

Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending February 28, 2019
(Six Months Ended August 31, 2018)

[Japanese GAAP]

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Scheduled date of filing of Quarterly Report: October 5, 2018
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for institutional investors and securities analysts)

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

1. Consolidated Financial Results for the Second Quarter (March 1, 2018 – August 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	%
Six months ended Aug. 31, 2018	9,117	(6.9)	592	(44.8)	684	(37.3)	466	(36.5)
Six months ended Aug. 31, 2017	9,789	11.7	1,074	56.4	1,091	54.0	734	139.7

Note: Comprehensive income
 Six months ended Aug. 31, 2018: 526 million yen (down 23.8%)
 Six months ended Aug. 31, 2017: 691 million yen (- %)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Aug. 31, 2018	27.60	-
Six months ended Aug. 31, 2017	42.59	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Aug. 31, 2018	17,484	12,852	73.5	767.55
As of Feb. 28, 2018	19,125	13,242	69.2	767.91

Reference: Equity capital
 As of Aug. 31, 2018: 12,852 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	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 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, 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 Aug. 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

Six months ended Aug. 31, 2018:	16,896,696 shares	Six months ended Aug. 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 half 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 increasing geopolitical risk. Growing turmoil as U.S. trade protectionism increases, political uncertainty in Europe and instability in the Middle East are major components of this risk.

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 6.9% year-over-year to 9,117 million yen, operating profit decreased 44.8% to 592 million yen, ordinary profit was down 37.3% to 684 million yen, and profit attributable to owners of parent decreased 36.5% to 466 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 were lower than in the first half of the previous fiscal year. However, orders received, an indicator of upcoming sales, posted strong growth on a six-month basis and the quarterly order backlog has started to climb.

As a result, net sales decreased 14.3% year-over-year to 6,145 million yen and segment profit decreased 66.5% to 291 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 13.5% year-over-year to 2,971 million yen and segment profit increased 32.1% to 556 million yen.

(2) Explanation of Financial Position

Assets, liabilities and net assets

Total assets decreased 1,641 million yen from the end of the previous fiscal year to 17,484 million yen at the end of the second quarter under review. This mainly reflected decreases in cash and deposits of 1,322 million yen and work in process of 525 million yen, while there was an increase in merchandise and finished goods of 102 million yen.

Total liabilities decreased 1,251 million yen from the end of the previous fiscal year to 4,632 million yen at the end of the second quarter under review. This mainly reflected decreases in electronically recorded obligations-operating of 376 million yen, notes and accounts payable-trade of 304 million yen and advances received of 558 million yen.

Net assets decreased 389 million yen from the end of the previous fiscal year to 12,852 million yen at the end of the second quarter under review. This mainly reflected a decrease of 572 million yen due to the purchase of treasury shares.

Cash flows

The balance of cash and cash equivalents at the end of the second quarter under review was 5,245 million yen, down 1,322 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 in operating activities was 230 million yen (compared with net cash used of 375 million yen in the same period of the previous fiscal year). Although there were positive factors including profit before income taxes of 705 million yen, a decrease in inventories of 338 million yen and depreciation of 162 million yen, there were negative factors including a decrease in notes and accounts payable-trade of 724 million yen, a decrease in advances received of 573 million yen and income taxes paid of 332 million yen.

b. Cash flows from investing activities

Net cash used in investing activities was 190 million yen (compared with net cash used of 224 million yen in the same period of the previous fiscal year). Although there were positive factors including proceeds from redemption of investment securities of 23 million yen, there were negative factors including the payment for the purchase of property, plant and equipment of 205 million yen.

c. Cash flows from financing activities

Net cash used in financing activities was 918 million yen (compared with net cash used of 368 million yen in the same period of the previous fiscal year). This was mainly the result of purchase of treasury shares of 572 million yen and 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, 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)	Second quarter of FY2/19 (As of Aug. 31, 2018)
Assets		
Current assets		
Cash and deposits	6,568,050	5,245,781
Notes and accounts receivable-trade	4,337,779	4,224,471
Electronically recorded monetary claims-operating	113,748	152,862
Merchandise and finished goods	263,127	365,375
Work in process	2,046,615	1,521,486
Raw materials and supplies	876,175	915,151
Prepaid expenses	110,520	128,504
Deferred tax assets	175,959	215,993
Other	303,293	232,945
Allowance for doubtful accounts	(10,737)	(11,106)
Total current assets	14,784,533	12,991,466
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,187,803	1,202,510
Land	1,239,027	1,239,710
Other, net	943,601	1,112,122
Total property, plant and equipment	3,370,431	3,554,342
Intangible assets		
Goodwill	92,104	80,090
Other	10,351	11,162
Total intangible assets	102,455	91,253
Investments and other assets		
Deferred tax assets	20,632	25,632
Other	852,895	827,201
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	868,127	847,434
Total non-current assets	4,341,015	4,493,030
Total assets	19,125,548	17,484,497
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,931,872	1,627,305
Electronically recorded obligations-operating	892,011	515,524
Income taxes payable	356,267	304,613
Advances received	1,498,799	940,359
Provision for bonuses	210,727	219,611
Provision for directors' bonuses	54,300	18,000
Other	620,933	686,822
Total current liabilities	5,564,911	4,312,236
Non-current liabilities		
Net defined benefit liability	200,056	198,152
Asset retirement obligations	34,977	35,054
Other	83,387	86,790
Total non-current liabilities	318,421	319,998
Total liabilities	5,883,333	4,632,234

