Buildings and structures (Note 5)	**9,700**	7,564	**80,732**
Machinery, equipment and vehicles (Note 5)	**13,028**	9,841	**108,431**
Land (Note 5)	**781**	768	**6,500**
Lease assets (Note 8)	**1,195**	1,136	**9,945**
Construction in progress	**435**	2,260	**3,620**
Other	**1,339**	1,316	**11,144**
Accumulated depreciation	**(15,632)**	(14,084)	**(130,104)**
Net property, plant and equipment	**10,848**	8,804	**90,287**
Intangible assets	**69**	50	**574**
Investments and other assets:			
Investment securities (Notes 4, 5 and 9)	**3,984**	3,075	**33,158**
Long-term loans receivable	**5**	8	**41**
Deferred tax assets (Note 6)	**185**	399	**1,539**
Asset for retirement benefits (Note 7)	**689**	253	**5,734**
Other	**109**	111	**907**
Total investments and other assets	**4,974**	3,849	**41,398**
Total assets	**¥ 33,932**	¥ 31,389	**$ 282,413**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Liabilities			
Current liabilities:			
Notes and accounts payable (Note 9)	**¥ 3,768**	¥ 4,255	**$ 31,360**
Short-term loans payable (Note 5)	**1,705**	1,121	**14,190**
Current portion of long-term debt (Notes 5 and 9)	**2,127**	1,932	**17,702**
Lease obligations (Notes 5 and 8)	**232**	215	**1,930**
Other payable (Note 9)	**1,435**	1,747	**11,943**
Income taxes payable	**206**	147	**1,714**
Provision for bonuses	**173**	177	**1,439**
Other	**626**	481	**5,210**
Total current liabilities	**10,274**	10,080	**85,509**
Noncurrent liabilities:			
Long-term debt (Notes 5 and 9)	**4,867**	4,415	**40,507**
Lease obligations (Notes 5 and 8)	**475**	495	**3,953**
Liability for retirement benefits (Note 7)	**2,661**	2,524	**22,147**
Provision for directors' retirement benefits	**38**	37	**316**
Other	**240**	55	**1,997**
Total noncurrent liabilities	**8,283**	7,528	**68,938**
Total liabilities	**18,558**	17,608	**154,456**
Commitments and contingent liabilities (Notes 8, 10 and 11)			
Net assets			
Shareholders' equity (Note 14):			
Capital stock:	**3,144**	3,144	**26,167**
Authorized — 50,000,000 shares			
Issued — 18,373,974 shares in 2015 and 2014			
Capital surplus	**2,966**	2,966	**24,685**
Retained earnings	**9,312**	8,623	**77,503**
Treasury stock — 162 shares in 2015 and 2014	**(0)**	(0)	**(0)**
Total shareholders' equity	**15,423**	14,734	**128,364**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**1,121**	622	**9,330**
Deferred gains or losses on hedges	**33**	(5)	**274**
Foreign currency translation adjustment	**601**	(187)	**5,002**
Accumulated adjustments for retirement benefits (Note 7)	**(1,908)**	(1,528)	**(15,880)**
Total accumulated other comprehensive income	**(152)**	(1,097)	**(1,265)**
Minority interests	**102**	144	**848**
Total net assets	**15,373**	13,781	**127,948**
Total liabilities and net assets	**¥33,932**	¥31,389	**$282,413**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Nitta Gelatin Inc. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Net sales	**¥31,914**	¥32,814	**$265,617**
Cost of sales (Note 3)	**25,944**	26,329	**215,930**
Gross profit	**5,970**	6,484	**49,687**
Selling, general and administrative expenses (Note 12)	**5,577**	5,528	**46,416**
Operating income	**392**	955	**3,262**
Other income (expenses):			
Interest and dividends income	**24**	24	**199**
Interest expenses	**(151)**	(133)	**(1,256)**
Rent income	**36**	35	**299**
Equity in earnings of affiliates	**112**	97	**932**
Foreign exchange gains	**578**	166	**4,810**
Going public expenses	**–**	(23)	**–**
Commissions paid	**(66)**	(37)	**(549)**
Guarantees received	**–**	89	**–**
Loss on retirement of noncurrent assets	**(34)**	(29)	**(282)**
Loss on change in equity	**–**	(104)	**–**
Other, net	**41**	31	**341**
	540	114	**4,494**
Income before income taxes and minority interests	**933**	1,070	**7,765**
Income taxes (Note 6)**:**			
Current	**376**	350	**3,129**
Deferred	**(23)**	67	**(191)**
Total income taxes	**353**	418	**2,937**
Income before minority interests	**580**	651	**4,827**
Minority interests in income	**(29)**	(13)	**(241)**
Net income (Note 16)	**¥ 610**	¥ 665	**$ 5,076**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Nitta Gelatin Inc. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Income before minority interests	**¥ 580**	¥ 651	**$ 4,827**
Other comprehensive income (Note 18)**:**			
Valuation difference on available-for-sale securities	**498**	123	**4,144**
Deferred gains or losses on hedges	**18**	(30)	**149**
Foreign currency translation adjustment	**638**	388	**5,310**
Pension liability adjustment of foreign subsidiaries	**–**	(11)	**–**
Adjustments for retirement benefits	**(370)**	–	**(3,079)**
Share of other comprehensive income of associates accounted for using equity method	**165**	105	**1,373**
Total other comprehensive income	**950**	575	**7,906**
Comprehensive income	**¥1,530**	¥1,227	**$12,734**
Comprehensive income attributable to:			
Owners of the parent	**¥1,555**	¥1,224	**$12,942**
Minority interests	**(24)**	2	**(199)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Nitta Gelatin Inc. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at March 31, 2013	¥1,577	¥1,398	¥8,194	¥(0)	¥11,170
Issuance of new shares	1,567	1,567			3,135
Dividends from surplus			(236)		(236)
Net income			665		665
Net changes of items other than shareholders' equity					–
Balance at March 31, 2014	¥3,144	¥2,966	¥8,623	¥(0)	¥14,734
Cumulative effect of changes in accounting policies			**299**		**299**
Balance at April 1, 2014 after reflecting changes in accounting policies	**3,144**	**2,966**	**8,922**	**(0)**	**15,033**
Dividends from surplus			**(220)**		**(220)**
Net income			**610**		**610**
Net changes of items other than shareholders' equity					**–**
Balance at March 31, 2015	**¥3,144**	**¥2,966**	**¥9,312**	**¥(0)**	**¥15,423**

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Accumulated adjustments for retirement benefits	Pension liability adjustment of foreign subsidiaries	Total	Minority interests	Total net assets
Balance at March 31, 2013	¥ 499	¥ 27	¥(667)	¥ –	¥(1,452)	¥(1,592)	¥147	¥ 9,724
Issuance of new shares								3,135
Dividends from surplus								(236)
Net income								665
Net changes of items other than shareholders' equity	122	(32)	480	(1,528)	1,452	494	(3)	491
Balance at March 31, 2014	¥ 622	¥ (5)	¥(187)	¥(1,528)	¥ –	¥(1,097)	¥144	¥13,781
Cumulative effect of changes in accounting policies								**299**
Balance at April 1, 2014 after reflecting changes in accounting policies	**622**	**(5)**	**(187)**	**(1,528)**	**–**	**(1,097)**	**144**	**14,080**
Dividends from surplus								**(220)**
Net income								**610**
Net changes of items other than shareholders' equity	**498**	**38**	**788**	**(379)**	**–**	**945**	**(41)**	**904**
Balance at March 31, 2015	**¥1,121**	**¥ 33**	**¥ 601**	**¥(1,908)**	**¥ –**	**¥ (152)**	**¥102**	**¥15,373**

