

Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending February 28, 2018
(Nine Months Ended November 30, 2017)

[Japanese GAAP]

Company name: Freund Corporation
 Securities code: 6312
 Representative: Iwao Fusejima, President & CEO
 Contact: Yuji Takanami, General Manager, Corporate Administration Division
 Tel: +81-3-6890-0750

Listing: Tokyo (JASDAQ)
 URL: <http://www.freund.co.jp>

Scheduled date of filing of Quarterly Report: January 10, 2018
 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 Third Quarter (March 1, 2017 – November 30, 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	%
Nine months ended Nov. 30, 2017	13,745	(6.9)	1,152	(20.0)	1,174	(21.0)	849	4.1
Nine months ended Nov. 30, 2016	14,767	12.9	1,441	98.2	1,486	89.6	815	93.1

Note: Comprehensive income
 Nine months ended Nov. 30, 2017: 847 million yen (up 78.5%)
 Nine months ended Nov. 30, 2016: 474 million yen (up 33.0%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Nov. 30, 2017	49.26	-
Nine months ended Nov. 30, 2016	47.30	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Nov. 30, 2017	19,755	12,688	64.2	735.78
As of Feb. 28, 2017	19,101	12,185	63.8	706.62

Reference: Equity capital As of Nov. 30, 2017: 12,688 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	-	0.00	-	-	-
Fiscal year ending Feb. 28, 2018 (forecast)	-	-	-	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
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 8 “(3) 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 Nov. 30, 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 Nov. 30, 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

Nine months ended Nov. 30, 2017:	17,244,522 shares	Nine months ended Nov. 30, 2016:	17,244,538 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.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Forecast and Other Forward-looking Statements	3
2. Quarterly Consolidated Financial Statements and Notes	4
(1) Quarterly Consolidated Balance Sheet	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
Quarterly Consolidated Statement of Income	
For the Nine-month Period	6
Quarterly Consolidated Statement of Comprehensive Income	
For the Nine-month Period	7
(3) Notes to Quarterly Consolidated Financial Statements	8
Going Concern Assumption	8
Significant Changes in Shareholders' Equity	8
Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements	8
Additional Information	8
Segment and Other Information	9
3. Supplementary Information	11
Orders and Sales	11

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

Japan's economy continued to recover slowly during the first nine months of the fiscal year due to an improvement in corporate earnings and firm employment and personal income.

However, the outlook continues to be unclear because of a number of risk factors that could negatively affect Japan's economy. In particular, Japan may be affected by financial market instability caused by the uncertainty about policies of the U.S. government and rising global tension concerning North Korea.

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 are holding down their capital expenditures in response to drug price reductions.

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 decreased 6.9% year-over-year to 13,745 million yen, operating profit decreased 20.0% to 1,152 million yen, ordinary profit was down 21.0% to 1,174 million yen, and profit attributable to owners of parent increased 4.1% to 849 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 decreased. The main reasons were the measures to hold down capital expenditures by generic drug companies and, at U.S. subsidiary Freund-Vector Corporation, a large order with low profitability and an increase in fixed expenses.

As a result, net sales decreased 2.6% year-over-year to 9,747 million yen and operating profit decreased 21.1% to 910 million yen.

Chemicals Business Segment

Sales and operating profit of functional excipients used in oral pharmaceuticals increased mainly because of higher sales to manufacturers of generic drugs.

Sales and operating profit of food preservative increased because of aggressive marketing efforts.

Sales and operating profit of dietary supplements that incorporate Freund's technologies decreased because a major customer started producing supplements internally.

As a result, net sales decreased 16.1% year-over-year to 3,998 million yen and operating profit decreased 1.4% to 593 million yen.

(2) Explanation of Financial Position

Assets, liabilities and net assets

Total assets increased 653 million yen from the end of the previous fiscal year to 19,755 million yen at the end of the third quarter under review. This mainly reflected increases in work in process of 1,240 million yen and electronically recorded monetary claims-operating of 252 million yen, while there were decreases in cash and deposits of 590 million yen and notes and accounts receivable-trade of 313 million yen.

Total liabilities increased 151 million yen from the end of the previous fiscal year to 7,067 million yen at the end of the third quarter under review. This mainly reflected an increase in advances received of 606 million yen while there were decreases in income taxes payable of 291 million yen and provision for bonuses of 139 million yen.

Net assets increased 502 million yen from the end of the previous fiscal year to 12,688 million yen at the end of the third quarter under review.

