April 5, 2017

Consolidated Financial Results for the Fiscal Year Ended February 28, 2017

[Japanese GAAP]

Company name: Freund Corporation
Listing: Tokyo (JASDAQ)
Securities code: 6312
URL: http://www.freund.co.jp
Representative: Iwao Fusejima, President & CEO
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Scheduled date of Annual General Meeting of Shareholders: May 26, 2017
Scheduled date of filing of Annual Securities Report: May 29, 2017
Scheduled date of payment of dividend: May 29, 2017
Preparation of supplementary materials for financial results: Yes
Holding of 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 Fiscal Year Ended February 28, 2017 (March 1, 2016 – 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	%
Fiscal year ended Feb. 28, 2017	21,164	11.2	2,041	51.6	2,097	50.4	1,064	10.7
Fiscal year ended Feb. 29, 2016	19,027	9.2	1,346	17.1	1,394	11.6	961	38.1

Note: Comprehensive income
Fiscal year ended Feb. 28, 2017: 937 million yen (up 17.4%)
Fiscal year ended Feb. 29, 2016: 798 million yen (down 21.7%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary income on total assets	Operating income on net sales
	Yen	Yen	%	%	%
Fiscal year ended Feb. 28, 2017	61.72	-	9.0	11.6	9.6
Fiscal year ended Feb. 29, 2016	55.74	-	8.5	8.1	7.1

Reference: Equity in earnings of affiliates
Fiscal year ended Feb. 28, 2017: - million yen
Fiscal year ended Feb. 29, 2016: - million yen

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 Feb. 28, 2017	19,101	12,185	63.8	706.62
As of Feb. 29, 2016	17,206	11,529	67.0	668.57

Reference: Equity capital As of Feb. 28, 2017: 12,185 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.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of the period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended Feb. 28, 2017	3,605	(351)	(277)	6,982
Fiscal year ended Feb. 29, 2016	290	(432)	(331)	4,042

2. Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended Feb. 29, 2016	-	0.00	-	25.00	25.00	215	22.4	1.9
Fiscal year ended Feb. 28, 2017	-	0.00	-	20.00	20.00	344	32.4	2.9
Fiscal year ending Feb. 28, 2018 (forecast)	-	0.00	-	20.00	20.00		-	

Breakdown of the year-end dividend for the fiscal year ended Feb. 28, 2017: Ordinary dividends: 15.00 yen
Commemorative dividends: 5.00 yen

The Company conducted a 2-for-1 common stock split on March 1, 2016. The dividend per share for the fiscal year ended Feb. 28, 2017 has been adjusted to reflect the stock split. Prior to this adjustment, the dividend was 40 yen per share, comprising an ordinary dividend of 30 yen and a commemorative dividend of 10 yen.

3. Consolidated Forecast for the Fiscal Year Ending February 28, 2018 (March 1, 2017 – February 28, 2018)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	9,000	2.7	600	(12.7)	600	(15.4)	400	30.6	23.20
Full year	21,000	(0.8)	2,100	2.9	2,100	0.1	1,400	31.5	81.19

*** 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) 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 20 “5. Consolidated Financial Statements (5) Notes to Consolidated Financial Statements (Changes in Accounting Policies)” for details.

(3) Number of outstanding shares (common stock)

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

As of Feb. 28, 2017:	18,400,000 shares	As of Feb. 29, 2016:	18,400,000 shares

2) Number of treasury shares at the end of the period

As of Feb. 28, 2017:	1,155,478 shares	As of Feb. 29, 2016:	1,155,444 shares

3) Average number of shares outstanding during the period

Fiscal year ended Feb. 28, 2017:	17,244,534 shares	Fiscal year ended Feb. 29, 2016:	17,244,556 shares

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.

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended February 28, 2017 (March 1, 2016 – February 28, 2017)

(1) Non-consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Feb. 28, 2017	15,696	14.2	1,537	40.2	1,752	35.9	852	21.7
Fiscal year ended Feb. 29, 2016	13,741	2.8	1,096	(2.7)	1,289	(3.6)	700	13.9

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended Feb. 28, 2017	49.46	-
Fiscal year ended Feb. 29, 2016	40.64	-

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) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Feb. 28, 2017	16,948	11,361	67.0	658.82
As of Feb. 29, 2016	15,539	10,707	68.9	620.90

Reference: Shareholders’ equity As of Feb. 28, 2017: 11,361 million yen As of Feb. 29, 2016: 10,707 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.

The current financial report is not subject to the audit procedures.

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 “1. Analysis of Results of Operations and Financial Position, (1) Analysis of Results of Operations” on page 2 of the attachments regarding preconditions or other related matters for forecasts shown above.

Contents of Attachments

1. Analysis of Results of Operations and Financial Position

(1) Analysis of Results of Operations

The slow recovery of Japan's economy continued during the fiscal year ended on February 28, 2017 despite flat corporate earnings as the yen strengthened in response to uncertainty about the overseas economy since the beginning of 2016. One reason was the outlook for a recovery in earnings at Japanese companies as the dollar began to appreciate and the yen weakened following the November U.S. presidential election. This is a reflection of the outlook for higher U.S. government spending by the Trump administration as well as the increasing difference between interest rates in Japan and the United States as U.S. interest rates move up.

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 11.2% year-over-year to 21,164 million yen, operating income increased 51.6% to 2,041 million yen, ordinary income was up 50.4% to 2,097 million yen, and profit attributable to owners of parent increased 10.7% to 1,064 million yen.

In 2016, consolidated subsidiaries Freund-Vector Corporation and Freund-Turbo Corporation changed the end of their fiscal years from December 31 to the end of February. As a result, consolidated results of operations for the fiscal year that ended on February 28, 2017 include the 14-month period from January 1, 2016 to February 28, 2017 for these two companies.