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at March 31, 2014	$26,167	$24,685	$71,768	$(0)	$122,630
Cumulative effect of changes in accounting policies			**2,488**		**2,488**
Balance at April 1, 2014 after reflecting changes in accounting policies	**26,167**	**24,685**	**74,257**	**(0)**	**125,118**
Dividends from surplus			**(1,831)**		**(1,831)**
Net income			**5,076**		**5,076**
Net changes of items other than shareholders' equity					**–**
Balance at March 31, 2015	**$26,167**	**$24,685**	**$77,503**	**$(0)**	**$128,364**

	Thousands of U.S. dollars (Note 1)							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Accumulated adjustments for retirement benefits	Pension liability adjustment of foreign subsidiaries	Total	Minority interests	Total net assets
Balance at March 31, 2014	$5,176	$(41)	$(1,556)	$(12,717)	$–	$(9,130)	$1,198	$114,698
Cumulative effect of changes in accounting policies								**2,488**
Balance at April 1, 2014 after reflecting changes in accounting policies	**5,176**	**(41)**	**(1,556)**	**(12,717)**	**–**	**(9,130)**	**1,198**	**117,186**
Dividends from surplus								**(1,831)**
Net income								**5,076**
Net changes of items other than shareholders' equity	**4,144**	**316**	**6,558**	**(3,154)**		**7,865**	**(341)**	**7,523**
Balance at March 31, 2015	**$9,330**	**$274**	**$ 5,002**	**$(15,880)**	**$–**	**$(1,265)**	**$ 848**	**$127,948**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nitta Gelatin Inc. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Operating activities:			
Income before income taxes and minority interests	**¥ 933**	¥ 1,070	**$ 7,765**
Depreciation and amortization	**1,115**	914	**9,280**
Increase (decrease) in provision for directors' retirement benefits	**1**	1	**8**
Increase (decrease) in provision for bonuses	**(8)**	(46)	**(66)**
Increase (decrease) in allowance for doubtful accounts	**(13)**	(2)	**(108)**
Increase (decrease) in liability for retirement benefits	**9**	(27)	**74**
Interest and dividends income	**(24)**	(24)	**(199)**
Interest expenses	**151**	133	**1,256**
Foreign exchange losses (gains)	**(267)**	(35)	**(2,222)**
Equity in earnings of affiliates	**(112)**	(97)	**(932)**
Loss on retirement of noncurrent assets	**34**	29	**282**
Loss (gain) on change in equity	**–**	104	**–**
Decrease (increase) in notes and accounts receivable	**1,740**	(2,147)	**14,481**
Decrease (increase) in inventories	**(308)**	(624)	**(2,563)**
Increase (decrease) in notes and accounts payable	**(802)**	324	**(6,674)**
Increase (decrease) in accrued consumption taxes	**117**	(52)	**973**
Other, net	**(125)**	88	**(1,040)**
Subtotal	**2,441**	(391)	**20,316**
Interest and dividends income received	**106**	134	**882**
Interest expenses paid	**(152)**	(134)	**(1,265)**
Income taxes paid	**(321)**	(301)	**(2,671)**
Net cash provided by (used in) operating activities	**2,074**	(692)	**17,261**
Investing activities:			
Payments into time deposits	**(20)**	(20)	**(166)**
Proceeds from withdrawal of time deposits	**20**	20	**166**
Purchase of property, plant and equipment	**(2,449)**	(2,949)	**(20,382)**
Purchase of intangible assets	**(30)**	(12)	**(249)**
Purchase of investment securities	**(6)**	(6)	**(49)**
Purchase of stocks of affiliates	**–**	(142)	**–**
Proceeds from cancellation of insurance funds	**–**	15	**–**
Purchase of insurance funds	**(2)**	(4)	**(16)**
Other, net	**(15)**	(5)	**(124)**
Net cash provided by (used in) investing activities	**¥(2,505)**	¥(3,105)	**$(20,848)**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Financing activities:			
Net increase (decrease) in short-term loans payable	**¥ 454**	¥ (91)	**$ 3,778**
Proceeds from long-term debt	**2,495**	3,222	**20,765**
Repayment of long-term debt	**(2,147)**	(2,165)	**(17,869)**
Redemption of bonds	**–**	(200)	**–**
Proceeds from issuance of common stock	**–**	3,135	**–**
Proceeds from sale and leaseback transactions	**214**	432	**1,781**
Repayments of lease obligations	**(235)**	(216)	**(1,955)**
Cash dividends paid	**(220)**	(236)	**(1,831)**
Cash dividends paid to minority shareholders	**(16)**	(5)	**(133)**
Net cash provided by (used in) financing activities	**544**	3,875	**4,527**
Effect of exchange rate change on cash and cash equivalents	**83**	70	**690**
Net increase (decrease) in cash and cash equivalents	**196**	147	**1,631**
Cash and cash equivalents at beginning of period	**2,406**	2,258	**20,024**
Cash and cash equivalents at end of period (Note 17)	**¥ 2,602**	¥ 2,406	**$ 21,656**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nitta Gelatin Inc. and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Nitta Gelatin Inc. (the "Company") and its consolidated subsidiaries (together, the "Group") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2014 financial statements to conform to the classifications used in 2015.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. As permitted by the regulations under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements in yen do not necessarily agree with the sums of the individual amounts.

The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto were translated from the presented Japanese yen amounts into U.S. dollar amounts at the rate of ¥120.15 = U.S. $1, the approximate rate of exchange at March 31, 2015, and were then rounded down to the nearest thousand. As a result, the totals shown in the accompanying consolidated financial statements in U.S. dollar do not necessarily agree with the sums of the individual amounts. This translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience of readers outside Japan. Such translation should not be construed as a representation that Japanese yen could be converted into U.S. dollars at that or any other rate.

2. Significant Accounting Policies

(1) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements as of and for the fiscal year ended March 31, 2015 include the accounts of the Company and its 14 significant subsidiaries (14 significant subsidiaries in 2014). The fiscal year-end of three consolidated subsidiaries (December 31) differs from the consolidated fiscal year-end (March 31), and necessary adjustments are made for any significant transactions between their fiscal year-end and the consolidated fiscal year-end.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for using the equity method.

For the fiscal year ended March 31, 2015, three affiliates (three affiliates in 2014) are accounted for using the equity method. Investments in companies accounted for using the equity method whose fiscal year-ends differ from the consolidated fiscal year-end are accounted for on the basis of the companies' respective fiscal year-end. Investments in one unconsolidated subsidiary and two affiliates are excluded from the application of the equity method and stated at cost because the Group's share of their net income and retained earnings have slight effects on the accompanying consolidated financial statements and are considered insignificant overall.

(2) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at the exchange rates as of the consolidated balance sheet date, and differences arising from the translation are included in the consolidated statements of income.

The asset and liability accounts of foreign consolidated subsidiaries are translated into yen at the exchange rates as of the consolidated balance sheet date, and revenue and expense accounts are translated at the average rate during the fiscal year. Differences arising from the translation are presented in foreign currency translation adjustment and minority interests in net assets.

(3) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which are readily convertible into cash and are exposed to insignificant risk of changes in value.

(4) Investment securities

In general, securities are classified into three categories: trading, held-to-maturity or available-for-sale securities. Securities held by the Group are all classified as available-for-sale securities. Available-for-sale securities with a determinable market value are stated at fair value, with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Cost of securities sold is determined by the moving-average method. Available-for-sale securities without a determinable market value are stated at cost determined by the moving-average method.

(5) Inventories

Finished goods are mainly stated at the lower of cost determined by the gross average method or net selling value. Merchandise, semi-finished goods, work in process, raw materials and supplies are mainly stated at the lower of cost determined by the moving-average method or net selling value.