	(Thousands of yen)	
	FY2/18 (As of Feb. 28, 2018)	Second quarter of FY2/19 (As of Aug. 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	11,540,905
Treasury shares	(201,361)	(773,361)
Total shareholders' equity	13,543,245	13,092,658
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	51,132	41,667
Foreign currency translation adjustment	(332,254)	(263,473)
Remeasurements of defined benefit plans	(19,907)	(18,589)
Total accumulated other comprehensive income	(301,029)	(240,395)
Total net assets	13,242,215	12,852,262
Total liabilities and net assets	19,125,548	17,484,497

(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 FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)
Net sales	9,789,065	9,117,076
Cost of sales	6,317,406	6,100,966
Gross profit	3,471,658	3,016,110
Selling, general and administrative expenses	2,397,089	2,423,288
Operating profit	1,074,568	592,821
Non-operating income		
Interest income	1,376	2,006
Dividend income	4,749	63,066
Technical support fee	8,625	3,673
Foreign exchange gains	-	4,106
Other	10,069	19,689
Total non-operating income	24,820	92,542
Non-operating expenses		
Interest expenses	895	562
Foreign exchange losses	5,699	-
Other	1,094	524
Total non-operating expenses	7,688	1,086
Ordinary profit	1,091,700	684,277
Extraordinary income		
Gain on redemption of investment securities	-	23,874
Total extraordinary income	-	23,874
Extraordinary losses		
Loss on retirement of non-current assets	69	2,184
Loss on sales of non-current assets	1,918	-
Total extraordinary losses	1,988	2,184
Profit before income taxes	1,089,711	705,967
Income taxes	355,208	239,663
Profit	734,503	466,303
Profit attributable to owners of parent	734,503	466,303

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

(Thousands of yen)

	First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)
Profit	734,503	466,303
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,457)	(9,465)
Foreign currency translation adjustment	(40,694)	68,780
Remeasurements of defined benefit plans, net of tax	1,431	1,317
Total other comprehensive income	(42,720)	60,633
Comprehensive income	691,782	526,936
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	691,782	526,936

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)
Cash flows from operating activities		
Profit before income taxes	1,089,711	705,967
Depreciation	171,927	162,695
Amortization of goodwill	-	12,013
Increase (decrease) in provision for bonuses	(28,213)	8,387
Increase (decrease) in provision for directors' bonuses	(43,400)	(36,300)
Interest and dividend income	(6,125)	(65,073)
Interest expenses	895	562
Foreign exchange losses (gains)	3,644	(4,495)
Loss (gain) on sales of property, plant and equipment	1,918	-
Loss (gain) on redemption of investment securities	-	(23,874)
Decrease (increase) in notes and accounts receivable-trade	(632,769)	91,182
Decrease (increase) in inventories	(602,841)	338,514
Decrease (increase) in other assets	176,983	76,844
Increase (decrease) in notes and accounts payable-trade	306,906	(724,487)
Increase (decrease) in advances received	(113,713)	(573,452)
Increase (decrease) in other liabilities	(249,206)	54,696
Other, net	146	(6,050)
Subtotal	75,863	17,129
Interest and dividend income received	6,125	65,073
Interest expenses paid	(895)	(562)
Proceeds from insurance income	-	8,312
Income taxes refund	4,282	12,888
Income taxes paid	(460,530)	(332,932)
Net cash provided by (used in) operating activities	(375,154)	(230,091)
Cash flows from investing activities		
Purchase of property, plant and equipment	(228,133)	(205,257)
Proceeds from sales of property, plant and equipment	8,079	-
Purchase of intangible assets	(430)	(3,162)
Purchase of investment securities	(1,135)	(3,162)
Proceeds from redemption of investment securities	-	23,874
Purchase of insurance funds	(2,913)	(2,913)
Payments for guarantee deposits	(328)	(570)
Proceeds from collection of guarantee deposits	10	618
Collection of investments in capital	-	10
Net cash provided by (used in) investing activities	(224,852)	(190,562)
Cash flows from financing activities		
Repayments of lease obligations	(24,902)	(3,217)
Cash dividends paid	(343,374)	(343,457)
Purchase of treasury shares	-	(572,000)
Net cash provided by (used in) financing activities	(368,276)	(918,675)
Effect of exchange rate change on cash and cash equivalents	(14,066)	17,059
Net increase (decrease) in cash and cash equivalents	(982,349)	(1,322,269)
Cash and cash equivalents at beginning of period	6,982,822	6,568,050
Cash and cash equivalents at end of period	6,000,472	5,245,781

(4) 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 half of FY2/19 to 773,361 thousand yen at the end of the second 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 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.

II First six months of FY2/19 (Mar. 1, 2018 – Aug. 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	6,145,635	2,971,440	9,117,076	-	9,117,076
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	6,145,635	2,971,440	9,117,076	-	9,117,076
Segment profit	291,444	556,298	847,743	(254,921)	592,821

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 254,921 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
7,090,644	673,368	335,337	172,173	845,553	9,117,076

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 six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)		First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	5,984,924	71.2	6,518,694	108.9
Chemicals Business	221,420	18.5	392,246	177.2
Total	6,206,344	64.6	6,910,941	111.4

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 FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)		First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	7,465,447	76.4	6,233,241	83.5
Chemicals Business	94,168	20.8	188,507	200.2
Total	7,559,615	74.0	6,421,748	84.9

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 six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)		First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	7,171,574	73.3	6,145,635	67.4
Chemicals Business	2,617,490	26.7	2,971,440	32.6
Total	9,789,065	100.0	9,117,076	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.