Please refer to page 18 "(5) Notes to Consolidated Financial Statements (Significant Accounting Policies in the Preparation of Consolidated Financial Statements) 2. Fiscal year of consolidated subsidiaries" for details.

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.

At U.S. subsidiary Freund-Vector Corporation, sales and operating income increased because of growth in sales in North America.

At Freund-Turbo Corporation, where milling devices are the core product, sales increased because of the launch of new products and measures to build a more powerful business infrastructure. However, operating income at this company declined because of higher expenses for personnel and developing new products.

As a result, net sales rose 14.4% year-over-year to 14,914 million yen and segment profit increased 47.1% to 1,750 million yen.

Chemicals Business Segment

Sales and operating income of functional excipients used in oral pharmaceuticals were higher mainly because sales remained strong, primarily for use in generic drugs.

Sales and operating income of food preservative were down despite aggressive marketing efforts because of heated competition.

Sales of dietary supplements that incorporate Freund's technologies were higher but there was no change in operating income because of growth in sales of products with a small profit margin.

As a result, net sales rose 4.3% year-over-year to 6,249 million yen and segment profit increased 44.0% to 748 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.

In the fiscal year ending on February 28, 2018, the outlook is for Japan’s economy to recover slowly as corporate earnings, jobs and household income improve. Overseas, there is uncertainty about upcoming U.S. policies as well as about the outlook for Europe, where there will be presidential and other major elections. These events may have a negative impact on Japan’s economy. As a result, the operating environment is expected to remain uncertain.

In March 2017, the Freund Group started the Seventh Medium-term Management Plan, which covers the five-year period ending on February 28, 2022. The plan is centered on “Values” and has the central theme of “One Freund.” Workforce training programs and strengthening product and technology development capabilities are two goals of this plan. In addition, the plan calls for expanding operations on a global scale even faster while pursuing more synergies among business units and group companies.

Based on these strategies, we expect sales to decline by 0.8% year-over-year to 21,000 million yen, and operating income, ordinary income, and profit attributable to owners of parent to rise by 2.9%, 0.1% and 31.5% to 2,100 million yen, 2,100 million yen, and 1,400 million yen, respectively. For the performance of foreign subsidiaries, we assume average foreign exchange rates of 110 yen to the U.S. dollar during the fiscal year.

(2) Analysis of Financial Position

a. Assets, liabilities and net assets

Assets increased 1,894 million yen over the end of the previous fiscal year to 19,101 million yen at the end of the fiscal year under review. This mainly reflected increases in cash and deposits of 2,940 million yen, and work in process of 201 million yen while there was a decrease in notes and accounts receivable-trade of 1,260 million yen.

Liabilities increased 1,238 million yen from the end of the previous fiscal year to 6,916 million yen at the end of the fiscal year under review. This mainly reflected increases in notes and accounts payable-trade of 338 million yen, income taxes payable of 412 million yen, and advances received of 543 million yen.

Net assets increased 656 million yen over the end of the previous fiscal year to 12,185 million yen at the end of the fiscal year under review. This mainly reflected an increase in retained earnings of 771 million yen while there was a decrease in foreign currency translation adjustment of 132 million yen.

b. Cash flows

The balance of cash and cash equivalents at the end of the fiscal year under review was 6,982 million yen, up 2,940 million yen over the end of the previous fiscal year (this compares with a decrease of 505 million yen in the previous fiscal year).

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

Cash flows from operating activities

Net cash provided by operating activities was 3,605 million yen (up 1,142.5% year-over-year). Although there were negative factors including an increase in inventories of 382 million yen and income taxes paid of 245 million yen, there were positive factors including profit before income taxes of 1,783 million yen, a decrease in notes and accounts receivable-trade of 1,243 million yen and increases in advances received of 571 million yen and notes and accounts payable-trade of 409 million yen.

Cash flows from investing activities

Net cash used in investing activities was 351 million yen (down 18.7% year-over-year). Although there were positive factors including proceeds from cancellation of insurance funds of 38 million yen, proceeds from sales of property, plant and equipment of 37 million yen, proceeds from collection of guarantee deposits of 32 million yen, and proceeds from sales of investment securities of 19 million yen, there were negative factors including the payment for the purchase of property, plant and equipment of 474 million yen.

Cash flows from financing activities

Net cash used in financing activities was 277 million yen (down 16.3% year-over-year). This was mainly the result of cash dividends paid of 215 million yen and repayments of lease obligations of 61 million yen.

Reference: Trends in cash flow indicators

	FY2/14	FY2/15	FY2/16	FY2/17
Shareholders' equity ratio (%)	65.8	63.6	67.0	63.8
Shareholders' equity ratio based on market value (%)	65.6	61.9	101.4	135.1
Interest-bearing debt to cash flow ratio (%)	20.0	21.7	41.0	1.6
Interest coverage ratio (times)	252.5	179.7	77.3	1,360.1

Notes: Shareholders' equity ratio = Shareholders' equity / Total assets
Shareholders' equity ratio based on market value = Market capitalization / Total assets
Interest-bearing debt to cash flow ratio = Interest-bearing debt / Cash flows
Interest coverage ratio = Cash flows / Interest payments

* All indices are calculated based on consolidated figures.
* Market capitalization is calculated based on the number of shares outstanding (excluding treasury shares).
* Interest-bearing debt includes all debt on the consolidated balance sheet that incur interest.
* Cash flows and interest payments are taken from "Net cash provided by (used in) operating activities" and "Interest expenses paid" on the consolidated statement of cash flows, respectively.

(3) Basic Policy for Profit Distribution, and Dividends in the Current and Next Fiscal Years

Maximizing shareholder value is the highest priority of the Freund. The policy is to use the benefits of higher shareholder value for earnings distributions to shareholders while retaining earnings for making the company stronger in order to adapt swiftly and properly to changes in the operating environment.