(6) Property, plant and equipment and depreciation (excluding lease assets)

Depreciation of property, plant and equipment held by the Company and its domestic consolidated subsidiaries is computed by the declining-balance method, except for buildings on which depreciation is computed by the straight-line method. Depreciation of property, plant and equipment held by foreign consolidated subsidiaries is computed mainly by the straight-line method.

The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures:	7 to 50 years
Machinery, equipment and vehicles:	2 to 10 years

(7) Intangible assets and amortization (excluding lease assets)

Intangible assets are amortized by the straight-line method. Internal-use software is amortized by the straight-line method over the estimated useful life of five years.

(8) Lease assets

Lease assets are depreciated by the straight-line method over the lease term with no residual value (residual value guarantee amount if it is agreed).

(9) Allowance for doubtful accounts

The Company and its domestic consolidated subsidiaries provide allowance for doubtful accounts mainly to cover a loss from uncollectible receivables at an amount determined based on the historical experience of bad debt with respect to ordinary receivables and an estimated uncollectible amount based on individual collectibility of specific doubtful receivables such as doubtful accounts receivable.

The foreign consolidated subsidiaries provide allowance for doubtful accounts mainly at an estimated uncollectible amount for specific doubtful receivables.

(10) Provision for bonuses

The Company and its consolidated subsidiaries record provision for bonuses at an amount estimated to cover the bonus payments for services rendered by employees during each fiscal year.

(11) Provision for directors' retirement benefits

Certain domestic consolidated subsidiaries record provision for directors' retirement benefits to cover future payments at an amount required according to the internal rules as of the balance sheet date.

(12) Accounting method for retirement benefits

The retirement benefit obligation is calculating by allocating the estimated retirement benefits to period of service by the benefit formula method.

Prior service benefits and costs are recognized as income or expense by the straight-line method over a certain period (mainly 10 years) which is within the average remaining years of service of the employees at the time they arise.

Actuarial gains and losses are amortized by the straight-line method over a certain period (mainly 10 years), which is within the average remaining years of service of the employees at the time when the gains or losses arise, from the fiscal year following the fiscal year in which it arises.

Certain consolidated subsidiaries apply the simplified method for the calculation of liability for retirement benefits and retirement benefit costs. Under the simplified method, these subsidiaries provide the amount which is required if all employees retire voluntarily at the end of their fiscal year as liability for retirement benefits.

(13) Hedge accounting

In principle, deferral hedge accounting is adopted for hedge transactions. Interest rate swaps are accounted for by the exceptional treatment if the interest rate swaps meet certain criteria to adopt the treatment.

The following summarizes hedging derivative instruments used by the Group and items hedged:

2015

Hedging instruments	Hedged items
Foreign exchange forward contracts	Payables denominated in foreign currencies in connection with imports of raw materials and forecasted transactions denominated in foreign currencies
Interest rate swaps	Loans and debt

2014

Hedging instruments	Hedged items
Foreign exchange forward contracts	Payables denominated in foreign currencies in connection with imports of raw materials and forecasted transactions denominated in foreign currencies
Interest rate swaps	Loans and debt

As a policy, the Group utilizes derivative transactions within a certain range to hedge market fluctuations in connection with hedged items in accordance with internal management rules defining authorization policies and transaction limits. The Group assesses the hedge effectiveness by comparing the accumulated gains or losses on the hedging instruments and the related hedged items during the period from the commencement of the hedging transactions to the assessment of effectiveness. For interest rate swaps accounted for by the exceptional treatment, however, the assessment of effectiveness is not performed.

(14) Income taxes

Income taxes are computed based on taxable income of each group company.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of deferred tax assets and liabilities due to the change in tax rate is recognized in the statement of income for the period including the enacted date.

(15) Accounting change

(Application of Accounting Standard for Retirement Benefits, etc.)

With regard to the “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (ASBJ) Statement No. 26, issued on May 17, 2012; hereinafter, the “Retirement Benefits Standard”) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, issued on March 26, 2015; hereinafter, the “Retirement Benefits Guidance”), the Company adopted the stipulations of Article 35 of the Retirement Benefits Standard and of Article 67 of the Retirement Benefits Guidance from April 1, 2014.

As a result, the Company revised its calculation method of retirement benefit obligations and service costs, and changed its method for attributing estimated retirement benefits to accounting periods from the straight-line method to the benefit formula method.

At the same time, the method for determining the discount rate was changed to apply a single weighted-average discount rate reflecting the estimated period of benefit payments and amounts to be paid in each period. Formerly, this discount rate was based on a close approximation of the number of years the Company’s employees had on average until retirement.

In accordance with the transitional treatment stipulated by Article 37 of the Retirement Benefits Standard and as of April 1, 2014, the amounts that correspond to the effect of the change in the calculation method of retirement benefit obligations and service costs were added to, or deducted from, the beginning balance of retained earnings of the fiscal year ended March 31, 2015.

As a result, net defined benefit liability decreased by ¥238 million ($1,980 thousand), net defined benefit asset increased by ¥225 million ($1,872 thousand), and retained earnings increased by ¥299 million ($2,488 thousand) in the beginning balance of the fiscal year ended March 31, 2015.

This change will have only a negligible impact on operating income and income before income taxes and minority interests for the fiscal year ended March 31, 2015.

Also net assets per share as of March 31, 2015 increased by ¥16.28 ($0.13).

The effect on net income per share for the fiscal year ended March 31, 2015 was immaterial.

(16) New accounting standards

(Application of Accounting Standard for Business Combinations, etc.)

The ASBJ issued the following revised accounting standards and guidances on September 13, 2013:

“Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21)

“Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22)

“Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7)

“Revised Accounting Standard for Earnings per Share” (ASBJ Statement No. 2)

“Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10)

“Revised Guidance on Accounting Standard for Earnings per Share” (ASBJ Guidance No. 4)

1. Outline

The purpose of this amendment is mainly to revise (1) how to account for changes in the parent company’s equity as a result of an additional acquisition of stock, etc., in a subsidiary over which the parent remains in control, (2) how to account for the related acquisition costs, (3) the presentation of net income and changes to the presentation of minority interests as non-controlling interests, and (4) provisional accounting treatments.

2. Scheduled adoption date

These accounting standards and guidances will be effective from the beginning of the fiscal year ending March 31, 2016.

Provisional accounting treatments will be effective for business combinations that take place on or after April 1, 2015.

3. Impact of applying the accounting standards

The Company is in the process of assessing the impact of applying the revised accounting standards.

3. Inventories

The balances of inventories as of March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Merchandise and finished goods	**¥4,821**	¥4,732	**$40,124**
Work in process	**1,243**	1,089	**10,345**
Raw materials and supplies	**2,156**	1,820	**17,944**
Inventories, total	**¥8,221**	¥7,642	**$68,422**

Inventory write-downs of ¥39 million ($324 thousand) and ¥(28) million were recorded in cost of sales for the fiscal years ended March 31, 2015 and 2014, respectively, due to a decline in profitability.

4. Investment Securities

Information on available-for-sale securities as of March 31, 2015 and 2014 was as follows:

	Millions of yen					
	2015			2014		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥1,893**	**¥238**	**¥1,655**	¥1,194	¥227	¥966
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	**2**	**2**	**(0)**	5	6	(1)
Total	**¥1,895**	**¥240**	**¥1,654**	¥1,199	¥234	¥965

	Thousands of U.S. dollars		
	2015		
	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	**$15,755**	**$1,980**	**$13,774**
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	**16**	**16**	**(0)**
Total	**$15,771**	**$1,997**	**$13,766**

Unlisted equity securities of ¥18 million ($149 thousand) as of March 31, 2015 and 2014 were not included in the above tables as there were no market prices available and it is extremely difficult to determine their fair value.

Investments in unconsolidated subsidiaries and affiliates of ¥2,070 million ($17,228 thousand) and ¥1,857 million were included in investment securities as of March 31, 2015 and 2014, respectively.

