

**Consolidated Financial Results**  
**for the First Quarter of the Fiscal Year Ending February 28, 2018**  
**(Three Months Ended May 31, 2017)**

[Japanese GAAP]

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Scheduled date of filing of Quarterly Report: July 5, 2017  
 Scheduled date of payment of dividend: -  
 Preparation of supplementary materials for quarterly financial results: None  
 Holding of quarterly financial results meeting: None

*(All amounts are rounded down to the nearest million yen)*

**1. Consolidated Financial Results for the First Quarter (March 1, 2017 – May 31, 2017) of the Fiscal Year Ending February 28, 2018**

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended May 31, 2017	4,472	14.3	387	31.3	397	26.7	274	464.9
Three months ended May 31, 2016	3,912	30.3	295	-	314	-	48	-

Note: Comprehensive income Three months ended May 31, 2017: 240 million yen (- %)  
Three months ended May 31, 2016: (88) million yen (- %)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended May 31, 2017	15.91	-
Three months ended May 31, 2016	2.82	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of May 31, 2017	18,439	12,081	65.5	700.58
As of Feb. 28, 2017	19,101	12,185	63.8	706.62

Reference: Equity capital As of May 31, 2017: 12,081 million yen As of Feb. 28, 2017: 12,185 million yen

**2. Dividends**

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Feb. 28, 2017	-	0.00	-	20.00	20.00
Fiscal year ending Feb. 28, 2018	-	-	-	-	-
Fiscal year ending Feb. 28, 2018 (forecast)	-	0.00	-	20.00	20.00

Note: Revision to the most recently announced dividend forecast: None

Breakdown of the year-end dividend for the fiscal year ended Feb. 28, 2017: Ordinary dividends: 15.00 yen  
 Commemorative dividends: 5.00 yen

**3. Consolidated Forecast for the Fiscal Year Ending February 28, 2018 (March 1, 2017 – February 28, 2018)**

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	9,000	2.7	600	(12.7)	600	(15.4)	400	30.6	23.20
Full year	21,000	(0.8)	2,100	2.9	2,100	0.1	1,400	31.5	81.19

Note: Revision to the most recently announced consolidated forecast: None

**\* Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

Newly added: -                      Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: Yes

Note: Please refer to page 3 “2. Matters Related to Summary Information (Notes), (2) Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements” for details.

(3) Changes in accounting policies and accounting-based estimates, and restatements

- |                                                                                     |      |
|-------------------------------------------------------------------------------------|------|
| 1) Changes in accounting policies due to revisions in accounting standards, others: | None |
| 2) Changes in accounting policies other than 1) above:                              | None |
| 3) Changes in accounting-based estimates:                                           | None |
| 4) Restatements:                                                                    | None |

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of May 31, 2017:	18,400,000 shares	As of Feb. 28, 2017:	18,400,000 shares
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2) Number of treasury shares at the end of the period

As of May 31, 2017:	1,155,478 shares	As of Feb. 28, 2017:	1,155,478 shares
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3) Average number of shares outstanding during the period

Three months ended May 31, 2017:	17,244,522 shares	Three months ended May 31, 2016:	17,244,556 shares
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The current quarterly financial report is not subject to the quarterly review procedures based on the Financial Instruments and Exchange Act. At the time of disclosure, the review procedures for the quarterly financial statements have been completed.

The current financial report is not subject to the quarterly review procedures.

Cautionary statement with respect to forecasts of future performance and other special items

Forecasts regarding future performance in these materials are based on certain assumptions judged to be valid and information currently available to the Company. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to the section “Explanation of Consolidated Forecast and Other Forward-looking Statements” on page 3 of the attachments regarding preconditions or other related matters for forecasts shown above.

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## **1. Qualitative Information on Quarterly Consolidated Financial Performance**

### **(1) Explanation of Results of Operations**

Japan's economy continued to recover slowly during the first quarter of the fiscal year along with growth in corporate earnings and improvements in jobs and personal income.

However, there is still a risk of financial market volatility and an export-linked economic downturn in Japan in association with U.S. political uncertainty, rising geopolitical risk involving North Korea and other events.

The pharmaceutical industry, which is the primary source of demand for Freund Group products, has been growing more slowly, mainly in industrialized countries. Causes include more Japanese government actions to hold down healthcare expenditures, such as national health insurance drug price revisions and measures to increase the use of generic drugs, as well as the rising cost of R&D and higher risks associated with the development of new drugs. Consequently, the focus of attention in the pharmaceutical industry is shifting to emerging countries and to the expansion of the market for generic drugs.