The basic policy for the distribution of earnings is to make distributions based on results of operations. The target for the annual consolidated dividend payout ratio is 30%. We seek to maintain a stable distribution while taking into account the need for retained earnings in order to build a stronger base of operations and take actions aimed at growth.

For the fiscal year that ended on February 29, 2016, there was a dividend of 25 yen per share. The dividend was 12.50 yen per share after adjusting for the 2-for-1 stock split on March 1, 2016.

For the fiscal year that ended on February 28, 2017, we plan to increase the ordinary dividend to 15 yen per share (equivalent to 30 yen prior to the stock split) and pay a 5 yen commemorative dividend for the 20th anniversary of Freund's initial stock listing. This will result in a fiscal year dividend of 20 yen per share (equivalent to 40 yen prior to the stock split). For the fiscal year ending on February 28, 2018, we plan to pay an ordinary dividend of 20 yen per share (equivalent to 40 yen prior to the stock split).

We will use retained earnings for the fiscal year ended February 28, 2017 for making our operations stronger, entering new business domains and other activities that contribute to future growth.

(4) Business and Other Risks

The business operations of the Freund Group are vulnerable to many types of risks as explained below. If any of these events occur, there may be an unexpected impact on results of operations. We are aware of these risk factors and do everything possible to prevent the occurrence of these problems. In addition, we are prepared to take speedy and proper measures if any of these problems occur. Note that this section does not cover all risk factors at the Freund Group.

Forward-looking statements in this section are based on information available as of February 28, 2017.

a. Risks involving changes in the pharmaceutical industry

Products sold to the pharmaceutical industry accounted for the majority of sales in the fiscal year that ended on February 28, 2017.

Many activities are taking place in Japan and overseas for the reorganization of the pharmaceutical industry. In addition, countries are taking actions aimed at holding down healthcare expenditures. These changes in the pharmaceutical industry may have an effect on results of operations.

b. Risks involving price competition

In the machinery business segment, there is an increasing risk of fierce competition based on prices. There may be heated competition as other companies cut prices, engineering companies enter this market, or manufacturers in China and Southeast Asia sell machinery with low prices. We are responding to this competition with cost reductions and other measures to prevent a decline in profit margins. However, unexpected price competition may have an effect on results of operations.

c. Risks involving supplier and customer relationships

In the machinery business segment in Japan, manufacturing operations are highly dependent on certain alliance partners. In the chemicals business segment, sales of dietary supplements are similarly dependent on major customers. If there is a significant change in the manufacturing, technological capabilities or the business operations of the alliance partners or in demand at major buyers of Freund Group products, there may be an effect on results of operations.

d. Risks involving alliances with strategic partners

The Freund Group has established many strategic alliances with companies involving the development of new technologies and products, improvements and modifications of current products, and other activities. If an alliance partner revises its strategic goals or experiences a financial or other problem associated with its operations, the alliance may no longer be sustainable. Ending an alliance may have an effect on results of operations.

e. Risks involving intellectual property

Research and development is a vital component of the Freund Group and there is a department that is responsible solely for the management of intellectual property. We have a rigorous framework for the management of patents and other intellectual property. However, competitors and other companies may infringe on our intellectual property right in association with our business operations in Japan or overseas. If there is an infringement of our intellectual property right by a third-party, we may lose the earnings that were expected from a particular business activity. Furthermore, if a product of the Freund Group violates the intellectual property right of a third party, the resulting dispute may have an effect on results of operations.

f. Risks involving product liability

The Freund Group has a commitment to supplying customers with highly reliable products and services. However, a defect or other problem involving a product or service may occur. Although we have liability insurance for the products we manufacture, exposure to a problem not covered by insurance or the damage to the Group’s reputation caused by a problem involving a product or service may have an effect on results of operations.

g. Risks involving regulations

The worldwide operations of the Freund Group are subject to a variety of laws and regulations concerning business licenses, export and import restrictions, and many other aspects of business activities. In addition, we must comply with laws and regulations for commerce, fair trade, patents, consumer protection, taxes, foreign exchange, the environment and other areas. Furthermore, these laws and regulations may be revised at any time. Although we monitor events involving these laws and regulations, restrictions may be imposed on our business activities or we may have to pay fines or be penalized in other ways if we violate a law or regulation. Any of these events may have an effect on results of operations.

h. Risks involving human resources

The Freund Group must recruit and retain skilled employees for the development of new products, product sales and other activities. Group companies conduct periodic recruiting activities, mainly by hiring graduates of technical universities. We also have training programs to upgrade the skills of employees. In the event that we are unable to recruit skilled engineers or salespeople or that we are unable to retain these employees, there may be an effect on results of operations due to the inability to achieve the Group’s business objectives.

i. Risks involving foreign exchange rate volatility

The Freund Group uses numerous measures to reduce or avoid risks involving foreign exchange rates. However, as overseas sales increase with the increasingly global nature of business operations, sharp exchange rate movements may have an effect on results of operations.

Income statement, balance sheet and other financial data of overseas consolidated subsidiaries are denominated in the currencies where these subsidiaries are located. Since these figures are converted into yen to prepare the consolidated financial statements, the exchange rates used for these conversions may have an effect on the yen-denominated values.

j. Risks involving natural disasters

An earthquake or other natural disaster may severely damage a factory, equipment or other facilities of the Freund Group. Although we have fire, earthquake and other insurance, the coverage of these policies is limited. If sales decline because operations are suspended or there are delays in manufacturing or shipments, or if there are substantial expenses for repairs to a factory or other facilities, there may be an effect on results of operations.

k. Risks involving asset impairment

The Freund Group may be required to recognize an impairment loss on non-current assets if a significant deterioration in the operating environment lowers the profitability of a business unit, if there is a large decline in the market price of a product, or in certain other events. These charges may have an effect on results of operations.

l. Risks involving overseas business activities

The Freund Group has business operations in the United States, Europe and other areas outside Japan. These operations are vulnerable to a number of risk factors that include, but are not limited to, the following items: (a) the unexpected enactment of laws and regulations or tax revisions that have a negative effect on the Group; (b) unfavorable political or economic developments; (c) difficulty recruiting new employees; (d) social turmoil caused by terrorism, wars, infectious diseases or other problems; and (e) a change in the operating environment or competitive circumstances. If any of these problems unexpectedly prevents the Group from doing business overseas, there may be an effect on results of operations.