Impairment losses on available-for-sale securities with fair market value are recognized if the available fair market value declined by 50% or more from the acquisition cost or when the fair market value declined by 30% to 50% and the decline was considered not recoverable.

5. Short-Term Loans Payable, Long-Term Debt and Lease Obligations

	Millions of yen			Millions of yen	Thousands of U.S. dollars
	2015			2014	**2015**
	Amount	Weighted-average interest rate (%)	Due	Amount	Amount
Current portion of long-term debt	**¥ 2,127**	**1.511%**	**–**	¥ 1,932	**$ 17,702**
Lease obligations (current portion)	**232**	**–**	**–**	215	**1,930**
Long-term debt excluding current portion	**4,867**	**1.802**	**2016 to 2021**	4,415	**40,507**
Lease obligations excluding current portion	**475**	**–**	**2016 to 2022**	495	**3,953**
	7,702			7,060	**64,103**
Less: Current portion	**(2,359)**			(2,148)	**(19,633)**
	¥ 5,342			¥ 4,911	**$ 44,461**

The weighted-average interest rate of short-term loans payable at March 31, 2015 was 2.079%.

The average interest rate on lease obligations is not provided because the balance of lease obligations includes interest equivalent that is contained in the total lease payments.

The maturities of long-term debt and lease obligations outstanding on or after April 1, 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars	
Year ending March 31,	Long-term debt	Lease obligations	Long-term debt	Lease obligations
2016	¥2,127	¥232	$17,702	$1,930
2017	1,708	185	14,215	1,539
2018	1,285	154	10,694	1,281
2019	968	87	8,056	724
2020 and thereafter	904	47	7,523	391
Total	¥6,995	¥707	$58,218	$5,884

The following assets were pledged as collateral as of March 31, 2015 and 2014.

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Buildings and structures	**¥1,757**	¥1,203	**$14,623**
Machinery, equipment and vehicles	**196**	81	**1,631**
Land	**191**	191	**1,589**
Investment securities	**328**	213	**2,729**
Total	**¥2,473**	¥1,689	**$20,582**
Assets pledged as collateral for factory foundation mortgages included in the above assets:			
Buildings and structures	**¥1,757**	¥1,203	**$14,623**
Machinery, equipment and vehicles	**196**	81	**1,631**
Land	**191**	191	**1,589**
Total	**¥2,145**	¥1,475	**$17,852**

The obligations collateralized by the above assets as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Long-term debt	**¥3,302**	¥3,214	**$27,482**
Factory foundation mortgage included in the above liabilities:			
Long-term debt	**¥3,021**	¥2,920	**$25,143**

For the purpose of obtaining working funds effectively, the Company and one consolidated subsidiary had entered into overdraft agreements and loan commitment agreements with five banks as of March 31, 2015 and 2014.

Information of overdraft agreements and loan commitment agreements was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Contract amounts	**¥4,950**	¥4,950	**$41,198**
Borrowing outstanding	**(400)**	–	**(3,329)**
Unused balance	**¥4,550**	¥4,950	**$37,869**

6. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation, inhabitants and enterprise taxes. The statutory tax rate applicable to the Company was approximately 35.6% and 38.0% for the fiscal years ended March 31, 2015 and 2014, respectively. For the fiscal year ended March 31, 2015, reconciliations between the statutory income tax rate and the effective income tax rate as a percentage of income are as follows:

	2015
Statutory tax rate	**35.6%**
Adjustments for:	
Non-deductible expenses for income tax purposes	**0.9**
Non-taxable income	**(0.1)**
Inhabitants taxes—per capita levy	**1.1**
Tax credit for research and development, etc.	**(5.7)**
Unrecognized net increase (decrease) in tax effect on loss carryforwards of subsidiaries	**3.4**
Difference in tax rates between the Company and its consolidated subsidiaries	**2.8**
Equity in earnings of affiliates	**(4.3)**
Downward adjustment to ending deferred tax assets due to changes in the statutory tax rate	**5.5**
Other	**(1.4)**
Effective tax rate	**37.8%**

For the fiscal year ended March 31, 2014, reconciliations between the statutory income tax rate and the effective income tax rate as a percentage of income are omitted since the difference between the statutory income tax rate and the effective income tax rate was less than 5% of the statutory income tax rate.

The significant components of deferred tax assets and liabilities at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Deferred tax assets:			
Loss on valuation of inventories	**¥ 61**	¥ 47	**$ 507**
Unrealized profit	**31**	38	**258**
Provision for bonuses	**64**	72	**532**
Accrued enterprise tax	**19**	15	**158**
Loss on valuation of golf club membership	**1**	1	**8**
Loss on valuation of investment securities	**225**	249	**1,872**
Liability for retirement benefits	**642**	851	**5,343**
Provision for directors' retirement benefits	**28**	29	**233**
Interest expenses	**19**	23	**158**
Impairment loss	**26**	29	**216**
Tax loss carryforward	**1,221**	752	**10,162**
Other	**34**	50	**282**
Subtotal	**2,378**	2,162	**19,791**
Valuation allowance	**(1,067)**	(996)	**(8,880)**
Total deferred tax assets	**1,311**	1,165	**10,911**
Deferred tax liabilities:			
Depreciation	**(582)**	(235)	**(4,843)**
Valuation difference on available-for-sale securities	**(533)**	(342)	**(4,436)**
Asset for retirement benefits	**(59)**	(34)	**(491)**
Total deferred tax liabilities	**(1,175)**	(611)	**(9,779)**
Net deferred tax assets	**¥ 135**	¥ 553	**$ 1,123**

Following the promulgation of the "Act for Partial Revision of the Income Tax Act" (Act No. 9, 2015) on March 31, 2015, the corporate income tax rate, etc., will be reduced from fiscal years beginning on or after April 1, 2015, among other revisions.

In line with this change, the statutory income tax rate used to calculate deferred tax assets and deferred tax liabilities for temporary differences expected to reverse in the fiscal year beginning on April 1, 2015 has been reduced from the previous 35.6% to 33.1%, and for temporary differences expected to reverse in the fiscal year beginning on April 1, 2016 has been reduced to 32.3%.

As a result of these changes in the tax rate, the amount of deferred tax liabilities (less the amount of deferred tax assets) decreased by ¥7 million ($58 thousand), valuation difference on available-for-sale securities increased by ¥54 million ($449 thousand), deferred gains or losses on hedges increased by ¥0 million ($0 thousand) and accumulated adjustments for retirement benefits increased by ¥4 million ($33 thousand) in the consolidated balance sheets as of March 31, 2015, while income taxes-deferred increased by ¥51 million ($424 thousand) for the fiscal year then ended.

7. Retirement Benefit Plans

The Company and certain consolidated subsidiaries have defined benefit plans and defined contribution plans for employees' retirement benefits. Defined benefit plans are composed of lump-sum payment plans and defined benefit corporate pension plans.

The lump-sum payment plans which certain consolidated subsidiaries have are calculated using the simplified accounting method.