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

There are no revisions to the 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. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY2/17 (As of Feb. 28, 2017)	Third quarter of FY2/18 (As of Nov. 30, 2017)
Assets		
Current assets		
Cash and deposits	6,982,822	6,392,780
Notes and accounts receivable-trade	4,282,766	3,968,794
Electronically recorded monetary claims-operating	120,616	372,932
Merchandise and finished goods	404,081	300,789
Work in process	1,712,294	2,952,990
Raw materials and supplies	649,160	807,822
Prepaid expenses	148,338	105,032
Deferred tax assets	251,999	275,960
Other	400,079	351,328
Allowance for doubtful accounts	(13,507)	(13,446)
Total current assets	14,938,653	15,514,984
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,160,332	1,107,293
Land	1,239,987	1,239,893
Other, net	834,614	1,008,483
Total property, plant and equipment	3,234,934	3,355,670
Intangible assets	55,836	20,859
Investments and other assets		
Deferred tax assets	15,073	17,933
Other	862,443	851,488
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	872,116	864,022
Total non-current assets	4,162,887	4,240,551
Total assets	19,101,540	19,755,536
Liabilities		
Current liabilities		
Notes and accounts payable-trade	2,019,656	2,261,368
Electronically recorded obligations-operating	1,038,971	1,011,914
Income taxes payable	477,303	185,939
Advances received	1,831,994	2,438,072
Provision for bonuses	260,416	121,044
Provision for directors' bonuses	85,400	58,500
Other	878,731	654,523
Total current liabilities	6,592,473	6,731,363
Non-current liabilities		
Net defined benefit liability	201,812	210,869
Asset retirement obligations	34,824	34,939
Other	87,072	90,199
Total non-current liabilities	323,709	336,008
Total liabilities	6,916,182	7,067,371

	(Thousands of yen)	
	FY2/17 (As of Feb. 28, 2017)	Third quarter of FY2/18 (As of Nov. 30, 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	10,791,307
Treasury shares	(201,361)	(201,361)
Total shareholders' equity	12,410,463	12,915,059
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33,141	40,284
Foreign currency translation adjustment	(233,036)	(244,116)
Remeasurements of defined benefit plans	(25,210)	(23,063)
Total accumulated other comprehensive income	(225,105)	(226,895)
Total net assets	12,185,358	12,688,164
Total liabilities and net assets	19,101,540	19,755,536

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

(Thousands of yen)

	First nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)	First nine months of FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)
Net sales	14,767,069	13,745,942
Cost of sales	10,069,748	8,993,321
Gross profit	4,697,320	4,752,621
Selling, general and administrative expenses	3,256,281	3,599,836
Operating profit	1,441,039	1,152,784
Non-operating income		
Interest income	1,706	2,062
Technical support fee	11,600	10,670
Insurance premiums refunded cancellation	18,424	-
Other	20,499	17,703
Total non-operating income	52,231	30,436
Non-operating expenses		
Interest expenses	1,937	1,259
Foreign exchange losses	2,399	5,169
Other	1,984	2,253
Total non-operating expenses	6,321	8,682
Ordinary profit	1,486,950	1,174,538
Extraordinary income		
Gain on sales of non-current assets	7,655	-
Gain on sales of investment securities	14,936	-
Gain on redemption of investment securities	-	62,177
Total extraordinary income	22,591	62,177
Extraordinary losses		
Loss on retirement of non-current assets	1,045	336
Loss on sales of non-current assets	-	1,923
Impairment loss	1,616	-
Directors' retirement benefits	250,000	-
Total extraordinary losses	252,661	2,259
Profit before income taxes	1,256,879	1,234,457
Income taxes	441,210	384,970
Profit	815,669	849,486
Profit attributable to owners of parent	815,669	849,486

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

	(Thousands of yen)	
	First nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)	First nine months of FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)
Profit	815,669	849,486
Other comprehensive income		
Valuation difference on available-for-sale securities	2,818	7,143
Foreign currency translation adjustment	(344,976)	(11,080)
Remeasurements of defined benefit plans, net of tax	1,299	2,147
Total other comprehensive income	(340,857)	(1,789)
Comprehensive income	474,811	847,696
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	474,811	847,696

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements

Calculation of tax expense

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.

Additional Information

Effective from the first quarter of the current fiscal year, the Company has applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016).

Segment and Other Information**Segment information**

I First nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 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	10,003,630	4,763,438	14,767,069	-	14,767,069
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	10,003,630	4,763,438	14,767,069	-	14,767,069
Segment profit	1,154,303	602,091	1,756,395	(315,355)	1,441,039

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 315,355 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 the “Accounting Standard for Quarterly Financial Statements,” the Company provides information by region (net sales) based on the “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
11,725,000	1,645,760	261,088	423,717	711,500	14,767,069

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 nine months of FY2/18 (Mar. 1, 2017 – Nov. 30, 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	9,747,293	3,998,649	13,745,942	-	13,745,942
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	9,747,293	3,998,649	13,745,942	-	13,745,942
Segment profit	910,769	593,945	1,504,715	(351,931)	1,152,784

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 351,931 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 the “Accounting Standard for Quarterly Financial Statements,” the Company provides information by region (net sales) based on the “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
9,771,354	1,297,648	497,498	1,289,312	890,128	13,745,942

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.

3. Supplementary Information

Orders and Sales

(1) Orders received (Thousands of yen)

Operating segment	First nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)		First nine months of FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	12,243,473	126.6	8,747,449	71.4
Chemicals Business	1,733,988	107.5	477,635	27.5
Total	13,977,461	123.9	9,225,085	66.0

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 nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)		First nine months of FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	9,288,900	116.5	7,681,872	82.7
Chemicals Business	419,761	111.4	131,081	31.2
Total	9,708,661	116.2	7,812,953	80.5

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 nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)		First nine months of FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	10,003,630	67.7	9,747,293	70.9
Chemicals Business	4,763,438	32.3	3,998,649	29.1
Total	14,767,069	100.0	13,745,942	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.