2. Corporate Group

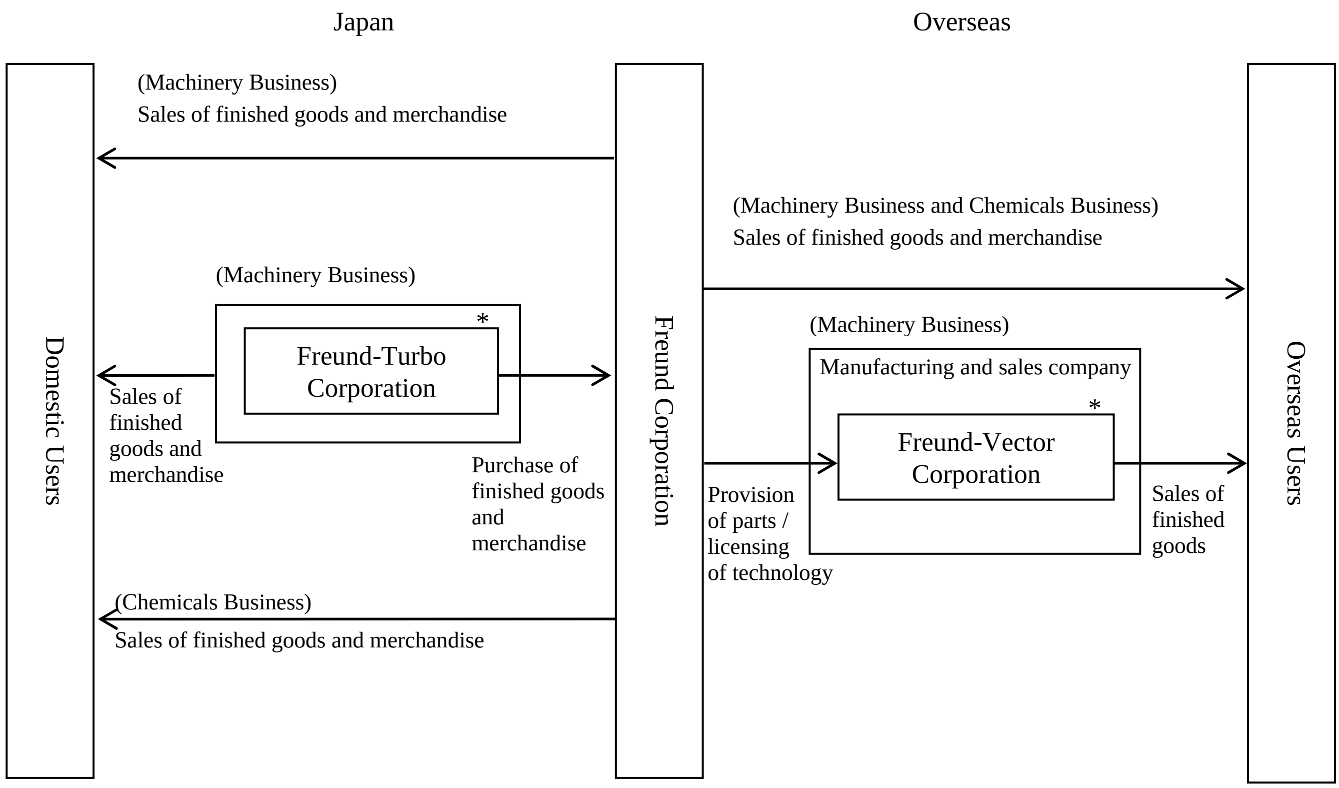
The Freund Group consists of Freund Corporation and two consolidated subsidiaries. Group companies manufacture and sell machinery and chemical products.

The table below lists these business activities and the positioning of each group company with respect to these activities.

There is no difference between the business categories and business segments of the Freund Group.

Category	Major product	Major company	
Machinery Business	Granulating devices Construction of granulating machinery plants Measuring instruments and parts Outsourced granulation of synthetic resins	Manufacturing and sales	Freund Corporation Freund-Vector Corporation Freund-Turbo Corporation
Chemicals Business	Pharmaceutical excipients and dietary supplements	Manufacturing and sales	Freund Corporation
	Food preservatives	Manufacturing and sales	Freund Corporation
	R&D, formulation studies and other projects for pharmaceuticals, food, chemicals and other products	Outsourcing	Freund Corporation

The diagram below is a flow chart of the activities of the Freund Group.



Note: * Consolidated subsidiaries

3. Management Policies

(1) Basic Management Policy

Since our founding in 1964, we have used our core granulation and coating technologies to concentrate on research and development that utilizes our technology creation skills for both innovative machinery (hardware) and pharmaceutical formulation technologies (software).

Based on our philosophy of "Develop the Future through Creativity," we use these strengths for creation in the following five areas.

1) Create innovative products

2) Create new market needs by using foresight

3) Create a management structure that can invigorate our organization

4) Create the spirit of taking on difficult challenges

5) Create enriching and fulfilling relationships with other people

As a research and development driven organization, the Freund Group conducts business activities that are underpinned by creativity and the determination to overcome challenges. Our goals are to achieve sound growth and build an even more powerful foundation for our operations. We are also dedicated to maintaining strong relationships with shareholders, customers, employees and all other shareholders and to make a meaningful contribution to society.