(1) Defined benefit plans including plan applied simplified method

(a) Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Retirement benefit obligations:			
Balance at beginning of year	**¥8,379**	¥7,632	**$69,737**
Cumulative effect of changes in accounting policies	**(464)**	–	**(3,861)**
Balance at beginning of year after reflecting changes in accounting policies	**7,914**	7,632	**65,867**
Service cost	**221**	179	**1,839**
Interest cost	**239**	259	**1,989**
Actuarial gains and losses	**330**	372	**2,746**
Benefits paid	**(460)**	(357)	**(3,828)**
Foreign currency translation adjustment	**580**	293	**4,827**
Balance at end of year	**¥8,827**	¥8,379	**$73,466**

(b) Plan assets

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Plan assets:			
Balance at beginning of year	**¥6,107**	¥5,458	**$50,828**
Expected return on plan assets	**286**	253	**2,380**
Administrative fees	**(22)**	(23)	**(183)**
Actuarial gains and losses	**211**	255	**1,756**
Contribution paid by the employer	**161**	172	**1,339**
Contribution paid by the employees	**2**	2	**16**
Benefits paid	**(364)**	(249)	**(3,029)**
Foreign currency translation adjustment	**472**	238	**3,928**
Balance at end of year	**¥6,855**	¥6,107	**$57,053**

(c) Reconciliation from retirement benefit obligations and assets to liability (assets) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Funded retirement benefit obligations	**¥ 7,160**	¥ 6,527	**$ 59,592**
Plan assets	**(6,855)**	(6,107)	**(57,053)**
	305	419	**2,538**
Unfunded retirement benefit obligations	**1,666**	1,851	**13,866**
Net liability (asset) for retirement benefits	**¥ 1,972**	¥ 2,271	**$ 16,412**
Liability for retirement benefits	**¥ 2,661**	¥ 2,524	**$ 22,147**
Asset for retirement benefits	**(689)**	(253)	**(5,734)**
Net liability (asset) for retirement benefits	**¥ 1,972**	¥ 2,271	**$ 16,412**

(d) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Service cost	**¥ 221**	¥ 179	**$ 1,839**
Interest cost	**239**	259	**1,989**
Expected return on plan assets	**(286)**	(253)	**(2,380)**
Administrative fees	**22**	23	**183**
Amortization of actuarial gains and losses	**92**	75	**765**
Amortization of prior service benefit and cost	**(13)**	(13)	**(108)**
Net retirement benefit costs	**¥ 276**	¥ 270	**$ 2,297**

(e) Adjustments for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Adjustments for retirement benefits:			
Prior service costs	**¥ (13)**	¥ –	**$ (108)**
Actuarial gains and losses	**(277)**	18	**(2,305)**
Total	**¥(290)**	¥18	**$(2,413)**

(f) Accumulated adjustments for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Accumulated adjustments for retirement benefits:			
Unrecognized prior service costs	**¥ 41**	¥ 55	**$ 341**
Unrecognized actuarial gains and losses	**(1,950)**	(1,673)	**(16,229)**
Total	**¥(1,908)**	¥(1,617)	**$(15,880)**

(g) Plan assets

Plan assets comprise:

	2015	2014
Bonds	**50%**	54%
Equity securities	**45**	37
Cash and deposits	**1**	4
Other	**4**	5
Total	**100%**	100%

Current and target asset allocations and current and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(h) Actuarial assumptions

	2015	2014
Discount rate:		
The Company and domestic consolidated subsidiaries	**1.0%**	1.1%
Foreign consolidated subsidiaries	**4.2%–4.4%**	3.3%–4.5%
Long-term expected rate of return:		
The Company and domestic consolidated subsidiaries	**2.1%**	2.1%
Foreign consolidated subsidiaries	**4.3%–6.5%**	4.3%–6.5%

(2) Defined contribution plans

Certain consolidated subsidiaries that have defined contribution plans are expected to contribute ¥76 million ($632 thousand) and ¥71 million to the defined contribution plans for the fiscal years ended March 31, 2015 and 2014, respectively.

8. Leases

(1) Finance leases (lessee)

The Company leases production facilities (machinery, equipment and vehicles) in connection with the Collagen Material business as a lessee through finance lease transactions that do not transfer ownership of the leased property to the lessee.

(2) Operating leases

Future minimum lease payments subsequent to March 31, 2015 for non-cancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥ 54	$ 449
2017 and thereafter	162	1,348
Total	¥216	$1,797

9. Financial Instruments

(1) Overview

(a) Policy for financial instruments

In consideration of plans for capital investment, the Group raises necessary funds mainly through bank borrowings. The Group invests temporary surplus funds mainly in highly liquid financial assets and raises short-term operating capital through bank borrowings. The Group uses derivatives to avoid after-mentioned risks and does not enter into derivatives for speculative purposes.

(b) Descriptions of financial instruments and related risks

Trade receivables such as notes and accounts receivable are exposed to customer credit risk. Although trade receivables denominated in foreign currencies arising from foreign operations are exposed to foreign currency risk, the balances of receivables are always less than payables denominated in the same currencies.

Investment securities are mainly composed of equity securities of companies with business relationship and are exposed to market risk. The Company also provides long-term loans to companies with business relationship.

Substantially all trade payables such as notes and accounts payable have payment due dates within five months. Although certain payables denominated in foreign currencies are exposed to foreign currency risk, such risk is hedged by foreign exchange forward contracts except for payables less than receivables denominated in the same currencies.

Long-term debt, bonds and lease obligations under finance leases are principally for the purpose of making capital investments and due up to eight years from the balance sheet date. Although certain of them are exposed to interest rate fluctuation risk, such risk is hedged by derivatives (interest rate swaps).

As for derivatives, the Group has entered into foreign exchange forward contracts to hedge the foreign currency risk arising from trade payables denominated in foreign currencies and interest rate swap transactions to hedge fluctuation risk deriving from interest payments of long-term debt.

Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy and assessment of hedge effectiveness is disclosed in Note 2. “Significant Accounting Policies (13) Hedge accounting.”

(c) Risk management for financial instruments

Credit risk management (risk of default by customers or counterparties)

In accordance with the credit management rules of the Company, for trade receivables and long-term loans receivable, sales departments of each division monitor credit worthiness of their main customers periodically and manage due dates and outstanding balances by customer. In addition, the Company is making efforts to identify uncollectibility in the earlier stage and mitigate risks of bad debts from customers having financial difficulties. Consolidated subsidiaries similarly manage such risks in accordance with the Company's credit management rules.

The Company believes that the credit risk of derivatives is insignificant as it has entered into derivative transactions only with financial institutions with a sound credit rating.

Market risk management (risks of fluctuations in foreign exchange rates, interest rates and others)

For trade payables denominated in foreign currencies, the foreign currency risk of the Company identified by currency on a monthly basis is hedged by foreign exchange forward contracts. In addition, in order to mitigate the interest rate risk for interest payments of long-term debt, the Company has entered into interest rate swap transactions.

For investment securities, the Company periodically monitors the fair values and the financial position of the issuers (companies with business relationship) and continuously reviews the holding status taking into account market conditions and relationships with the issuers.

Derivative transactions are conducted and managed by the responsible division with the approval of authorized personnel in accordance with the internal management rules which define the authorization policies and transaction limits.

Consolidated subsidiaries have not entered into derivative transactions.

Management of liquidity risk on funding (risk of default at due dates)

Based on reports from each division, the responsible division of the Company prepares and updates its cash flow plan on a timely basis and manages liquidity risk by maintaining liquid funds. Consolidated subsidiaries manage their liquidity risk in a similar manner.

(d) Supplementary explanation of the fair value of financial instruments

The fair value of financial instruments is based on their market price if available. When there is no market price available, fair value is reasonably calculated. Since various assumptions and factors are reflected in the calculation of fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 10. "Derivative Transactions" are not indicative of the market risk involved in derivative transactions.

(2) Fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheets as of March 31, 2015 and 2014, fair value and their difference are shown in the following table. Financial instruments whose fair value is extremely difficult to determine are not included in the following table.

	Millions of yen		
	2015		
	Carrying value	Fair value	Difference
Cash and deposits	**¥ 2,622**	**¥ 2,622**	**¥ –**
Notes and accounts receivable	**6,726**	**6,726**	**–**
Investment securities	**1,895**	**1,895**	**–**
Total assets	**11,245**	**11,245**	**–**
Notes and accounts payable	**3,768**	**3,768**	**–**
Other payable	**1,435**	**1,435**	**–**
Short-term loans payable	**1,705**	**1,705**	**0**
Long-term debt (including current portion)	**6,995**	**7,005**	**10**
Total liabilities	**13,904**	**13,915**	**10**
Derivative transactions(*)	**20**	**20**	**–**

(*) The value of assets and liabilities arising from derivative transactions is shown at net value.

