FREUND

JASDAQ

January 6, 2017

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending February 28, 2017 (Nine Months Ended November 30, 2016)

[Japanese GAAP]

Company name: Freund Corporation — Listing: Tokyo (JASDAQ)
Securities code: 6312 — URL: http://www.freund.co.jp
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Scheduled date of filing of Quarterly Report: January 6, 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 Third Quarter (March 1, 2016 – November 30, 2016) of the Fiscal Year Ending February 28, 2017

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended Nov. 30, 2016	14,767	12.9	1,441	98.2	1,486	89.6	815	93.1
Nine months ended Nov. 30, 2015	13,081	8.9	727	24.3	784	17.6	422	25.5

Note: Comprehensive income
Nine months ended Nov. 30, 2016: 474 million yen (up 33.0%)
Nine months ended Nov. 30, 2015: 357 million yen (down 9.1%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Nov. 30, 2016	47.30	-
Nine months ended Nov. 30, 2015	24.49	-

The Company conducted a 2-for-1 common stock split on March 1, 2016. The net income per share has been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Nov. 30, 2016	18,411	11,722	63.7	679.77
As of Feb. 29, 2016	17,206	11,529	67.0	668.57

Reference: Equity capital As of Nov. 30, 2016: 11,722 million yen As of Feb. 29, 2016: 11,529 million yen
The Company conducted a 2-for-1 common stock split on March 1, 2016. The net assets per share have been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Feb. 29, 2016	-	0.00	-	25.00	25.00
Fiscal year ending Feb. 28, 2017	-	0.00	-		
Fiscal year ending Feb. 28, 2017 (forecast)				20.00	20.00

Note: Revision to the most recently announced dividend forecast: Yes
Breakdown of the year-end dividend for the fiscal year ending Feb. 28, 2017: Ordinary dividends: 15.00 yen
Commemorative dividends: 5.00 yen
The Company conducted a 2-for-1 common stock split on March 1, 2016. The dividend per share forecast for the fiscal year ending Feb. 28, 2017 has been adjusted to reflect the stock split. Prior to this adjustment, the dividend forecast was 40 yen per share, comprising an ordinary dividend of 30 yen and a commemorative dividend of 10 yen.

3. Consolidated Forecast for the Fiscal Year Ending February 28, 2017 (March 1, 2016 – February 28, 2017)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	20,000	5.1	1,900	41.1	1,900	36.2	1,180	22.8	68.43

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:	Yes
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, 2016:	18,400,000 shares	As of Feb. 29, 2016:	18,400,000 shares

2) Number of treasury shares at the end of the period

As of Nov. 30, 2016:	1,155,478 shares	As of Feb. 29, 2016:	1,155,444 shares

3) Average number of shares outstanding during the period

Nine months ended Nov. 30, 2016:	17,244,538 shares	Nine months ended Nov. 30, 2015:	17,244,556 shares

Note: The Company conducted a 2-for-1 common stock split on March 1, 2016. The number of outstanding shares (common stock) has been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

Indication of quarterly review procedure implementation status

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.

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

- The Company conducted a 2-for-1 common stock split on March 1, 2016.
- 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 "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) 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

(1) Explanation of Results of Operations

Japan's economy continued to recover at a moderate pace during the first nine months of the current fiscal year. Growth in corporate earnings has stopped due to the yen's strength caused by uncertainties about overseas economies. However, after the November US presidential election, the yen has been weakening as the dollar appreciates because of the increasing difference between interest rates in Japan and the United States as US interest rates move up. This is a reflection of the outlook for higher US government spending by the Trump administration. As a result, the outlook is for corporate earnings in Japan to stop declining while remaining at a high level.

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.

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 12.9% year-over-year to 14,767 million yen, operating income increased 98.2% to 1,441 million yen, ordinary income was up 89.6% to 1,486 million yen, and profit attributable to owners of parent increased 93.1% to 815 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 income increased as orders remained strong because of the large volume of capital expenditures in the generic drug industry.

As a result, net sales rose 15.5% year-over-year to 10,003 million yen and operating income increased 99.6% to 1,154 million yen.

Chemicals Business Segment

Although sales and operating income of food preservative were down slightly because of heated competition, sales of functional excipients used in oral pharmaceuticals were strong primarily for use in generic drugs. Sales of dietary supplements that incorporate Freund's technologies were also strong.

As a result, net sales rose 7.8% year-over-year to 4,763 million yen and operating income increased 48.7% to 602 million yen.

Note: From the first quarter of the current fiscal year, the Company has modified the English term of the business segment formerly titled "Chemical and Food Business" to "Chemicals Business." The content and Japanese term of the business segment remain the same.