(2) Performance Targets

To become more profitable, we place the highest priority on operating income growth.

For improving profitability while increasing sales, our medium to long-term targets are an operating margin of 10% and return on equity of at least 8%. We want to grow while maintaining the proper balance between sales and our profit margin.

From the standpoint of efficiency, we want to raise operating income as a percentage of total assets as a means of checking the utilization of our assets and our earnings power. We will also reexamine our personnel systems in order to alter the mindset of every employee. Another goal is raising operating income per employee by creating value through stronger ties between development/technology and sales sections.

(3) Medium- and Long-term Management Strategy

The central theme of the Sixth Medium-term Management Plan, which covered the three-year period ended on February 28, 2017, was "Change & Challenge for a second founding to become a 100-year company." The objective of the plan was "realization of growth through creativity and the achievement of a lean business structure in order to advance to the next stage of progress." Group companies worked as a unified team to achieve the plan's goals. The targets were consolidated sales of 23 billion yen and operating income of 2.3 billion yen in the fiscal year that ended on February 28, 2017. Although these sales and earnings targets were not reached, due partly to delays in introducing new products, Freund was able to post all-time-high sales and earnings in the plan's last fiscal year.

The Seventh Medium-term Management Plan started on March 1, 2017 and covers the five-year period ending on February 28, 2022. The plan is centered on "Values" and has the central theme of "One Freund" (Number One, Only One, Be One). The plan's primary goal is building a framework for business operations that can achieve sustained earnings growth by using advanced technologies to meet the true needs of customers. The numerical targets are a consolidated operating margin of 10% and a consolidated ROE of at least 8%.

(4) Challenges

In the pharmaceutical industry, there are growing expectations and needs involving pharmaceuticals because of economic growth in emerging countries and the aging of populations worldwide. At the same time, the operating environment is changing drastically. There are challenges due to the increasing complexity of R&D for treatments for difficult diseases and measures by countries to hold down healthcare expenditures because of their tight budgets. Generic drug companies are making substantial capital expenditures as governments implement policies to increase the use of these drugs. Although Freund's performance has benefited from these expenditures, generic drug companies may reduce their capital expenditures in the future if prices of these drugs are lowered. In addition, there are concerns about risk factors that may negatively affect the Japanese economy. There is uncertainty about upcoming U.S. policies as well as considerable uncertainty about the outlook for Europe, where there will be presidential and other significant political events. Consequently, the operating environment is expected to remain uncertain.

The Freund Group's goal is to increase synergies from the machinery business and chemicals business. We plan to use these synergies to differentiate ourselves from competitors as we achieve more growth in our current operations and actively enter into new businesses. To grow overseas, which will contribute to the growth of our corporate value, we will enlarge our global sales channels in order to raise the group's overseas sales ratio.

4. Basic Approach to the Selection of Accounting Standards

The Group has a policy of preparing its consolidated financial statements using Japanese GAAP to permit comparisons with other fiscal years as well as comparisons with the performance of other Japanese companies.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Thousands of yen)

	FY2/16 (As of Feb. 29, 2016)	FY2/17 (As of Feb. 28, 2017)
Assets		
Current assets		
Cash and deposits	4,042,296	6,982,822
Notes and accounts receivable-trade	*1 5,542,999	*1 4,282,766
Electronically recorded monetary claims-operating	151,350	120,616
Merchandise and finished goods	*1 330,747	*1 404,081
Work in process	*1 1,511,095	*1 1,712,294
Raw materials and supplies	*1 590,674	*1 649,160
Prepaid expenses	114,910	148,338
Deferred tax assets	369,466	251,999
Other	424,172	400,079
Allowance for doubtful accounts	(24,122)	(13,507)
Total current assets	13,053,591	14,938,653
Non-current assets		
Property, plant and equipment		
Buildings and structures	2,773,189	2,824,554
Accumulated depreciation	(1,619,445)	(1,664,222)
Buildings and structures, net	*1 1,153,744	*1 1,160,332
Machinery, equipment and vehicles	1,202,220	1,391,088
Accumulated depreciation	(924,014)	(995,910)
Machinery, equipment and vehicles, net	278,205	395,178
Land	*1 1,318,399	*1 1,239,987
Construction in progress	100,983	132,956
Other	1,143,282	1,204,421
Accumulated depreciation	(859,493)	(897,942)
Other, net	283,788	306,479
Total property, plant and equipment	3,135,122	3,234,934
Intangible assets		
Goodwill	77,159	-
Software	103,183	55,399
Other	2,417	436
Total intangible assets	182,760	55,836
Investments and other assets		
Investment securities	322,133	341,733
Business insurance funds	290,326	273,383
Deferred tax assets	29,420	15,073
Net defined benefit asset	2,812	2,257
Other	195,885	245,068
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	835,179	872,116
Total non-current assets	4,153,061	4,162,887
Total assets	17,206,653	19,101,540

(Thousands of yen)

	FY2/16 (As of Feb. 29, 2016)	FY2/17 (As of Feb. 28, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,680,871	2,019,656
Electronically recorded obligations-operating	899,494	1,038,971
Lease obligations	64,642	50,213
Income taxes payable	65,043	477,303
Accrued consumption taxes	12,585	92,968
Accrued expenses	409,464	490,502
Advances received	1,288,049	1,831,994
Provision for bonuses	259,898	260,416
Provision for directors’ bonuses	61,000	85,400
Asset retirement obligations	19,199	-
Other	555,327	245,045
Total current liabilities	5,315,576	6,592,473
Non-current liabilities		
Long-term accounts payable-other	52,563	47,165
Lease obligations	54,193	9,011
Net defined benefit liability	194,094	201,812
Negative goodwill	11,067	-
Asset retirement obligations	4,213	34,824
Other	45,762	30,895
Total non-current liabilities	361,893	323,709
Total liabilities	5,677,469	6,916,182
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	10,286,711
Treasury shares	(201,313)	(201,361)
Total shareholders’ equity	11,630,488	12,410,463
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	16,600	33,141
Foreign currency translation adjustment	(100,775)	(233,036)
Remeasurements of defined benefit plans	(17,129)	(25,210)
Total accumulated other comprehensive income	(101,304)	(225,105)
Total net assets	11,529,183	12,185,358
Total liabilities and net assets	17,206,653	19,101,540

