

**Consolidated Financial Results**  
**for the First Quarter of the Fiscal Year Ending February 28, 2017**  
**(Three Months Ended May 31, 2016)**

[Japanese GAAP]

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Scheduled date of filing of Quarterly Report: July 5, 2016  
 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, 2016 – May 31, 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	%
Three months ended May 31, 2016	3,912	30.3	295	-	314	-	48	-
Three months ended May 31, 2015	3,002	(14.4)	(24)	-	(0)	-	(29)	-

Note: Comprehensive income Three months ended May 31, 2016: (88) million yen (-%)  
Three months ended May 31, 2015: (105) million yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended May 31, 2016	2.82	-
Three months ended May 31, 2015	(1.69)	-

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 May 31, 2016	17,056	11,159	65.4	647.11
As of Feb. 29, 2016	17,206	11,529	67.0	668.57

Reference: Equity capital As of May 31, 2016: 11,159 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	-	-	-	-	-
Fiscal year ending Feb. 28, 2017 (forecast)	-	0.00	-	15.00	15.00

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

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 30 yen per share.

**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
First half	8,000	3.9	370	86.0	370	46.7	240	94.1	13.92
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 |

Note: Please refer to page 3 “2. Matters Related to Summary Information (Notes), (3) Changes in Accounting Policies and Accounting-based Estimates, and Restatements” for details.

(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, 2016:	18,400,000 shares	As of Feb. 29, 2016:	18,400,000 shares
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2) Number of treasury shares at the end of the period

As of May 31, 2016:	1,155,444 shares	As of Feb. 29, 2016:	1,155,444 shares
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3) Average number of shares outstanding during the period

Three months ended May 31, 2016:	17,244,556 shares	Three months ended May 31, 2015:	17,244,556 shares
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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.

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

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

The pace of Japan's economic recovery remained sluggish during the first quarter of the current fiscal year. Although there were improvements in jobs and personal income, corporate earnings stopped improving because of the yen's strength since the beginning of 2016. In addition, there are concerns about the risk of an economic downturn in Japan caused by weakness in the economies of China, other emerging countries in Asia and resource-producing countries.

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.

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 30.3% year-over-year to 3,912 million yen and there was an operating income of 295 million yen compared with a 24 million yen loss one year earlier and ordinary income of 314 million yen compared with a 0.4 million yen loss one year earlier. The profit attributable to owners of parent was 48 million yen, compared with a 29 million yen loss one year earlier.

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 32.2 % year-over-year to 2,413 million yen and operating income was 220 million yen, compared with operating loss of 9 million yen one year earlier.

#### **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 27.4% year-over-year to 1,498 million yen and operating income up 117.5 % to 178 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**

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

Total assets decreased 150 million yen from the end of the previous fiscal year to 17,056 million yen at the end of the first quarter under review. This mainly reflected a decrease in notes and accounts receivable-trade of 1,037 million yen, while there were increases in work in process of 411 million yen, cash and deposits of 221 million yen and electronically recorded monetary claims-operating of 175 million yen.

Total liabilities increased 219 million yen from the end of the previous fiscal year to 5,896 million yen at the

end of the first quarter under review. This mainly reflected an increase in advances received of 413 million yen, while there were decreases in electronically recorded obligations-operating of 110 million yen and income taxes payable of 49 million yen.

Net assets decreased 370 million yen from the end of the previous fiscal year to 11,159 million yen at the end of the first quarter under review.

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

There are no revisions to the first half and full year consolidated forecasts for the fiscal year ending February 28, 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 income before income taxes and minority interests during the fiscal year in which the quarter under review falls, and multiplying that rate by the income before income taxes and minority interests for the quarter 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 quarter 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 in the first quarter of the current fiscal year. In addition, operating income increased 4,100 thousand yen and ordinary income and profit before income taxes increased 2,255 thousand yen each in the first quarter 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 Law, 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 method for the depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

This change has no effect on the results of operations in the first quarter of the current fiscal year.

### **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)	First quarter of FY2/17 (As of May 31, 2016)
<b>Assets</b>		
Current assets		
Cash and deposits	4,042,296	4,263,901
Notes and accounts receivable-trade	5,542,999	4,505,723
Electronically recorded monetary claims-operating	151,350	326,849
Merchandise and finished goods	330,747	358,503
Work in process	1,511,095	1,922,590
Raw materials and supplies	590,674	687,392
Prepaid expenses	114,910	125,050
Deferred tax assets	369,466	355,811
Other	424,172	522,518
Allowance for doubtful accounts	(24,122)	(22,536)
Total current assets	13,053,591	13,045,804
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,153,744	1,098,954
Land	1,318,399	1,316,931
Other, net	662,978	693,133
Total property, plant and equipment	3,135,122	3,109,019
Intangible assets		
Goodwill	77,159	-
Other	105,600	93,726
Total intangible assets	182,760	93,726
Investments and other assets		
Deferred tax assets	29,420	24,367
Other	811,158	788,489
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	835,179	807,456
Total non-current assets	4,153,061	4,010,203
Total assets	17,206,653	17,056,007
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	1,680,871	1,828,510
Electronically recorded obligations-operating	899,494	789,342
Income taxes payable	65,043	16,042
Advances received	1,288,049	1,701,131
Provision for bonuses	259,898	314,661
Provision for directors' bonuses	61,000	30,000
Asset retirement obligations	19,199	19,199
Other	1,042,018	871,288
Total current liabilities	5,315,576	5,570,175
Non-current liabilities		
Net defined benefit liability	194,094	190,101
Negative goodwill	11,067	-
Asset retirement obligations	4,213	4,230
Other	152,518	132,329
Total non-current liabilities	361,893	326,661
Total liabilities	5,677,469	5,896,836

