

**Consolidated Financial Results**  
**for the First Quarter of the Fiscal Year Ending February 28, 2019**  
**(Three Months Ended May 31, 2018)**

[Japanese GAAP]

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Scheduled date of filing of Quarterly Report: July 5, 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 First Quarter (March 1, 2018 – May 31, 2018) of the Fiscal Year Ending February 28, 2019**

(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, 2018	4,849	8.4	399	3.0	478	20.3	347	26.6
Three months ended May 31, 2017	4,472	14.3	387	31.3	397	26.7	274	464.9

Note: Comprehensive income  
 Three months ended May 31, 2018: 366 million yen (up 52.3%)  
 Three months ended May 31, 2017: 240 million yen (- %)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended May 31, 2018	20.37	-
Three months ended May 31, 2017	15.91	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of May 31, 2018	17,784	12,691	71.4	757.96
As of Feb. 28, 2018	19,125	13,242	69.2	767.91

Reference: Equity capital As of May 31, 2018: 12,691 million yen As of Feb. 28, 2018: 13,242 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, 2018	-	0.00	-	20.00	20.00
Fiscal year ending Feb. 28, 2019	-				
Fiscal year ending Feb. 28, 2019 (forecast)		0.00	-	20.00	20.00

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

**3. Consolidated Forecast for the Fiscal Year Ending February 28, 2019 (March 1, 2018 – February 28, 2019)**

(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	20,000	1.0	1,900	(3.6)	1,900	(4.7)	1,350	(8.6)	78.29

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 May 31, 2018:	18,400,000 shares	As of Feb. 28, 2018:	18,400,000 shares
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2) Number of treasury shares at the end of the period

As of May 31, 2018:	1,655,478 shares	As of Feb. 28, 2018:	1,155,478 shares
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3) Average number of shares outstanding during the period

Three months ended May 31, 2018:	17,048,870 shares	Three months ended May 31, 2017:	17,244,522 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 quarterly review by certified public accountants or auditing firms.

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 due to an improvement in corporate earnings and firm employment and personal income.

However, the direction of the global economy is unclear due to growing geopolitical risk such as political uncertainty in Europe and instability in the Middle East as global tension rises due to protectionist trade policies of the United States.

In the pharmaceutical industry, which is the primary source of demand for Freund Group products, companies need to take many actions in response to measures by the Japanese government to hold down healthcare expenditures, such as national health insurance drug price revisions and an increase in the use of generic drugs, the rising cost of R&D and higher risks associated with the development of new drugs. Major Japanese new drug manufacturers are using very large M&A deals to operate on a global scale. Also, pharmaceutical contract manufacturers are starting to conduct R&D on their own in order to expand their operations. The Freund Group must pay close attention to all of these events.

This fiscal year is the second year of the Freund Group's Seventh Medium-term Management Plan, which started in March 2017 and covers the five-year period ending in February 2022. The first three years of the plan are a time to build a base for growth in order to make the last two years a period of rapid growth.

To build a base of operations for future growth, the Freund Group is focusing on the following goals during the current fiscal year.

1. Faster growth outside Japan by strengthening the machinery and chemicals businesses in the United States and Asia
2. The start of a contribution to sales and earnings from new products (continuous granulating system, tablet printer) that target significant market needs
3. The launch of industrial machinery business involving new materials, including lithium-ion batteries
4. More collaboration with academic institutions based on open innovation
5. More skills and knowledge for the Freund Group workforce by using technology exchanges and other activities

Net sales increased 8.4% year-over-year to 4,849 million yen, operating profit increased 3.0% to 399 million yen, ordinary profit was up 20.3% to 478 million yen, and profit attributable to owners of parent increased 26.6% to 347 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 due to strong sales of large orders.

The order backlog at U.S. subsidiary Freund-Vector Corporation and Japanese subsidiary Freund-Turbo Corporation increased. But because these companies record sales on a fiscal year basis, sales in the first half of each fiscal year are normally low due to the slow pace of machinery deliveries. Consequently, net sales and operating profit were lower than one year earlier at both companies.

As a result, net sales increased 7.4% year-over-year to 3,433 million yen and segment profit decreased 14.8% to 278 million yen.

#### **Chemicals Business Segment**

Sales and operating profit of functional excipients used in oral pharmaceuticals increased mainly because of higher sales in Japan and overseas.

Sales and operating profit of food preservatives increased because of aggressive marketing activities that included measures to cultivate overseas markets.

There were small decreases in sales and operating profit of dietary supplements that incorporate Freund's technologies. Contract manufacturing of these supplements is now a small share of this product category because a major customer started producing supplements internally.

As a result, net sales increased 11.1% year-over-year to 1,416 million yen and segment profit increased 32.5% to 259 million yen.

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

Total assets decreased 1,340 million yen from the end of the previous fiscal year to 17,784 million yen at the end of the first quarter under review. This mainly reflected decreases in cash and deposits of 1,331 million yen and work in process of 299 million yen, while there were increases in notes and accounts receivable-trade of 110 million yen and merchandise and finished goods of 81 million yen.

Total liabilities decreased 790 million yen from the end of the previous fiscal year to 5,092 million yen at the end of the first quarter under review. This mainly reflected decreases in advances received of 582 million yen, notes and accounts payable-trade of 253 million yen and income taxes payable of 156 million yen, while there was an increase in provision for bonuses of 87 million yen.

Net assets decreased 550 million yen from the end of the previous fiscal year to 12,691 million yen at the end of the first quarter under review. This mainly reflected a decrease of 572 million yen due to the purchase of treasury shares.

## **(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, 2019, which was disclosed in the Consolidated Financial Results for the Fiscal Year Ended February 28, 2018 dated April 5, 2018.