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

(Thousands of yen)

	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)	FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)
Net sales	19,027,633	21,164,542
Cost of sales	12,921,519	14,343,391
Gross profit	6,106,114	6,821,151
Selling, general and administrative expenses	*1, *2 4,759,173	*1, *2 4,779,616
Operating income	1,346,941	2,041,534
Non-operating income		
Interest income	1,554	2,910
Dividend income	5,187	5,085
Technical support fee	14,796	13,914
Rent income	1,991	2,224
Insurance premiums refunded cancellation	17,238	18,424
Foreign exchange gains	-	1,337
Amortization of negative goodwill	7,794	-
Other	16,313	21,601
Total non-operating income	64,877	65,498
Non-operating expenses		
Interest expenses	3,756	2,650
Foreign exchange losses	12,973	-
Other	436	6,582
Total non-operating expenses	17,165	9,233
Ordinary income	1,394,653	2,097,799
Extraordinary income		
Gain on sales of non-current assets	*3 3,830	*3 13,745
Gain on sales of investment securities	-	14,936
Total extraordinary income	3,830	28,681
Extraordinary losses		
Loss on retirement of non-current assets	*4 4,235	*4 1,204
Impairment loss	*5 35,264	*5 91,315
Directors’ retirement benefits	-	250,000
Loss on sales of shares of subsidiaries	217,345	-
Total extraordinary losses	256,845	342,519
Profit before income taxes	1,141,638	1,783,960
Income taxes-current	153,716	616,679
Income taxes-deferred	33,575	103,014
Total income taxes	187,292	719,693
Profit	954,345	1,064,266
Profit (loss) attributable to non-controlling interests	(6,783)	-
Profit attributable to owners of parent	961,129	1,064,266

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)	FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)
Profit	954,345	1,064,266
Other comprehensive income		
Valuation difference on available-for-sale securities	(17,582)	16,540
Foreign currency translation adjustment	(132,007)	(134,855)
Remeasurements of defined benefit plans, net of tax	(5,921)	(8,080)
Total other comprehensive income	*1 (155,512)	*1 (126,395)
Comprehensive income	798,833	937,871
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	802,661	937,871
Comprehensive income attributable to non-controlling interests	(3,828)	-

(3) Consolidated Statement of Changes in Equity

FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,035,600	1,280,522	8,816,001	(201,313)	10,930,810
Cumulative effects of changes in accounting policies			(2,782)		(2,782)
Restated balance	1,035,600	1,280,522	8,813,218	(201,313)	10,928,027
Changes of items during period					
Dividends of surplus			(258,668)		(258,668)
Profit attributable to owners of parent			961,129		961,129
Purchase of treasury shares					
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	702,460	-	702,460
Balance at end of current period	1,035,600	1,280,522	9,515,679	(201,313)	11,630,488

(Thousands of yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	34,183	34,187	(11,208)	57,162	192,266	11,180,239
Cumulative effects of changes in accounting policies						(2,782)
Restated balance	34,183	34,187	(11,208)	57,162	192,266	11,177,456
Changes of items during period						
Dividends of surplus						(258,668)
Profit attributable to owners of parent						961,129
Purchase of treasury shares						
Net changes of items other than shareholders' equity	(17,582)	(134,962)	(5,921)	(158,467)	(192,266)	(350,733)
Total changes of items during period	(17,582)	(134,962)	(5,921)	(158,467)	(192,266)	351,727
Balance at end of current period	16,600	(100,775)	(17,129)	(101,304)	-	11,529,183

FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,035,600	1,280,522	9,515,679	(201,313)	11,630,488
Cumulative effects of changes in accounting policies		8,991	(77,678)		(68,686)
Restated balance	1,035,600	1,289,513	9,438,001	(201,313)	11,561,801
Changes of items during period					
Dividends of surplus			(215,556)		(215,556)
Profit attributable to owners of parent			1,064,266		1,064,266
Purchase of treasury shares				(47)	(47)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	848,709	(47)	848,662
Balance at end of current period	1,035,600	1,289,513	10,286,711	(201,361)	12,410,463

(Thousands of yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	16,600	(100,775)	(17,129)	(101,304)	-	11,529,183
Cumulative effects of changes in accounting policies		2,594		2,594		(66,092)
Restated balance	16,600	(98,180)	(17,129)	(98,710)	-	11,463,091
Changes of items during period						
Dividends of surplus						(215,556)
Profit attributable to owners of parent						1,064,266
Purchase of treasury shares						(47)
Net changes of items other than shareholders' equity	16,540	(134,855)	(8,080)	(126,395)	-	(126,395)
Total changes of items during period	16,540	(134,855)	(8,080)	(126,395)	-	722,266
Balance at end of current period	33,141	(233,036)	(25,210)	(225,105)	-	12,185,358