	Millions of yen		
	2014		
	Carrying value	Fair value	Difference
Cash and deposits	¥ 2,426	¥ 2,426	¥ –
Notes and accounts receivable	8,164	8,164	–
Investment securities	1,199	1,199	–
Total assets	11,790	11,790	–
Notes and accounts payable	4,255	4,255	–
Other payable	1,747	1,747	–
Long-term debt (including current portion)	6,348	6,359	10
Total liabilities	12,352	12,362	10
Derivative transactions(*)	8	8	–

(*) The value of assets and liabilities arising from derivative transactions is shown at net value.

	Thousands of U.S. dollars		
	2015		
	Carrying value	Fair value	Difference
Cash and deposits	**$ 21,822**	**$ 21,822**	**$ –**
Notes and accounts receivable	**55,980**	**55,980**	**–**
Investment securities	**15,771**	**15,771**	**–**
Total assets	**93,591**	**93,591**	**–**
Notes and accounts payable	**31,360**	**31,360**	**–**
Other payable	**11,943**	**11,943**	**–**
Short-term loans payable	**14,190**	**14,190**	**0**
Long-term debt (including current portion)	**58,218**	**58,302**	**83**
Total liabilities	**115,722**	**115,813**	**83**
Derivative transactions(*)	**166**	**166**	**–**

(*) The value of assets and liabilities arising from derivative transactions is shown at net value.

Note 1. Methods to calculate the fair value of financial instruments and other matters related to securities and derivative transactions

Assets:

Cash and deposits and Notes and accounts receivable

Since these items are settled in a short period of time, their carrying value approximates fair value.

Investment securities

The fair value of equity securities is based on quoted market prices. The information on securities classified by holding purpose is disclosed in Note 4. "Investment Securities."

Liabilities:

Notes and accounts payable and Other payable

Since these items are settled in a short period of time, their carrying value approximates fair value.

Short-term loans payable and Long-term debt

The fair value of short-term loans payable and long-term debt is based upon the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into.

Derivative transactions:

The information on derivative transactions is disclosed in Note 10. "Derivative Transactions."

Note 2. Financial instruments whose fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Carrying value:			
Unlisted equity securities	**¥18**	¥18	**$149**

These are not included in investment securities in the above table because there was no quoted market price available and it is extremely difficult to determine the fair value.

(3) As of March 31, 2015 and 2014, monetary receivables with maturities were deposits of ¥2,617 million ($21,781 thousand) and ¥2,422 million and notes and accounts receivable of ¥6,726 million ($55,980 thousand) and ¥8,164 million, respectively. These were all due within one year.

10. Derivative Transactions

Hedge accounting has been applied to all derivative transactions held by the Group as of March 31, 2015 and 2014, and their fair value information is stated as follows. Fair value is measured based on quotes and prices provided by counterparty financial institutions.

Currency-related:

	Millions of yen					
	2015			2014		
	Contract or notional amount	Maturing after one year	Fair value	Contract or notional amount	Maturing after one year	Fair value
Deferral hedge accounting:						
Foreign exchange forward contracts:						
Buy: USD and CAD	**¥620**	**¥–**	**¥20**	¥533	¥–	¥(8)

	Thousands of U.S. dollars		
	2015		
	Contract or notional amount	Maturing after one year	Fair value
Deferral hedge accounting:			
Foreign exchange forward contracts:			
Buy: USD and CAD	**$5,160**	**$–**	**$166**

Interest-related:

	Millions of yen					
	2015			2014		
	Contract or notional amount	Maturing after one year	Fair value	Contract or notional amount	Maturing after one year	Fair value
Exceptional treatment:						
Interest rate swaps:						
Receive/floating and pay/fixed	**¥750**	**¥175**	(*)	¥2,050	¥123	(*)

	Thousands of U.S. dollars		
	2015		
	Contract or notional amount	Maturing after one year	Fair value
Exceptional treatment:			
Interest rate swaps:			
Receive/floating and pay/fixed	**$6,242**	**$1,456**	(*)

(*) Interest rate swaps to which the exceptional treatment is applied are accounted for together with long-term debt designated as a hedged item. Therefore, their fair value is included in the fair value of long-term debt.

11. Contingent Liabilities

As of March 31, 2015, the Group was contingently liable for the assignment of receivable with recourse in the amount of ¥292 million ($2,430 thousand).

12. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the fiscal years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Packing and freightage expenses	**¥ 805**	¥ 822	**$ 6,699**
Salaries	**1,394**	1,305	**11,602**
Bonuses	**224**	205	**1,864**
Provision for bonuses	**54**	60	**449**
Retirement benefit costs	**94**	74	**782**
Provision for directors' retirement benefits	**1**	1	**8**
Provision of allowance for doubtful accounts	**(14)**	3	**(116)**
Depreciation	**95**	86	**790**
Research and development expenses	**753**	814	**6,267**

For the fiscal years ended March 31, 2015 and 2014, research and development expenses included in general and administrative expenses and manufacturing costs were ¥915 million ($7,615 thousand) and ¥1,004 million, respectively.

13. Information on Related Party Transactions

Transactions of the Company with affiliates for the year ended March 31, 2015 were as follows:

Name	Paid-in capital	Principal business	Ownership ratio	Description of transaction or account of balance	Millions of yen	Thousands of U.S. dollars
Nitta Gelatin India Ltd. (Kerala, India)	**(Thousands of rupees) 90,791**	**Production and sale of gelatin and ossein**	**Direct 43.0%**	**Purchase of raw materials**	**¥2,109**	**$17,553**
				Notes and accounts payable	**¥ 301**	**$ 2,505**

Transactions of the Company with affiliates for the year ended March 31, 2014 were as follows:

Name	Paid-in capital	Principal business	Ownership ratio	Description of transaction	Millions of yen
Guangdong Baiwei Bio Material Co., Ltd. (Guangdong, China)	(Thousands of RMB) 67,600	Manufacture of collagen peptide	Direct 44.6%	Subscription of capital stock	¥142

For the fiscal years ended March 31, 2015 and 2014, significant affiliates were Nitta Gelatin India Ltd. and Bostik-Nitta Co., Ltd., and the condensed financial information prepared by combining the financial statements of these significant affiliates was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Total current assets	**¥3,389**	¥2,938	**$28,206**
Total noncurrent assets	**2,318**	2,111	**19,292**
Total current liabilities	**2,153**	1,922	**17,919**
Total noncurrent liabilities	**333**	262	**2,771**
Total net assets	**3,220**	2,864	**26,799**
Net sales	**9,682**	8,040	**80,582**
Income before income taxes	**571**	327	**4,752**
Net income	**343**	185	**2,854**

14. Shareholders' Equity

The Companies Act of Japan provides that an amount equivalent to 10% of the amount of deduction from surplus as a result of the payment of dividends shall be recorded as additional paid-in capital (a component of capital surplus) or legal reserve (a component of retained earnings) on the dividend date until the total of additional paid-in capital and legal reserve equals 25% of the capital stock account.

Such distributions can be made at any time by resolution of the shareholders' meeting or the Board of Directors if certain conditions are met.

Changes in the total number of shares of capital stock issued for the fiscal years ended March 31, 2015 and 2014 were as follows:

As of March 31,	2013	Increase/(decrease)	2014	Increase/(decrease)	**2015**
Issued:					
Common stock	15,770,074	2,603,900	18,373,974	–	**18,373,974**
Treasury stock:					
Common stock	162	–	162	–	**162**

For the fiscal year ended March 31, 2014, the increase in the number of issued shares of common stock was due to issuance of new shares by public offering, the payment date of which was July 29, 2013 (2,400,000 shares), and issuance of new shares by third-party allotment, the payment date of which was August 28, 2013 (203,900 shares).

