

**Consolidated Financial Results**  
**for the Third Quarter of the Fiscal Year Ending February 28, 2019**  
**(Nine Months Ended November 30, 2018)**

[Japanese GAAP]

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Scheduled date of filing of Quarterly Report: January 8, 2019

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, 2018 – November 30, 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	%
Nine months ended Nov. 30, 2018	13,243	(3.7)	670	(41.9)	770	(34.4)	523	(38.4)
Nine months ended Nov. 30, 2017	13,745	(6.9)	1,152	(20.0)	1,174	(21.0)	849	4.1

Note: Comprehensive income  
 Nine months ended Nov. 30, 2018: 628 million yen (down 25.9%)  
 Nine months ended Nov. 30, 2017: 847 million yen (up 78.5%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Nov. 30, 2018	31.08	-
Nine months ended Nov. 30, 2017	49.26	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Nov. 30, 2018	17,726	12,953	73.1	773.59
As of Feb. 28, 2018	19,125	13,242	69.2	767.91

Reference: Equity capital As of Nov. 30, 2018: 12,953 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	-	0.00	-	-	-
Fiscal year ending Feb. 28, 2019 (forecast)	-	-	-	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	18,000	(9.1)	1,000	(49.3)	1,100	(44.8)	800	(45.9)	47.49

Note: Revision to the most recently announced consolidated forecast: Yes

**\* 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 “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements, Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements” for details.

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Nov. 30, 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 Nov. 30, 2018:	1,655,480 shares	As of Feb. 28, 2018:	1,155,478 shares
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3) Average number of shares outstanding during the period

Nine months ended Nov. 30, 2018:	16,846,340 shares	Nine months ended Nov. 30, 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 nine months of the fiscal year due to firm corporate earnings, employment and personal income.

However, increasing tension between the U.S. and China due to U.S. trade protectionism, uncertainty about Britain's imminent departure from the EU and other events make the outlook unclear. Amid this uncertainty, the yen will probably remain strong because of the perception of the yen as a safe currency and this is likely to have a negative impact on the earnings of Japanese companies.

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.

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 decreased 3.7% year-over-year to 13,243 million yen, operating profit decreased 41.9% to 670 million yen, ordinary profit was down 34.4% to 770 million yen, and profit attributable to owners of parent decreased 38.4% to 523 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 earnings decreased. One reason is that the pace of the start of full-scale sales activities for tablet printers and other new products was slower than expected despite aggressive sales activities.

As a result, net sales decreased 10.5% year-over-year to 8,723 million yen and segment profit decreased 67.5% to 295 million yen.

#### **Chemicals Business Segment**

Sales and operating profit increased for pharmaceutical excipients used in oral agents because of a big increase in demand in Japan and many activities for growth outside Japan. We will strengthen the ability to quickly and reliably meet customers' needs by rapidly increasing the production capacity of internally produced pharmaceutical excipients.

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

As a result, net sales increased 13.0% year-over-year to 4,519 million yen and segment profit increased 31.5% to 781 million yen.

**(2) Explanation of Financial Position**

Total assets decreased 1,399 million yen from the end of the previous fiscal year to 17,726 million yen at the end of the third quarter under review. This mainly reflected decreases in cash and deposits of 1,733 million yen and work in process of 250 million yen, while there were increases in electronically recorded monetary claims-operating of 132 million yen, merchandise and finished goods of 130 million yen and raw materials and supplies of 154 million yen.

Total liabilities decreased 1,110 million yen from the end of the previous fiscal year to 4,772 million yen at the end of the third quarter under review. This mainly reflected decreases in electronically recorded obligations-operating of 129 million yen, notes and accounts payable-trade of 350 million yen, income taxes payable of 281 million yen and advances received of 412 million yen.

Net assets decreased 288 million yen from the end of the previous fiscal year to 12,953 million yen at the end of the third 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**

Based on the results of operations in the first nine months of the current fiscal year, Freund has revised 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. For more information, please refer to the press release titled “Notice of Revisions to Consolidated Forecasts” that was announced today (January 8, 2019).

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

(Thousands of yen)