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)	FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)
Cash flows from operating activities		
Profit before income taxes	1,141,638	1,783,960
Depreciation	321,898	338,407
Impairment loss	35,264	91,315
Increase (decrease) in provision for bonuses	26,099	4,525
Increase (decrease) in provision for directors’ bonuses	2,000	24,400
Increase (decrease) in allowance for doubtful accounts	(13,321)	(8,758)
Interest and dividend income	(6,742)	(7,996)
Interest expenses	3,756	2,650
Foreign exchange losses (gains)	14,213	5,628
Loss (gain) on sales of property, plant and equipment	(3,830)	(13,745)
Loss (gain) on sales of investment securities	-	(14,936)
Loss (gain) on sales of shares of subsidiaries	217,345	-
Loss (gain) on cancellation of insurance contract	(17,238)	(18,424)
Decrease (increase) in notes and accounts receivable-trade	(430,893)	1,243,975
Decrease (increase) in inventories	(620,626)	(382,518)
Decrease (increase) in other assets	229,088	(207,339)
Increase (decrease) in notes and accounts payable-trade	(170,336)	409,295
Increase (decrease) in advances received	45,053	571,295
Increase (decrease) in other liabilities	7,860	(89,317)
Other, net	5,298	(4,114)
Subtotal	786,527	3,728,303
Interest and dividend income received	6,742	7,996
Interest expenses paid	(3,756)	(2,650)
Income taxes refund	51,553	117,862
Income taxes paid	(550,877)	(245,977)
Net cash provided by (used in) operating activities	290,190	3,605,533
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	295,482	-
Purchase of property, plant and equipment	(304,065)	(474,089)
Proceeds from sales of property, plant and equipment	1,615	37,753
Purchase of intangible assets	(3,155)	-
Proceeds from sales of investment securities	-	19,256
Purchase of investment securities	(2,164)	(2,196)
Payment for purchase of shares of subsidiaries from non-controlling interests	(264,189)	-
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	*2 (130,485)	-
Purchase of insurance funds	(1,242)	(2,913)
Proceeds from cancellation of insurance funds	42,940	38,281
Payments for guarantee deposits	(67,880)	(10)
Proceeds from collection of guarantee deposits	394	32,235
Net cash provided by (used in) investing activities	(432,751)	(351,682)

(Thousands of yen)

	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)	FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)
Cash flows from financing activities		
Purchase of treasury shares	-	(47)
Repayments of lease obligations	(62,774)	(61,798)
Cash dividends paid	(258,228)	(215,832)
Dividends paid to non-controlling interests	(10,615)	-
Net cash provided by (used in) financing activities	(331,618)	(277,678)
Effect of exchange rate change on cash and cash equivalents	(31,701)	(35,648)
Net increase (decrease) in cash and cash equivalents	(505,881)	2,940,525
Cash and cash equivalents at beginning of period	4,548,178	4,042,296
Cash and cash equivalents at end of period	*1, *2 4,042,296	*1 6,982,822

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Accounting Policies in the Preparation of Consolidated Financial Statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 2

Domestic subsidiaries: 1

Freund-Turbo Corporation

Foreign subsidiaries: 1

Freund-Vector Corporation

2. Fiscal year of consolidated subsidiaries

In the fiscal year that ended on February 28, 2017, Freund-Vector Corporation and Freund-Turbo Corporation changed the end of their fiscal years from December 31 to the end of February for consistency with the consolidated financial statements. To adjust for the new fiscal year, the consolidated financial statements for the fiscal year that ended on February 28, 2017 include an additional two months of the results of operations of these two subsidiaries, resulting in a 14-month transitional fiscal year. In the additional two months (January and February 2017), these two subsidiaries had combined sales of 737,247 thousand yen, an operating loss of 78,141 thousand yen, an ordinary loss of 75,826 thousand yen and a loss attributable to owners of parent of 75,985 thousand yen.

3. Accounting policies

(1) Valuation standards and methods for principal assets

1) Marketable securities

Available-for-sale securities

Available-for-sale securities with market quotations

Stated at fair value at the end of the fiscal year. (Unrealized gain or loss is included in net assets. Cost of securities sold is determined by the moving-average method.)

Available-for-sale securities without market quotations

Stated at cost determined by the moving-average method.

2) Derivatives

Stated at fair value.

3) Inventories

The Company and its domestic consolidated subsidiary

i. Merchandise and raw materials

Mainly stated at cost determined by the gross average method. (The carrying value on the balance sheet is written down to reflect the effect of lower profit margins.)

ii. Finished goods and work in process

Machinery Business Segment

Stated at cost determined by the specific identification method. (The carrying value on the balance sheet is written down to reflect the effect of lower profit margins.)

Chemicals Business Segment

Stated at cost determined by the gross average method. (The carrying value on the balance sheet is written down to reflect the effect of lower profit margins.)

Foreign consolidated subsidiary

Stated at the lower of the cost or market, cost being determined by the first-in first-out method.

(2) Depreciation and amortization of significant depreciable assets

1) Property, plant and equipment (excluding leased assets)

The Company and its domestic consolidated subsidiary

Declining-balance method, except for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016, on which depreciation is calculated by the straight-line method.

Useful life of principle assets is as follows:

Buildings and structures:	5 - 47 years
Machinery, equipment and vehicles:	2 - 15 years

Foreign consolidated subsidiary

Straight-line method.

2) Intangible assets (excluding leased assets)

The Company and its domestic consolidated subsidiary

Straight-line method.

Software for internal use is amortized over an expected internal useful life of five years by the straight-line method.

Foreign consolidated subsidiary

Straight-line method.

3) Leased assets

Lease assets associated with finance lease transactions where there is no transfer of ownership

The straight-line method with no residual value is applied over the lease period used as the useful life of the assets.

(3) Recognition of significant allowances

1) Allowance for doubtful accounts

To prepare for credit losses on accounts receivable, allowances equal to the estimated amount of uncollectible receivables are provided for general receivables based on the historical write-off ratio, and bad receivables based on case-by-case determination of collectibility.

2) Provision for bonuses

To provide for accrued bonuses for employees, an allowance is provided at the amount based on the estimated bonus obligations.

3) Provision for directors' bonuses

To provide for directors' bonuses, an allowance is provided at the amount based on the estimated bonus obligations.

(4) Accounting method for retirement benefits

1) Method of attributing estimated retirement benefit obligations to periods

In calculation of retirement benefit obligations, the Company uses the periodic straight-line method for attributing estimated retirement benefit obligations to periods.

