

**Consolidated Financial Results**  
**for the Second Quarter of the Fiscal Year Ending February 28, 2018**  
**(Six Months Ended August 31, 2017)**

[Japanese GAAP]

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Scheduled date of filing of Quarterly Report: October 5, 2017  
 Scheduled date of payment of dividend: -  
 Preparation of supplementary materials for quarterly financial results: Yes  
 Holding of quarterly financial results meeting: Yes

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

**1. Consolidated Financial Results for the Second Quarter (March 1, 2017 – August 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	%
Six months ended Aug. 31, 2017	9,789	11.7	1,074	56.4	1,091	54.0	734	139.7
Six months ended Aug. 31, 2016	8,762	13.8	687	245.6	708	181.1	306	147.8

Note: Comprehensive income  
 Six months ended Aug. 31, 2017: 691 million yen (- %)  
 Six months ended Aug. 31, 2016: (0) million yen (- %)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Aug. 31, 2017	42.59	-
Six months ended Aug. 31, 2016	17.77	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Aug. 31, 2017	19,122	12,532	65.5	726.74
As of Feb. 28, 2017	19,101	12,185	63.8	706.62

Reference: Equity capital As of Aug. 31, 2017: 12,532 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 9 “(4) 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 Aug. 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 Aug. 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

Six months ended Aug. 31, 2017:	17,244,522 shares	Six months ended Aug. 31, 2016:	17,244,546 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 half of the fiscal year due to an improvement in corporate earnings and firm employment and personal income.

However, the outlook continues to be uncertain because of a number of risk factors that could cause a downturn in Japan's economy, notably upcoming U.S. economic and monetary actions and geopolitical risk involving the U.S. and 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 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 11.7% year-over-year to 9,789 million yen, operating profit increased 56.4% to 1,074 million yen, ordinary profit was up 54.0% to 1,091 million yen, and profit attributable to owners of parent increased 139.7% to 734 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 25.9% year-over-year to 7,171 million yen and operating profit increased 53.1% to 868 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 14.6% year-over-year to 2,617 million yen and operating profit increased 17.9% to 420 million yen.

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

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

Total assets increased 20 million yen from the end of the previous fiscal year to 19,122 million yen at the end of the second quarter under review. This mainly reflected increases in notes and accounts receivable-trade of 412 million yen, electronically recorded monetary claims-operating of 212 million yen and work in process of 570 million yen, while there were decreases in cash and deposits of 982 million yen and merchandise and finished goods of 57 million yen.

Total liabilities decreased 326 million yen from the end of the previous fiscal year to 6,589 million yen at the end of the second quarter under review. This mainly reflected decreases in electronically recorded obligations-operating of 103 million yen and advances received of 124 million yen.

Net assets increased 346 million yen from the end of the previous fiscal year to 12,532 million yen at the end of the second quarter under review.

### **Cash flows**

The balance of cash and cash equivalents at the end of the second quarter under review was 6,000 million yen, down 982 million yen over the end of the previous fiscal year.

The cash flow components and the main reasons for changes are as described below.

#### **a. Cash flows from operating activities**

Net cash used by operating activities was 375 million yen (compared with net cash provided of 1,480 million yen in the same period of the previous fiscal year). Although there were positive factors including profit before income taxes of 1,089 million yen, an increase in notes and accounts payable-trade of 306 million yen and depreciation of 171 million yen, there were negative factors including increases in notes and accounts receivable-trade of 632 million yen and inventories of 602 million yen, income taxes paid of 460 million yen and a decrease in advances received of 113 million yen.

#### **b. Cash flows from investing activities**

Net cash used in investing activities was 224 million yen (compared with net cash used of 268 million yen in the same period of the previous fiscal year). Although there were positive factors including proceeds from sales of property, plant and equipment of 8 million yen, there were negative factors including the payment for the purchase of property, plant and equipment of 228 million yen.

#### **c. Cash flows from financing activities**

Net cash used in financing activities was 368 million yen (compared with net cash used of 247 million yen in the same period of the previous fiscal year). This was mainly the result of cash dividends paid of 343 million yen.