	(Thousands of yen)	
	FY2/16 (As of Feb. 29, 2016)	First quarter of FY2/17 (As of May 31, 2016)
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	9,271,008
Treasury shares	(201,313)	(201,313)
Total shareholders' equity	11,630,488	11,394,808
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	16,600	20,082
Foreign currency translation adjustment	(100,775)	(238,736)
Remeasurements of defined benefit plans	(17,129)	(16,982)
Total accumulated other comprehensive income	(101,304)	(235,637)
Total net assets	11,529,183	11,159,171
Total liabilities and net assets	17,206,653	17,056,007



**(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 FY2/16 (Mar. 1, 2015 – May 31, 2015)	First three months of FY2/17 (Mar. 1, 2016 – May 31, 2016)
Net sales	3,002,638	3,912,047
Cost of sales	1,976,563	2,559,578
Gross profit	1,026,074	1,352,468
Selling, general and administrative expenses	1,050,574	1,057,458
Operating income (loss)	(24,500)	295,009
Non-operating income		
Interest income	407	460
Technical support fee	2,133	2,035
Insurance premiums refunded cancellation	-	18,424
Amortization of negative goodwill	1,948	-
Foreign exchange gains	12,837	-
Other	7,725	2,523
Total non-operating income	25,052	23,444
Non-operating expenses		
Interest expenses	999	781
Foreign exchange losses	-	2,785
Other	20	879
Total non-operating expenses	1,020	4,447
Ordinary income (loss)	(468)	314,006
Extraordinary income		
Gain on sales of non-current assets	-	7,436
Gain on sales of investment securities	-	14,936
Total extraordinary income	-	22,372
Extraordinary losses		
Loss on retirement of non-current assets	3,236	0
Directors' retirement benefits	-	250,000
Total extraordinary losses	3,236	250,000
Profit (loss) before income taxes	(3,704)	86,378
Income taxes	28,549	37,814
Profit (loss)	(32,254)	48,564
Loss attributable to non-controlling interests	(3,134)	-
Profit (loss) attributable to owners of parent	(29,120)	48,564

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

	(Thousands of yen)	
	First three months of FY2/16 (Mar. 1, 2015 – May 31, 2015)	First three months of FY2/17 (Mar. 1, 2016 – May 31, 2016)
Profit (loss)	(32,254)	48,564
Other comprehensive income		
Valuation difference on available-for-sale securities	12,387	3,481
Foreign currency translation adjustment	(85,139)	(140,555)
Remeasurements of defined benefit plans, net of tax	(233)	146
Total other comprehensive income	(72,985)	(136,927)
Comprehensive income	(105,240)	(88,362)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(101,477)	(88,362)
Comprehensive income attributable to non-controlling interests	(3,762)	-

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

Not applicable.

**Significant Changes in Shareholders' Equity**

Not applicable.

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

I First three months of FY2/16 (Mar. 1, 2015 – May 31, 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	1,826,072	1,176,565	3,002,638	-	3,002,638
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	1,826,072	1,176,565	3,002,638	-	3,002,638
Segment profit (loss)	(9,377)	81,899	72,521	(97,022)	(24,500)

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 97,022 thousand yen to segment profit (loss) 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 (loss) is adjusted to be consistent with operating loss 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
2,364,438	194,486	112,640	235,098	95,973	3,002,638

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 FY2/17 (Mar. 1, 2016 – May 31, 2016)

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

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

Notes: 1. Contents of adjustments are as follows.

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

2. Segment profit is adjusted to be consistent with operating 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 three months of FY2/17 upon the retrospective adoption of the Accounting Standard for Business Combinations, etc. for prior years is added to or deducted from capital surplus and retained earnings. As a result, goodwill decreased 77,159 thousand yen at the beginning of the first quarter of FY2/17.

## 3. Information by region

## Net sales

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

(Thousands of yen)

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

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

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

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

## 5. Supplementary Information

### Orders and Sales

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

Operating segment	First three months of FY2/16 (Mar. 1, 2015 – May 31, 2015)		First three months of FY2/17 (Mar. 1, 2016 – May 31, 2016)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	3,833,281	105.1	3,689,717	96.3
Chemicals Business	508,778	87.9	611,637	120.2
Total	4,342,060	102.7	4,301,355	99.1

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.

- Orders received are based on selling prices; inter-segment transactions have been eliminated.
- Orders received do not include consumption taxes.

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

Operating segment	First three months of FY2/16 (Mar. 1, 2015 – May 31, 2015)		First three months of FY2/17 (Mar. 1, 2016 – May 31, 2016)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	8,900,504	128.1	8,318,954	93.5
Chemicals Business	391,409	100.3	409,484	104.6
Total	9,291,913	126.7	8,728,439	93.9

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.

- Order backlog is based on selling prices; inter-segment transactions have been eliminated.
- Order backlog does not include consumption taxes.

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

Operating segment	First three months of FY2/16 (Mar. 1, 2015 – May 31, 2015)		First three months of FY2/17 (Mar. 1, 2016 – May 31, 2016)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	1,826,072	60.8	2,413,319	61.7
Chemicals Business	1,176,565	39.2	1,498,727	38.3
Total	3,002,638	100.0	3,912,047	100.0

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

- 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.*