15. Information Related to the Consolidated Statements of Changes in Net Assets

(1) Dividends paid to shareholders

			2015				
Resolution	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. dollars)	Record date	Effective date
June 26, 2014 Annual General Meeting of Shareholders	**Common stock**	**¥110**	**$915**	**¥6.00**	**$0.04**	**March 31, 2014**	**June 27, 2014**
November 6, 2014 Board of Directors	**Common stock**	**110**	**915**	**6.00**	**0.04**	**September 30, 2014**	**December 5, 2014**

			2014		
Resolution	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Record date	Effective date
June 26, 2013 Annual General Meeting of Shareholders	Common stock	¥126	¥8.00	March 31, 2013	June 27, 2013
November 5, 2013 Board of Directors	Common stock	110	6.00	September 30, 2013	December 6, 2013

(2) Dividends with a record date during the fiscal year but an effective date subsequent to the fiscal year

2015								
Resolution	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Paid from	Amount per share (Yen)	Amount per share (U.S. dollars)	Record date	Effective date
June 25, 2015 Annual General Meeting of Shareholders	**Common stock**	**¥110**	**$915**	**Retained earnings**	**¥6.00**	**$0.04**	**March 31, 2015**	**June 26, 2015**

2014						
Resolution	Type of shares	Amount (Millions of yen)	Paid from	Amount per share (Yen)	Record date	Effective date
June 26, 2014 Annual General Meeting of Shareholders	Common stock	¥110	Retained earnings	¥6.00	March 31, 2014	June 27, 2014

16. Amounts per Share

Net assets per share is computed based on net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at the fiscal year-end.

Net income per share is computed based on the net income available to shareholders of common stock and weighted-average number of shares of common stock outstanding during the period which was 18,373,812 shares and 17,556,927 shares for the fiscal years ended March 31, 2015 and 2014, respectively.

	Yen		U.S. dollars
	2015	2014	**2015**
Net assets per share	**¥831.15**	¥742.20	**$6.91**
Net income per share	**33.20**	37.90	**0.27**

Diluted net income per share is not disclosed due to the absence of dilutive shares for the fiscal years ended March 31, 2015 and 2014.

17. Cash Flow Information

Reconciliations between cash and cash equivalents in the consolidated statements of cash flows for the fiscal years ended March 31, 2015 and 2014 and cash and deposits in the consolidated balance sheets as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Cash and deposits	**¥2,622**	¥2,426	**$21,822**
Time deposits with a maturity in excess of three months	**(20)**	(20)	**(166)**
Cash and cash equivalents	**¥2,602**	¥2,406	**$21,656**

18. Comprehensive Income

Reclassification adjustments and income tax benefit (expense) on components of other comprehensive income for the fiscal years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Valuation difference on available-for-sale securities:			
Gains arising during the period	**¥ 689**	¥191	**$ 5,734**
Reclassification adjustments	**0**	(0)	**0**
Pre-tax amount	**689**	191	**5,734**
Income tax benefit	**(191)**	(68)	**(1,589)**
Valuation difference on available-for-sale securities	**498**	123	**4,144**
Deferred gains or losses on hedges:			
Gains (losses) arising during the period	**89**	(15)	**740**
Adjustments to aquisition cost of assets	**(61)**	(33)	**(507)**
Pre-tax amount	**28**	(49)	**233**
Income tax expense	**(9)**	18	**(74)**
Deferred gains or losses on hedges	**18**	(30)	**149**
Foreign currency translation adjustment:			
Gains arising during the period	**638**	388	**5,310**
Pension liability adjustment of foreign subsidiaries:			
Losses arising during the period	**–**	(58)	**–**
Reclassification adjustments	**–**	77	**–**
Pre-tax amount	**–**	18	**–**
Income tax expense	**–**	(30)	**–**
Pension liability adjustment of foreign subsidiaries	**–**	(11)	**–**
Adjustments of defined benefit plans:			
Losses arising during the period	**(369)**	–	**(3,071)**
Reclassification adjustments	**78**	–	**649**
Pre-tax amount	**(290)**	–	**(2,413)**
Income tax expense	**(79)**	–	**(657)**
Adjustments of defined benefit plans	**(370)**	–	**(3,079)**
Share of other comprehensive income of associates accounted for using equity method:			
Gains arising during the period	**166**	53	**1,381**
Reclassification adjustments	**(1)**	52	**(8)**
Share of other comprehensive income of associates accounted for using equity method	**165**	105	**1,373**
Total other comprehensive income	**¥ 950**	¥575	**$ 7,906**

19. Segment Information

(1) Overview of reportable segments

Reportable segments are defined as a component of the Group for which separate financial information is available and whose operating results are regularly evaluated by the Board of Directors to make decisions about how resources are allocated among the Group and assess their performance.

The Group plans comprehensive domestic and overseas strategies for its products and services and develops business activities based on business segments by product and service.

Accordingly, the Group consists of two segments by product and service based on the business activities as follows:

"Collagen Material business" produces gelatin, collagen peptide, collagen casings and others.

"Formula Solution business" produces various materials for foods, adhesives and others.

(2) Basis of measurement for the amounts of net sales, profit, assets and other items by reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2. "Significant Accounting Policies." Segment profit is based on operating income, and intersegment sales and transfers are based on actual market prices.

(3) Information about net sales, profit, assets and other items by reportable segment

	Millions of yen				
	2015				
	Collagen Material business	Formula Solution business	Total	Reconciliation(Note 1)	Amounts on consolidated financial statements(Note 2)
Net sales:					
Sales to third parties	**¥22,959**	**¥8,955**	**¥31,914**	**¥ –**	**¥31,914**
Intersegment sales and transfers	**1,430**	**–**	**1,430**	**(1,430)**	**–**
Total	**24,390**	**8,955**	**33,345**	**(1,430)**	**31,914**
Segment profit	**1,101**	**647**	**1,749**	**(1,356)**	**392**
Segment assets	**25,698**	**5,310**	**31,009**	**2,922**	**33,932**
Other items:					
Depreciation and amortization	**981**	**98**	**1,079**	**36**	**1,115**
Increase in property, plant and equipment and intangible assets	**1,759**	**562**	**2,322**	**59**	**2,381**

	Millions of yen				
	2014				
	Collagen Material business	Formula Solution business	Total	Reconciliation(Note 1)	Amounts on consolidated financial statements(Note 2)
Net sales:					
Sales to third parties	¥22,436	¥10,377	¥32,814	¥ –	¥32,814
Intersegment sales and transfers	1,487	–	1,487	(1,487)	–
Total	23,923	10,377	34,301	(1,487)	32,814
Segment profit	1,420	920	2,340	(1,384)	955
Segment assets	23,327	5,791	29,118	2,271	31,389
Other items:					
Depreciation and amortization	808	70	878	35	914
Increase in property, plant and equipment and intangible assets	2,845	229	3,075	27	3,102

	Thousands of U.S. dollars				
	2015				
	Collagen Material business	Formula Solution business	Total	Reconciliation(Note 1)	Amounts on consolidated financial statements(Note 2)
Net sales:					
Sales to third parties	**$191,086**	**$74,531**	**$265,617**	**$ –**	**$265,617**
Intersegment sales and transfers	**11,901**	**–**	**11,901**	**(11,901)**	**–**
Total	**202,996**	**74,531**	**277,528**	**(11,901)**	**265,617**
Segment profit	**9,163**	**5,384**	**14,556**	**(11,285)**	**3,262**
Segment assets	**213,882**	**44,194**	**258,085**	**24,319**	**282,413**
Other items:					
Depreciation and amortization	**8,164**	**815**	**8,980**	**299**	**9,280**
Increase in property, plant and equipment and intangible assets	**14,640**	**4,677**	**19,325**	**491**	**19,816**

Note 1. "Reconciliation" included the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Segment profit:			
Intersegment elimination	**¥ 2**	¥ 3	**$ 16**
Corporate expense(*)	**(1,358)**	(1,387)	**(11,302)**
Total	**¥(1,356)**	¥(1,384)	**$(11,285)**

(*) "Corporate expense" presents mainly general and administrative expenses that are not allocated to reportable segments.