(2) Explanation of Financial Position

Total assets increased 1,205 million yen from the end of the previous fiscal year to 18,411 million yen at the end of the third quarter under review. This mainly reflected increases in cash and deposits of 1,365 million yen and work in process of 137 million yen, while there was a decrease in notes and accounts receivable-trade of 376 million yen.

Total liabilities increased 1,011 million yen from the end of the previous fiscal year to 6,689 million yen at the end of the third quarter under review. This mainly reflected an increase in advances received of 808 million yen.

Net assets increased 193 million yen from the end of the previous fiscal year to 11,722 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, 2017, which was disclosed in the Consolidated Financial Results for the Fiscal Year Ended February 29, 2016 dated April 5, 2016.

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

Application of the Accounting Standards for Business Combinations

The Company has applied the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, issued on September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on September 13, 2013), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on September 13, 2013), etc. from the first quarter of the current fiscal year. Accordingly, difference arising from changes in the Company's ownership interests in subsidiaries in cases where control is retained is recognized in capital surplus, and the acquisition costs in connection with business combinations are recognized as expenses in the fiscal year in which they arise. Regarding business combinations that take place on or after the beginning of the first quarter of the current fiscal year, the Company has revised the method to reflect reviewed allocation of the acquisition costs arising from determination of the provisional accounting treatment on the quarterly consolidated financial statements to which the date of the business combination belongs. In addition, the presentation of net income and other items has been revised, and the minority interests item has been renamed non-controlling interests. For consistency with these changes, the consolidated financial statements for the first nine months of the previous fiscal year and the previous fiscal year have been revised.

The Company has adopted these accounting standards, etc. from the beginning of the first quarter of the current fiscal year, in accordance with the transitional accounting treatments set forth in Article 58-2 (3) of the Accounting Standard for Business Combinations, Article 44-5 (3) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4 (3) of the Accounting Standard for Business Divestitures. The cumulative effect at the beginning of the first quarter upon the retrospective adoption of the above accounting policies for prior years is added to or deducted from capital surplus and retained earnings.

As a result, there were decreases of 77,159 thousand yen in goodwill, 11,067 thousand yen in negative goodwill and 77,678 thousand yen in retained earnings, and increases of 8,991 thousand yen in capital surplus and 2,594 thousand yen in foreign currency translation adjustment at the beginning of the first quarter of the current fiscal year. In addition, operating income increased 11,575 thousand yen and ordinary income and profit before income taxes increased 6,041 thousand yen each in the first nine months of the current fiscal year.

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

Following the revised Corporation Tax Act, the Company has applied the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (ASBJ Practical Issues Task Force (PITF) No. 32, June 17, 2016) from the first quarter of the current fiscal year, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

The effect of this change on the results of operations in the first nine months of the current fiscal year is insignificant.

3. Important Information about Going Concern Assumption

Not applicable.

4. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	FY2/16 (As of Feb. 29, 2016)	Third quarter of FY2/17 (As of Nov. 30, 2016)
Assets		
Current assets		
Cash and deposits	4,042,296	5,407,407
Notes and accounts receivable-trade	5,542,999	5,166,333
Electronically recorded monetary claims-operating	151,350	207,435
Merchandise and finished goods	330,747	387,488
Work in process	1,511,095	1,648,112
Raw materials and supplies	590,674	681,680
Prepaid expenses	114,910	94,708
Deferred tax assets	369,466	338,088
Other	424,172	442,201
Allowance for doubtful accounts	(24,122)	(20,224)
Total current assets	13,053,591	14,353,231
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,153,744	1,140,856
Land	1,318,399	1,314,791
Other, net	662,978	776,803
Total property, plant and equipment	3,135,122	3,232,451
Intangible assets		
Goodwill	77,159	-
Other	105,600	68,378
Total intangible assets	182,760	68,378
Investments and other assets		
Deferred tax assets	29,420	22,233
Other	811,158	740,780
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	835,179	757,613
Total non-current assets	4,153,061	4,058,444
Total assets	17,206,653	18,411,675

(Thousands of yen)

	FY2/16 (As of Feb. 29, 2016)	Third quarter of FY2/17 (As of Nov. 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,680,871	1,853,523
Electronically recorded obligations-operating	899,494	1,099,144
Income taxes payable	65,043	343,226
Advances received	1,288,049	2,096,460
Provision for bonuses	259,898	126,088
Provision for directors' bonuses	61,000	60,750
Asset retirement obligations	19,199	-
Other	1,042,018	781,892
Total current liabilities	5,315,576	6,361,085
Non-current liabilities		
Net defined benefit liability	194,094	190,672
Negative goodwill	11,067	-
Asset retirement obligations	4,213	34,786
Other	152,518	102,832
Total non-current liabilities	361,893	328,291
Total liabilities	5,677,469	6,689,376
Net assets		
Shareholders' equity		
Capital stock	1,035,600	1,035,600
Capital surplus	1,280,522	1,289,513
Retained earnings	9,515,679	10,038,113
Treasury shares	(201,313)	(201,361)
Total shareholders' equity	11,630,488	12,161,866
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	16,600	19,419
Foreign currency translation adjustment	(100,775)	(443,156)
Remeasurements of defined benefit plans	(17,129)	(15,829)
Total accumulated other comprehensive income	(101,304)	(439,567)
Total net assets	11,529,183	11,722,298
Total liabilities and net assets	17,206,653	18,411,675