## **(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)	Second quarter of FY2/18 (As of Aug. 31, 2017)
<b>Assets</b>		
Current assets		
Cash and deposits	6,982,822	6,000,472
Notes and accounts receivable-trade	4,282,766	4,694,962
Electronically recorded monetary claims-operating	120,616	333,230
Merchandise and finished goods	404,081	346,833
Work in process	1,712,294	2,282,752
Raw materials and supplies	649,160	715,412
Prepaid expenses	148,338	135,680
Deferred tax assets	251,999	261,122
Other	400,079	255,451
Allowance for doubtful accounts	(13,507)	(13,250)
<b>Total current assets</b>	<b>14,938,653</b>	<b>15,012,668</b>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,160,332	1,115,661
Land	1,239,987	1,239,591
Other, net	834,614	864,412
<b>Total property, plant and equipment</b>	<b>3,234,934</b>	<b>3,219,665</b>
Intangible assets	55,836	32,524
Investments and other assets		
Deferred tax assets	15,073	22,404
Other	862,443	840,183
Allowance for doubtful accounts	(5,400)	(5,400)
<b>Total investments and other assets</b>	<b>872,116</b>	<b>857,188</b>
<b>Total non-current assets</b>	<b>4,162,887</b>	<b>4,109,377</b>
<b>Total assets</b>	<b>19,101,540</b>	<b>19,122,046</b>
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	2,019,656	2,354,937
Electronically recorded obligations-operating	1,038,971	934,994
Income taxes payable	477,303	383,675
Advances received	1,831,994	1,707,857
Provision for bonuses	260,416	231,973
Provision for directors' bonuses	85,400	42,000
Other	878,731	600,906
<b>Total current liabilities</b>	<b>6,592,473</b>	<b>6,256,345</b>
Non-current liabilities		
Net defined benefit liability	201,812	207,850
Asset retirement obligations	34,824	34,901
Other	87,072	90,699
<b>Total non-current liabilities</b>	<b>323,709</b>	<b>333,451</b>
<b>Total liabilities</b>	<b>6,916,182</b>	<b>6,589,796</b>

	(Thousands of yen)	
	FY2/17 (As of Feb. 28, 2017)	Second quarter of FY2/18 (As of Aug. 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	10,676,324
Treasury shares	(201,361)	(201,361)
Total shareholders' equity	12,410,463	12,800,077
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33,141	29,683
Foreign currency translation adjustment	(233,036)	(273,730)
Remeasurements of defined benefit plans	(25,210)	(23,778)
Total accumulated other comprehensive income	(225,105)	(267,826)
Total net assets	12,185,358	12,532,250
Total liabilities and net assets	19,101,540	19,122,046

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

(Thousands of yen)

	First six months of FY2/17 (Mar. 1, 2016 – Aug. 31, 2016)	First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)
Net sales	8,762,952	9,789,065
Cost of sales	5,900,673	6,317,406
Gross profit	2,862,279	3,471,658
Selling, general and administrative expenses	2,175,001	2,397,089
Operating profit	687,277	1,074,568
Non-operating income		
Interest income	1,043	1,376
Technical support fee	4,570	8,625
Insurance premiums refunded cancellation	18,424	-
Other	15,751	14,819
Total non-operating income	39,790	24,820
Non-operating expenses		
Interest expenses	1,401	895
Foreign exchange losses	15,343	5,699
Other	1,375	1,094
Total non-operating expenses	18,120	7,688
Ordinary profit	708,947	1,091,700
Extraordinary income		
Gain on sales of non-current assets	7,661	-
Gain on sales of investment securities	14,936	-
Total extraordinary income	22,597	-
Extraordinary losses		
Loss on retirement of non-current assets	1,045	69
Impairment loss	1,616	-
Loss on sales of non-current assets	-	1,918
Directors' retirement benefits	250,000	-
Total extraordinary losses	252,661	1,988
Profit before income taxes	478,882	1,089,711
Income taxes	172,517	355,208
Profit	306,365	734,503
Profit attributable to owners of parent	306,365	734,503



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

	(Thousands of yen)	
	First six months of FY2/17 (Mar. 1, 2016 – Aug. 31, 2016)	First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)
Profit	306,365	734,503
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,385)	(3,457)
Foreign currency translation adjustment	(306,458)	(40,694)
Remeasurements of defined benefit plans, net of tax	723	1,431
Total other comprehensive income	(307,120)	(42,720)
Comprehensive income	(755)	691,782
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(755)	691,782

**(3) Quarterly Consolidated Statement of Cash Flows**

(Thousands of yen)