Generic drug companies are making substantial capital expenditures as governments implement policies to increase the use of these drugs. Although Freund's performance has benefited from these expenditures, generic drug companies may reduce their capital expenditures in the future if prices of these drugs are lowered.

The Freund Group has developed innovative new products and worked on precisely targeting customers' needs. Group companies also aggressively pursued opportunities in new business fields.

Net sales increased 14.3% year-over-year to 4,472 million yen, operating profit increased 31.3% to 387 million yen, ordinary profit was up 26.7% to 397 million yen, and profit attributable to owners of parent increased 464.9% to 274 million yen.

Results by business segment were as follows.

#### **Machinery Business Segment**

In the machinery sector, where granulating and coating devices are the main products, sales and operating profit increased because of the large volume of capital expenditures in the generic drug industry. The order backlog in this segment rose to an all-time high at the end of the previous fiscal year.

As a result, net sales rose 32.5% year-over-year to 3,198 million yen and operating profit increased 48.1% to 326 million yen.

#### **Chemicals Business Segment**

Sales and operating profit of functional excipients used in oral pharmaceuticals were down. One reason was inventory reductions at some pharmaceutical companies.

Sales of food preservative increased slightly but there was no change in operating profit because of heated price competition despite aggressive marketing efforts.

Sales of dietary supplements that incorporate Freund's technologies decreased because of lower production by a major customer.

As a result, net sales decreased 15.0% year-over-year to 1,274 million yen and operating profit increased 10.1% to 196 million yen.

## **(2) Explanation of Financial Position**

### **Assets, liabilities and net assets**

Total assets decreased 661 million yen from the end of the previous fiscal year to 18,439 million yen at the end of the first quarter under review. This mainly reflected decreases in cash and deposits of 829 million yen and notes and accounts receivable-trade of 130 million yen, while there were increases in work in process of 215 million yen and raw materials and supplies of 122 million yen.

Total liabilities decreased 557 million yen from the end of the previous fiscal year to 6,358 million yen at the end of the first quarter under review. This mainly reflected decreases in electronically recorded obligations-operating of 129 million yen and income taxes payable of 312 million yen while there was an increase in provision for bonuses of 107 million yen.

Net assets decreased 104 million yen from the end of the previous fiscal year to 12,081 million yen at the end of the first quarter under review.

## **(3) Explanation of Consolidated Forecast and Other Forward-looking Statements**

There are no revisions to the first half and full year consolidated forecasts for the fiscal year ending February 28, 2018, which was disclosed in the Consolidated Financial Results for the Fiscal Year Ended February 28, 2017 dated April 5, 2017.

## **2. Matters Related to Summary Information (Notes)**

### **(1) Changes in Significant Subsidiaries during the Period**

Not applicable.

### **(2) Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements**

The tax expenses are calculated by first estimating the effective tax rate after the application of tax effect accounting with respect to profit before income taxes during the fiscal year in which the period under review falls, and multiplying that rate by the profit before income taxes for the period under review. However, the Company uses the statutory effective tax rate to calculate tax expenses for cases in which using the estimated tax rate gives a noticeably irrational result.

### **(3) Changes in Accounting Policies and Accounting-based Estimates, and Restatements**

Not applicable.

## **3. Important Information about Going Concern Assumption**

Not applicable.

**4. Quarterly Consolidated Financial Statements****(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY2/17 (As of Feb. 28, 2017)	First quarter of FY2/18 (As of May 31, 2017)
<b>Assets</b>		
Current assets		
Cash and deposits	6,982,822	6,152,972
Notes and accounts receivable-trade	4,282,766	4,151,826
Electronically recorded monetary claims-operating	120,616	200,985
Merchandise and finished goods	404,081	394,552
Work in process	1,712,294	1,927,491
Raw materials and supplies	649,160	772,138
Prepaid expenses	148,338	137,391
Deferred tax assets	251,999	284,692
Other	400,079	312,040
Allowance for doubtful accounts	(13,507)	(13,315)
Total current assets	14,938,653	14,320,774
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,160,332	1,131,744
Land	1,239,987	1,239,691
Other, net	834,614	833,644
Total property, plant and equipment	3,234,934	3,205,080
Intangible assets	55,836	43,972
Investments and other assets		
Deferred tax assets	15,073	22,888
Other	862,443	852,275
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	872,116	869,764
Total non-current assets	4,162,887	4,118,817
Total assets	19,101,540	18,439,592
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	2,019,656	1,984,117
Electronically recorded obligations-operating	1,038,971	909,324
Income taxes payable	477,303	165,149
Advances received	1,831,994	1,801,901
Provision for bonuses	260,416	367,933
Provision for directors' bonuses	85,400	24,000
Other	878,731	780,922
Total current liabilities	6,592,473	6,033,349
Non-current liabilities		
Net defined benefit liability	201,812	204,831
Asset retirement obligations	34,824	34,862
Other	87,072	85,441
Total non-current liabilities	323,709	325,135
Total liabilities	6,916,182	6,358,484