**2. Quarterly Consolidated Financial Statements and Notes****(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY2/18 (As of Feb. 28, 2018)	First quarter of FY2/19 (As of May 31, 2018)
<b>Assets</b>		
Current assets		
Cash and deposits	6,568,050	5,236,366
Notes and accounts receivable-trade	4,337,779	4,448,399
Electronically recorded monetary claims-operating	113,748	127,964
Merchandise and finished goods	263,127	344,129
Work in process	2,046,615	1,747,526
Raw materials and supplies	876,175	906,583
Prepaid expenses	110,520	135,506
Deferred tax assets	175,959	211,054
Other	303,293	209,373
Allowance for doubtful accounts	(10,737)	(10,870)
Total current assets	14,784,533	13,356,032
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,187,803	1,208,510
Land	1,239,027	1,239,273
Other, net	943,601	1,023,663
Total property, plant and equipment	3,370,431	3,471,446
Intangible assets		
Goodwill	92,104	86,097
Other	10,351	10,576
Total intangible assets	102,455	96,673
Investments and other assets		
Deferred tax assets	20,632	24,052
Other	852,895	841,767
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	868,127	860,420
Total non-current assets	4,341,015	4,428,541
Total assets	19,125,548	17,784,573
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	1,931,872	1,678,244
Electronically recorded obligations-operating	892,011	831,954
Income taxes payable	356,267	199,646
Advances received	1,498,799	915,880
Provision for bonuses	210,727	297,730
Provision for directors' bonuses	54,300	12,500
Other	620,933	832,903
Total current liabilities	5,564,911	4,768,860
Non-current liabilities		
Net defined benefit liability	200,056	203,106
Asset retirement obligations	34,977	35,015
Other	83,387	85,865
Total non-current liabilities	318,421	323,988
Total liabilities	5,883,333	5,092,848

	(Thousands of yen)	
	FY2/18 (As of Feb. 28, 2018)	First quarter of FY2/19 (As of May 31, 2018)
Net assets		
Shareholders' equity		
Capital stock	1,035,600	1,035,600
Capital surplus	1,289,513	1,289,513
Retained earnings	11,419,492	11,421,917
Treasury shares	(201,361)	(773,361)
Total shareholders' equity	13,543,245	12,973,670
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	51,132	44,769
Foreign currency translation adjustment	(332,254)	(307,466)
Remeasurements of defined benefit plans	(19,907)	(19,248)
Total accumulated other comprehensive income	(301,029)	(281,945)
Total net assets	13,242,215	12,691,725
Total liabilities and net assets	19,125,548	17,784,573

**(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 FY2/18 (Mar. 1, 2017 – May 31, 2017)	First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)
Net sales	4,472,180	4,849,505
Cost of sales	2,915,640	3,245,489
Gross profit	1,556,539	1,604,016
Selling, general and administrative expenses	1,169,170	1,204,967
Operating profit	387,368	399,048
Non-operating income		
Interest income	613	1,092
Dividend income	3,507	60,795
Technical support fee	6,840	1,965
Foreign exchange gains	-	1,556
Other	4,809	14,775
Total non-operating income	15,770	80,185
Non-operating expenses		
Interest expenses	478	321
Foreign exchange losses	4,318	-
Other	624	264
Total non-operating expenses	5,421	586
Ordinary profit	397,717	478,647
Extraordinary income		
Gain on redemption of investment securities	-	23,874
Total extraordinary income	-	23,874
Extraordinary losses		
Loss on retirement of non-current assets	4	2,184
Total extraordinary losses	4	2,184
Profit before income taxes	397,713	500,337
Income taxes	123,359	153,021
Profit	274,353	347,315
Profit attributable to owners of parent	274,353	347,315



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

(Thousands of yen)

	First three months of FY2/18 (Mar. 1, 2017 – May 31, 2017)	First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)
Profit	274,353	347,315
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,851)	(6,362)
Foreign currency translation adjustment	(30,578)	24,787
Remeasurements of defined benefit plans, net of tax	715	658
Total other comprehensive income	(33,714)	19,083
Comprehensive income	240,639	366,399
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	240,639	366,399

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

Not applicable.

**Significant Changes in Shareholders' Equity**

The Board of Directors of the Company approved a resolution on April 25, 2018 to repurchase its own shares pursuant to Article 156 which is applicable in lieu of Article 165, Paragraph 3 of the Companies Act. Following the resolution, the Company acquired 500,000 treasury shares of common stock. As a result, treasury shares increased 572,000 thousand yen during the first three months of FY2/19 to 773,361 thousand yen at the end of the first quarter of FY2/19.

**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 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 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
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.

## II First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)

### 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	3,433,095	1,416,410	4,849,505	-	4,849,505
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	3,433,095	1,416,410	4,849,505	-	4,849,505
Segment profit	278,123	259,741	537,864	(138,816)	399,048

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 138,816 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
4,076,223	250,317	39,672	89,115	394,177	4,849,505

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. Others

#### Orders and Sales

##### (1) Orders received

(Thousands of yen)

Operating segment	First three months of FY2/18 (Mar. 1, 2017 – May 31, 2017)		First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	3,624,309	98.2	2,553,941	70.5
Chemicals Business	83,618	13.7	127,578	152.6
Total	3,707,927	86.2	2,681,520	72.3

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 FY2/18 (Mar. 1, 2017 – May 31, 2017)		First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	9,045,288	108.7	4,928,840	54.5
Chemicals Business	94,708	23.1	94,731	100.0
Total	9,139,996	104.7	5,023,572	55.0

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 three months of FY2/18 (Mar. 1, 2017 – May 31, 2017)		First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	3,198,004	71.5	3,433,095	70.8
Chemicals Business	1,274,175	28.5	1,416,410	29.2
Total	4,472,180	100.0	4,849,505	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.*