	FY2/18 (As of Feb. 28, 2018)	Third quarter of FY2/19 (As of Nov. 30, 2018)
<b>Assets</b>		
Current assets		
Cash and deposits	6,568,050	4,834,828
Notes and accounts receivable-trade	4,337,779	4,253,700
Electronically recorded monetary claims-operating	113,748	246,278
Merchandise and finished goods	263,127	393,519
Work in process	2,046,615	1,795,671
Raw materials and supplies	876,175	1,030,976
Prepaid expenses	110,520	156,129
Deferred tax assets	175,959	226,300
Other	303,293	282,478
Allowance for doubtful accounts	(10,737)	(11,347)
Total current assets	14,784,533	13,208,537
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,187,803	1,199,967
Land	1,239,027	1,240,156
Other, net	943,601	1,140,650
Total property, plant and equipment	3,370,431	3,580,773
Intangible assets		
Goodwill	92,104	74,083
Other	10,351	19,312
Total intangible assets	102,455	93,396
Investments and other assets		
Deferred tax assets	20,632	26,487
Other	852,895	822,367
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	868,127	843,454
Total non-current assets	4,341,015	4,517,624
Total assets	19,125,548	17,726,161
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	1,931,872	1,581,012
Electronically recorded obligations-operating	892,011	762,710
Income taxes payable	356,267	74,508
Advances received	1,498,799	1,086,625
Provision for bonuses	210,727	128,345
Provision for directors' bonuses	54,300	19,500
Other	620,933	797,009
Total current liabilities	5,564,911	4,449,712
Non-current liabilities		
Net defined benefit liability	200,056	201,203
Asset retirement obligations	34,977	35,093
Other	83,387	86,826
Total non-current liabilities	318,421	323,122
Total liabilities	5,883,333	4,772,835

(Thousands of yen)

	FY2/18 (As of Feb. 28, 2018)	Third quarter of FY2/19 (As of Nov. 30, 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	11,598,248
Treasury shares	(201,361)	(773,363)
Total shareholders' equity	13,543,245	13,149,999
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	51,132	41,574
Foreign currency translation adjustment	(332,254)	(220,316)
Remeasurements of defined benefit plans	(19,907)	(17,930)
Total accumulated other comprehensive income	(301,029)	(196,672)
Total net assets	13,242,215	12,953,326
Total liabilities and net assets	19,125,548	17,726,161

**(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 FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)	First nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)
Net sales	13,745,942	13,243,297
Cost of sales	8,993,321	8,874,332
Gross profit	4,752,621	4,368,964
Selling, general and administrative expenses	3,599,836	3,698,631
Operating profit	1,152,784	670,332
Non-operating income		
Interest income	2,062	3,029
Dividend income	4,749	63,727
Technical support fee	10,670	5,579
Foreign exchange gains	-	9,025
Other	12,953	21,667
Total non-operating income	30,436	103,028
Non-operating expenses		
Interest expenses	1,259	767
Foreign exchange losses	5,169	-
Other	2,253	1,945
Total non-operating expenses	8,682	2,712
Ordinary profit	1,174,538	770,648
Extraordinary income		
Gain on sales of non-current assets	-	662
Gain on redemption of investment securities	62,177	23,874
Total extraordinary income	62,177	24,537
Extraordinary losses		
Loss on retirement of non-current assets	336	2,297
Loss on sales of non-current assets	1,923	-
Total extraordinary losses	2,259	2,297
Profit before income taxes	1,234,457	792,888
Income taxes	384,970	269,242
Profit	849,486	523,646
Profit attributable to owners of parent	849,486	523,646

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

(Thousands of yen)

	First nine months of FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)	First nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)
Profit	849,486	523,646
Other comprehensive income		
Valuation difference on available-for-sale securities	7,143	(9,558)
Foreign currency translation adjustment	(11,080)	111,937
Remeasurements of defined benefit plans, net of tax	2,147	1,976
Total other comprehensive income	(1,789)	104,356
Comprehensive income	847,696	628,002
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	847,696	628,002

### **(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. Including an increase due to the purchase of odd-lot shares, treasury shares increased 572,001 thousand yen during the first nine months of FY2/19 to 773,363 thousand yen at the end of the third 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 nine months of FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)

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

	Machinery Business	Chemicals Business	Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales					
(1) External sales	9,747,293	3,998,649	13,745,942	-	13,745,942
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	9,747,293	3,998,649	13,745,942	-	13,745,942
Segment profit	910,769	593,945	1,504,715	(351,931)	1,152,784

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 351,931 thousand yen to segment profit includes corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.

2. Segment profit is adjusted to be consistent with operating profit recorded in the quarterly consolidated statement of income.

## 2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Not applicable.

## 3. Information by region

Net sales

In addition to the disclosure of information required by “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
9,771,354	1,297,648	497,498	1,289,312	890,128	13,745,942

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

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

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

## II First nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 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	8,723,378	4,519,918	13,243,297	-	13,243,297
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	8,723,378	4,519,918	13,243,297	-	13,243,297
Segment profit	295,628	781,214	1,076,843	(406,511)	670,332

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 406,511 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
10,064,892	1,101,072	626,236	251,209	1,199,885	13,243,297

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 nine months of FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)		First nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	8,747,449	71.4	8,620,929	98.6
Chemicals Business	477,635	27.5	554,167	116.0
Total	9,225,085	66.0	9,175,096	99.5

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 FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)		First nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	7,681,872	82.7	5,818,175	75.7
Chemicals Business	131,081	31.2	115,464	88.1
Total	7,812,953	80.5	5,933,639	75.9

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.

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 FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)		First nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	9,747,293	70.9	8,723,378	65.9
Chemicals Business	3,998,649	29.1	4,519,918	34.1
Total	13,745,942	100.0	13,243,297	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.*