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Segment assets:			
Intersegment elimination	**¥ (524)**	¥ (567)	**$ (4,361)**
Corporate assets(*)	**3,447**	2,838	**28,689**
Total	**¥2,922**	¥2,271	**$24,319**

(*) "Corporate assets" presents mainly cash and deposits, property, plant and equipment and investment securities that are not allocated to reportable segments.

Note 2. Segment profit is reconciled to operating income on the consolidated statements of income.

Note 3. Related information for the fiscal years ended March 31, 2015 and 2014

(a) Information by geographical area

Net sales:

Millions of yen					
2015					
Japan	Asia	North America	Canada	Other	Total
¥18,435	**¥2,017**	**¥8,084**	**¥2,550**	**¥827**	**¥31,914**

Millions of yen					
2014					
Japan	Asia	North America	Canada	Other	Total
¥19,684	¥2,022	¥8,240	¥2,006	¥860	¥32,814

Thousands of U.S. dollars					
2015					
Japan	Asia	North America	Canada	Other	Total
$153,433	**$16,787**	**$67,282**	**$21,223**	**$6,883**	**$265,617**

Property, plant and equipment:

Millions of yen				
2015				
Japan	Asia	North America	Canada	Total
¥3,514	**¥181**	**¥6,328**	**¥824**	**¥10,848**

Millions of yen				
2014				
Japan	Asia	North America	Canada	Total
¥2,990	¥255	¥4,664	¥894	¥8,804

Thousands of U.S. dollars				
2015				
Japan	Asia	North America	Canada	Total
$29,246	**$1,506**	**$52,667**	**$6,858**	**$90,287**

(b) Information by product and service has been omitted since similar information is disclosed as information by reportable segment. Information by major customer has been omitted since there were no sales to any single external customer accounting for 10% or more of the consolidated sales.

20. Subsequent Events

(Subsidiary conversion as a result of rising involvement in management)

At a Board of Directors' meeting held on April 24, 2015, the Company decided to acquire the convertible preferred shares of equity-method affiliate Nitta Gelatin India Ltd. (NGIL).

Following this decision, the Company has determined that its involvement in NGIL's management has increased overall. Therefore, the Company has resolved to convert NGIL into a consolidated subsidiary. The details are outlined as follows:

(1) Outline of business combination

Name of acquired company and its business activities	Name of acquired company: Nitta Gelatin India Ltd. Business activities: Production and sale of ossein from bovine bones, bovine gelatin and collagen peptide	
Main reasons for implementing business combination	This business combination was implemented to establish a framework for responding to market conditions with greater flexibility and to further strengthen the Company's global business platform.	
Business combination date	April 1, 2015 (effective acquisition date)	
Statutory basis for business combination	Control of decision-making bodies	
Name of company after business combination	No change	
Acquired voting interest	Voting interest held before the business combination	43.0%
	Additional voting interest acquired on the business combination date	—
	Voting interest after acquisition	43.0
Main rationale for deciding on acquisition target	Judging by a comprehensive range of factors, such as the reliance of NGIL's business on the Company and the level of personnel support, Nitta Gelatin's influence over NGIL had increased, and as a result, the Company was recognized to have control over NGIL's decision-making bodies.	

(2) Acquisition cost of acquired company and components

Consideration for acquisition ¥1,055 million ($8,780 thousand)

(3) Difference between the acquisition cost for the acquired company and the total amount of the acquisition costs for each transaction leading to the acquisition

The Company expects to record a loss of ¥620 million ($5,160 thousand) in connection with the phased acquisition of NGIL.

(4) Amount of goodwill, reason for goodwill, amortization method and amortization period

The Company is now closely examining the details.

(5) Amount of assets and liabilities transferred on the business combination date and main components

The Company is now closely examining the details.

(Change in material subsidiary associated with change in joint venture agreement)

At a Board of Directors' meeting held on May 19, 2015, the Company resolved to change the content of a joint venture agreement of Beijing Nitta Collagen Casing Co., Ltd., a consolidated subsidiary. As a result of the change, Beijing Nitta Collagen Casing Co., Ltd. will change from a consolidated subsidiary to an equity-method affiliate.

(1) Reason and method for the change associated with the change in joint venture agreement

In a change of the joint venture agreement with Nitta Hong Kong Ltd. and Beijing Qiushi Agriculture Development Co., Ltd., Beijing Qiushi Agriculture Development Co., Ltd. will make an additional investment. As a result, the shareholding ratio of Nitta Hong Kong Ltd. after the change in the joint agreement will be 30%, changing Beijing Nitta Collagen Casing Co., Ltd.* from a consolidated subsidiary to an equity-method affiliate.

* Nitta Hong Kong Ltd. is wholly owned by Nitta Casings Inc., a consolidated subsidiary of the Company.

(2) Overview of subsidiary undergoing change

Name	Beijing Nitta Collagen Casing Co., Ltd.	
Location of head office	Beijing, People's Republic of China	
Representative	Rodney Moore	
Business activities	Production and sale of collagen casing	
Paid-in capital	U.S. $3 million	
Date of establishment	September 20, 2012	
Shareholding ratios	Nitta Hong Kong Ltd.	70.0%
	Beijing Qiushi Agriculture Development Co., Ltd.	30.0%

(3) Overview of Beijing Qiushi Agriculture Development Co., Ltd.

Name	Beijing Qiushi Agriculture Development Co., Ltd.
Location of head office	Beijing, People's Republic of China
Representative	Du Daxue
Business activities	Processing and sales of sheep casing
Paid-in capital	RMB 66 million
Date of establishment	December 1979

(4) Change in shareholding ratios

(a) Shareholding ratios before change in joint venture agreement

	Thousands of U.S. dollars Paid-in capital	Shareholding ratio
Nitta Hong Kong Ltd.	**$2,100**	**70%**
Beijing Qiushi Agriculture Development Co., Ltd.	**900**	**30**
	$3,000	**100**

(b) Shareholding ratios after change in joint venture agreement

	Thousands of U.S. dollars Paid-in capital	Shareholding ratio
Nitta Hong Kong Ltd.	**$2,100**	**30%**
Beijing Qiushi Agriculture Development Co., Ltd.	**4,900**	**70**
	$7,000	**100**

(5) Schedule

May 19, 2015 Resolution of the Board of Directors of Nitta Gelatin Inc.

May 22, 2015 Resolution of the Board of Directors of Beijing Nitta Collagen Casing Co., Ltd.

The date of the change will be the date of the additional investment, following approval by the Chinese regulatory authorities.

(6) Outlook

The impact of this change on the consolidated financial results for the fiscal year ending March 31, 2016 is currently being assessed. Nitta Gelatin Inc. will promptly disclose any material impact that may arise.

(Supplementary Note)

As stated in Note 1. “Basis of Presenting Consolidated Financial Statements,” the Company, by its own judgment, has prepared the accompanying consolidated financial statements by making reclassifications and rearrangements to the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. These financial statements have not been audited by independent auditors.

The Group’s consolidated financial statements for the fiscal years ended March 31, 2015 and 2014, which were included in the Annual Securities Report, have been prepared in thousands of yen and audited by Ernst & Young ShinNihon LLC in accordance with Article 193-2 (1) of the Financial Instruments and Exchange Act of Japan.

Nitta Gelatin Inc.