	(Thousands of yen)	
	FY2/17 (As of Feb. 28, 2017)	First quarter of FY2/18 (As of May 31, 2017)
Net assets		
Shareholders' equity		
Capital stock	1,035,600	1,035,600
Capital surplus	1,289,513	1,289,513
Retained earnings	10,286,711	10,216,174
Treasury shares	(201,361)	(201,361)
Total shareholders' equity	12,410,463	12,339,927
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33,141	29,289
Foreign currency translation adjustment	(233,036)	(263,615)
Remeasurements of defined benefit plans	(25,210)	(24,494)
Total accumulated other comprehensive income	(225,105)	(258,820)
Total net assets	12,185,358	12,081,107
Total liabilities and net assets	19,101,540	18,439,592

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income****Quarterly Consolidated Statement of Income****(For the Three-month Period)**

(Thousands of yen)

	First three months of FY2/17 (Mar. 1, 2016 – May 31, 2016)	First three months of FY2/18 (Mar. 1, 2017 – May 31, 2017)
Net sales	3,912,047	4,472,180
Cost of sales	2,559,578	2,915,640
Gross profit	1,352,468	1,556,539
Selling, general and administrative expenses	1,057,458	1,169,170
Operating profit	295,009	387,368
Non-operating income		
Interest income	460	613
Dividend income	297	3,507
Technical support fee	2,035	6,840
Insurance premiums refunded cancellation	18,424	-
Other	2,226	4,809
Total non-operating income	23,444	15,770
Non-operating expenses		
Interest expenses	781	478
Foreign exchange losses	2,785	4,318
Other	879	624
Total non-operating expenses	4,447	5,421
Ordinary profit	314,006	397,717
Extraordinary income		
Gain on sales of non-current assets	7,436	-
Gain on sales of investment securities	14,936	-
Total extraordinary income	22,372	-
Extraordinary losses		
Loss on retirement of non-current assets	0	4
Directors' retirement benefits	250,000	-
Total extraordinary losses	250,000	4
Profit before income taxes	86,378	397,713
Income taxes	37,814	123,359
Profit	48,564	274,353
Profit attributable to owners of parent	48,564	274,353

**Quarterly Consolidated Statement of Comprehensive Income**  
**(For the Three-month Period)**

	(Thousands of yen)	
	First three months of FY2/17 (Mar. 1, 2016 – May 31, 2016)	First three months of FY2/18 (Mar. 1, 2017 – May 31, 2017)
Profit	48,564	274,353
Other comprehensive income		
Valuation difference on available-for-sale securities	3,481	(3,851)
Foreign currency translation adjustment	(140,555)	(30,578)
Remeasurements of defined benefit plans, net of tax	146	715
Total other comprehensive income	(136,927)	(33,714)
Comprehensive income	(88,362)	240,639
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(88,362)	240,639

**(3) Notes to Quarterly Consolidated Financial Statements****Going Concern Assumption**

Not applicable.

**Significant Changes in Shareholders' Equity**

Not applicable.

**Segment and Other Information****Segment information**

I First three months of FY2/17 (Mar. 1, 2016 – May 31, 2016)

**1. Information related to net sales and profit or loss for each reportable segment** (Thousands of yen)

	Machinery Business	Chemicals Business	Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales					
(1) External sales	2,413,319	1,498,727	3,912,047	-	3,912,047
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	2,413,319	1,498,727	3,912,047	-	3,912,047
Segment profit	220,394	178,125	398,519	(103,510)	295,009

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 103,510 thousand yen to segment profit includes corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.

2. Segment profit is adjusted to be consistent with operating profit recorded in the quarterly consolidated statement of income.