(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 FY2/16 (Mar. 1, 2015 – Nov. 30, 2015)	First nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)
Net sales	13,081,701	14,767,069
Cost of sales	8,931,450	10,069,748
Gross profit	4,150,250	4,697,320
Selling, general and administrative expenses	3,423,091	3,256,281
Operating income	727,159	1,441,039
Non-operating income		
Interest income	972	1,706
Technical support fee	12,246	11,600
Insurance premiums refunded cancellation	17,238	18,424
Foreign exchange gains	5,614	-
Amortization of negative goodwill	5,845	-
Other	18,479	20,499
Total non-operating income	60,397	52,231
Non-operating expenses		
Interest expenses	2,951	1,937
Foreign exchange losses	-	2,399
Other	179	1,984
Total non-operating expenses	3,131	6,321
Ordinary income	784,425	1,486,950
Extraordinary income		
Gain on sales of non-current assets	904	7,655
Gain on sales of investment securities	-	14,936
Total extraordinary income	904	22,591
Extraordinary losses		
Loss on retirement of non-current assets	3,236	1,045
Impairment loss	22,338	1,616
Directors’ retirement benefits	-	250,000
Total extraordinary losses	25,575	252,661
Profit before income taxes	759,755	1,256,879
Income taxes	344,187	441,210
Profit	415,567	815,669
Loss attributable to non-controlling interests	(6,776)	-
Profit attributable to owners of parent	422,344	815,669

Quarterly Consolidated Statement of Comprehensive Income

(For the Nine-month Period)

(Thousands of yen)

	First nine months of FY2/16 (Mar. 1, 2015 – Nov. 30, 2015)	First nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)
Profit	415,567	815,669
Other comprehensive income		
Valuation difference on available-for-sale securities	8,671	2,818
Foreign currency translation adjustment	(67,637)	(344,976)
Remeasurements of defined benefit plans, net of tax	447	1,299
Total other comprehensive income	(58,518)	(340,857)
Comprehensive income	357,048	474,811
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	360,877	474,811
Comprehensive income attributable to non-controlling interests	(3,828)	-

(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 nine months of FY2/16 (Mar. 1, 2015 – Nov. 30, 2015)

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	8,663,751	4,417,949	13,081,701	-	13,081,701
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	8,663,751	4,417,949	13,081,701	-	13,081,701
Segment profit	578,302	404,851	983,153	(255,994)	727,159

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 255,994 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 income 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 impairment losses related to non-current assets

There was no impairment loss allocated to reportable segments. The amount of impairment losses that was not allocated to these segments were 22,338 thousand yen.

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
9,632,372	1,337,285	676,048	686,238	749,756	13,081,701

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: USA and Canada

(2) Latin America: Brazil, etc.

(3) Europe: France, UK, etc.

(4) Other: Asia, etc.

II 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 shwon 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 income 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 related to revisions for reportable segments

As described in Changes in Accounting Policies, in line with revisions to the Corporation Tax Act, the Company has changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. Consequently, the depreciation method for business segments have been revised as well.

The effect of this change on segment profit is insignificant in the first nine months of FY2/17.

4. 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
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.

5. Supplementary Information

Orders and Sales

(1) Orders received (Thousands of yen)

Operating segment	First nine months of FY2/16 (Mar. 1, 2015 – Nov. 30, 2015)		First nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	9,671,499	105.0	12,243,473	126.6
Chemicals Business	1,612,827	101.2	1,733,988	107.5
Total	11,284,326	104.4	13,977,461	123.9

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 FY2/16 (Mar. 1, 2015 – Nov. 30, 2015)		First nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	7,976,130	110.4	9,288,900	116.5
Chemicals Business	376,639	128.2	419,761	111.4
Total	8,352,770	111.1	9,708,661	116.2

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 FY2/16 (Mar. 1, 2015 – Nov. 30, 2015)		First nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	8,663,751	66.2	10,003,630	67.7
Chemicals Business	4,417,949	33.8	4,763,438	32.3
Total	13,081,701	100.0	14,767,069	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.