	First six months of FY2/17 (Mar. 1, 2016 – Aug. 31, 2016)	First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)
Cash flows from operating activities		
Profit before income taxes	478,882	1,089,711
Depreciation	155,646	171,927
Impairment loss	1,616	-
Increase (decrease) in provision for bonuses	(72,126)	(28,213)
Increase (decrease) in provision for directors' bonuses	(20,500)	(43,400)
Interest and dividend income	(4,826)	(6,125)
Interest expenses	1,401	895
Foreign exchange losses (gains)	14,028	3,644
Loss (gain) on sales of property, plant and equipment	(7,661)	1,918
Loss (gain) on sales of investment securities	(14,936)	-
Loss (gain) on cancellation of insurance contract	(18,424)	-
Decrease (increase) in notes and accounts receivable-trade	626,949	(632,769)
Decrease (increase) in inventories	(1,326,134)	(602,841)
Decrease (increase) in other assets	(48,053)	176,983
Increase (decrease) in notes and accounts payable-trade	774,762	306,906
Increase (decrease) in advances received	1,281,051	(113,713)
Increase (decrease) in other liabilities	(353,470)	(249,206)
Other, net	(4,348)	146
Subtotal	1,463,856	75,863
Interest and dividend income received	4,826	6,125
Interest expenses paid	(1,401)	(895)
Income taxes refund	107,906	4,282
Income taxes paid	(94,638)	(460,530)
Net cash provided by (used in) operating activities	1,480,549	(375,154)
Cash flows from investing activities		
Purchase of property, plant and equipment	(342,315)	(228,133)
Proceeds from sales of property, plant and equipment	18,139	8,079
Purchase of intangible assets	-	(430)
Purchase of investment securities	(1,118)	(1,135)
Proceeds from sales of investment securities	19,256	-
Purchase of insurance funds	(1,242)	(2,913)
Proceeds from cancellation of insurance funds	38,281	-
Payments for guarantee deposits	(10)	(328)
Proceeds from collection of guarantee deposits	369	10
Net cash provided by (used in) investing activities	(268,639)	(224,852)
Cash flows from financing activities		
Repayments of lease obligations	(31,706)	(24,902)
Cash dividends paid	(215,445)	(343,374)
Purchase of treasury shares	(47)	-
Net cash provided by (used in) financing activities	(247,198)	(368,276)
Effect of exchange rate change on cash and cash equivalents	(106,605)	(14,066)
Net increase (decrease) in cash and cash equivalents	858,104	(982,349)
Cash and cash equivalents at beginning of period	4,042,296	6,982,822
Cash and cash equivalents at end of period	4,900,401	6,000,472

**(4) 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**

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.

## Segment and Other Information

### Segment information

I First six months of FY2/17 (Mar. 1, 2016 – Aug. 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	5,697,876	3,065,076	8,762,952	-	8,762,952
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	5,697,876	3,065,076	8,762,952	-	8,762,952
Segment profit	567,585	357,042	924,628	(237,350)	687,277

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 237,350 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
7,208,667	925,543	179,089	244,632	205,020	8,762,952

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 six months of FY2/18 (Mar. 1, 2017 – Aug. 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	7,171,574	2,617,490	9,789,065	-	9,789,065
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	7,171,574	2,617,490	9,789,065	-	9,789,065
Segment profit	868,853	420,960	1,289,814	(215,245)	1,074,568

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 215,245 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
7,109,219	647,904	472,121	1,020,450	539,368	9,789,065

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 six months of FY2/17 (Mar. 1, 2016 – Aug. 31, 2016)		First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	8,406,698	124.9	5,984,924	71.2
Chemicals Business	1,198,762	105.1	221,420	18.5
Total	9,605,460	122.0	6,206,344	64.6

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 six months of FY2/17 (Mar. 1, 2016 – Aug. 31, 2016)		First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	9,765,937	112.6	7,465,447	76.4
Chemicals Business	453,804	91.3	94,168	20.8
Total	10,219,742	111.4	7,559,615	74.0

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 six months of FY2/17 (Mar. 1, 2016 – Aug. 31, 2016)		First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	5,697,876	65.0	7,171,574	73.3
Chemicals Business	3,065,076	35.0	2,617,490	26.7
Total	8,762,952	100.0	9,789,065	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.*