**2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment****Significant change in goodwill**

In the Machinery Business segment, the cumulative effect at the beginning of the first quarter of FY2/17 upon the retrospective adoption of the Accounting Standard for Business Combinations, etc. for prior years is added to or deducted from capital surplus and retained earnings. As a result, goodwill decreased 77,159 thousand yen at the beginning of the first quarter of FY2/17.

**3. Information by region****Net sales**

In addition to the disclosure of information required by "Accounting Standard for Quarterly Financial Statements," the Company provides information by region (net sales) based on "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" for the purpose of providing investors with useful information.

(Thousands of yen)

Japan	North America	Latin America	Europe	Other	Total
3,285,570	378,849	58,706	93,023	95,896	3,912,047

Notes: 1. Classification of net sales is based on the location of the client and categorized by country or region.

2. Groupings of countries and regions other than Japan are determined by geographic proximity and mutual operational relationships. Major countries and regions in each geographic segment are as follows.

- (1) North America: US and Canada
- (2) Latin America: Brazil, etc.
- (3) Europe: France, UK, etc.
- (4) Other: Asia, etc.

## II First three months of FY2/18 (Mar. 1, 2017 – May 31, 2017)

## 1. Information related to net sales and profit or loss for each reportable segment (Thousands of yen)

	Machinery Business	Chemicals Business	Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales					
(1) External sales	3,198,004	1,274,175	4,472,180	-	4,472,180
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	3,198,004	1,274,175	4,472,180	-	4,472,180
Segment profit	326,434	196,099	522,533	(135,165)	387,368

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 135,165 thousand yen to segment profit includes corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.

2. Segment profit is adjusted to be consistent with operating profit recorded in the quarterly consolidated statement of income.

## 2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Not applicable.

## 3. Information by region

Net sales

In addition to the disclosure of information required by “Accounting Standard for Quarterly Financial Statements,” the Company provides information by region (net sales) based on “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” for the purpose of providing investors with useful information.

(Thousands of yen)

Japan	North America	Latin America	Europe	Other	Total
3,815,368	212,184	119,418	213,166	112,042	4,472,180

Notes: 1. Classification of net sales is based on the location of the client and categorized by country or region.

2. Groupings of countries and regions other than Japan are determined by geographic proximity and mutual operational relationships. Major countries and regions in each geographic segment are as follows.

- (1) North America: US and Canada
- (2) Latin America: Brazil, etc.
- (3) Europe: France, UK, etc.
- (4) Other: Asia, etc.

## 5. Supplementary Information

### Orders and Sales

#### (1) Orders received (Thousands of yen)

Operating segment	First three months of FY2/17 (Mar. 1, 2016 – May 31, 2016)		First three months of FY2/18 (Mar. 1, 2017 – May 31, 2017)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	3,689,717	96.3	3,624,309	98.2
Chemicals Business	611,637	120.2	83,618	13.7
Total	4,301,355	99.1	3,707,927	86.2

Notes: 1. Orders received in the Chemicals Business do not include pharmaceutical excipients and food preservatives, which are manufactured based on sales plans rather than specific orders.

2. Orders received are based on selling prices; inter-segment transactions have been eliminated.

3. Orders received do not include consumption taxes.

#### (2) Order backlog (Thousands of yen)

Operating segment	First three months of FY2/17 (Mar. 1, 2016 – May 31, 2016)		First three months of FY2/18 (Mar. 1, 2017 – May 31, 2017)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	8,318,954	93.5	9,045,288	108.7
Chemicals Business	409,484	104.6	94,708	23.1
Total	8,728,439	93.9	9,139,996	104.7

Notes: 1. Order backlog in the Chemicals Business do not include pharmaceutical excipients and food preservatives, which are manufactured based on sales plans rather than specific orders.

2. Order backlog is based on selling prices; inter-segment transactions have been eliminated.

3. Order backlog does not include consumption taxes.

#### (3) Sales (Thousands of yen)

Operating segment	First three months of FY2/17 (Mar. 1, 2016 – May 31, 2016)		First three months of FY2/18 (Mar. 1, 2017 – May 31, 2017)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	2,413,319	61.7	3,198,004	71.5
Chemicals Business	1,498,727	38.3	1,274,175	28.5
Total	3,912,047	100.0	4,472,180	100.0

Notes: 1. Sales are based on selling prices; inter-segment transactions have been eliminated.

2. Sales do not include consumption taxes.

*This summary report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*