2) Amortization of actuarial differences and past service costs

Past service costs are amortized by the straight-line method over a certain period (10 years) within the estimated average remaining years of service of the eligible employees.

Actuarial differences are amortized and charged to expense in the year following the fiscal year in which such gain or loss is recognized by the straight-line method over a certain period (10 years) which is within the estimated average remaining years of service of the eligible employees.

(5) Recognition of significant revenues and expenses

Accounting standards for recording amounts of completed work and cost of completed work

a. Contracted work of which the outcome can be reliably estimated

The percentage-of-completion standard (with the percentage of completion estimated on the cost-to-cost basis).

b. Other contracted works

The completed-contract standard.

(6) Translation of significant foreign currency-denominated assets and liabilities

Monetary claims and debts denominated in foreign currencies are translated into yen at the spot exchange rates on the fiscal year-end date, with the differences resulting from such translations recorded as profit or loss. The assets and liabilities of overseas subsidiaries, etc. are translated into yen at the spot exchange rates prevailing on the fiscal year-end date, and their income and expenses are translated into yen at the average exchange rate prevailing over the period, with the differences arising from any translation included in the foreign currency translation adjustment in net assets.

(7) Method and period of goodwill amortization

Goodwill is amortized by the straight-line method over the period for appearance of its effects.

(8) Scope of cash and cash equivalents on the consolidated statement of cash flows

Cash and cash equivalents consist of cash on hand and bank deposits which can be withdrawn at any time and short-term investments with the duration of three months or less which can be easily converted to cash and are exposed to little risk of change in value.

(9) Accounting for consumption taxes

All amounts stated are exclusive of consumption taxes.

Changes in Accounting Policies

Application of the Accounting Standards for Business Combinations

1. Changes in accounting standard names and accounting policies

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) and other standards beginning with the fiscal year that ended on February 28, 2017. Accordingly, difference arising from changes in the Company’s ownership interests in subsidiaries in cases where control is retained are included in capital surplus, and the acquisition costs in connection with business combinations are recognized as expenses in the fiscal year in which they arise.

In addition, the method for allocating acquisition costs resulting from finalization of the provisional accounting treatment of these costs has been changed so that the costs are recognized in the financial period in which the business combination occurred.

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 previous fiscal year have been revised.

In the consolidated statement of cash flows for the current fiscal year, cash flows associated with costs arising from purchase or sales of shares of subsidiary not resulting in changes in the scope of consolidation are included in cash flows from financing activities. On the other hand, cash flows associated with acquisition-related costs for purchase of shares of subsidiary resulting in changes in the scope of consolidation or costs arising from purchase or sales of shares of subsidiary not resulting in changes in the scope of consolidation are included in cash flows from operating activities.

2. Summary of accounting procedures using transitional measures

The Company has adopted these business combination standards, etc. from the beginning of the fiscal year that ended on February 28, 2017 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 current fiscal year upon the retrospective adoption of the above accounting standards for prior years is added to or deducted from capital surplus and retained earnings.

The revision to the allocation of acquisition costs resulting from finalization of the provisional accounting treatment for business combinations has been used for business combinations since the beginning of the fiscal year that ended on February 28, 2017 in accordance with the transitional measures set forth in Article 58-2 (1) of the Accounting Standard for Business Combinations.

In the consolidated statement of cash flows, in accordance with the transitional treatment set forth in Article 26-4 of the Practical Guidelines concerning the preparation of cash flow statements as part of work on consolidated financial statements, comparative information has not been restated.

3. Major financial statement items for which an effect can be calculated

As a result of these changes in accounting policies, 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 at the beginning of the fiscal year that ended on February 28, 2017.

In addition, operating income increased 15,564 thousand yen and ordinary income and profit before income taxes increased 8,186 thousand yen each in the current fiscal year.

4. Effect on per share data that can be calculated

The effect of the revised accounting standards, etc. on per share data is insignificant.

Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

Following the revised Corporation Tax Act, 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 current fiscal year, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

The effect of this change on the results of operations in the current fiscal year is insignificant.

Notes to Consolidated Balance Sheet

*1. Assets pledged as collateral and liabilities with collateral

Assets pledged as collateral (Thousands of yen)

	FY2/16 (As of Feb. 29, 2016)	FY2/17 (As of Feb. 28, 2017)
Notes and accounts receivable-trade	638,368	447,912
Merchandise and finished goods	103,255	154,916
Work in process	467,926	654,825
Raw materials and supplies	311,940	353,961
Buildings	426,476	411,062
Land	1,003,028	1,003,028
Total	2,950,996	3,025,707

Liabilities with collateral

There are no corresponding liabilities.

Notes to Consolidated Statement of Income

*1. Major items of selling, general and administrative expenses (Thousands of yen)

	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)	FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)
Salaries and allowances	1,221,619	1,345,838
Provision for bonuses	185,151	189,783
Provision of allowance for doubtful accounts	(13,321)	(8,758)
Provision for directors' bonuses	61,000	85,400
Retirement benefit expenses	47,614	49,523
Depreciation	170,298	186,231
Research and development expenses	687,257	640,350

*2. Total amount of research and development expenses included in general and administrative expenses (Thousands of yen)

FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)	FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)
687,257	640,350

*3. Gain on sales of non-current assets (Thousands of yen)

	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)	FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)
Machinery and equipment	3,830	13,525
Tools, furniture and fixtures	-	219
Total	3,830	13,745

*4. Loss on retirement of non-current assets (Thousands of yen)

	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)	FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)
Facilities attached to buildings	999	0
Machinery and equipment	3,236	82
Tools, furniture and fixtures	0	1,121
Total	4,235	1,204

*5. Impairment loss

The Group recognized an impairment loss on the following groups of assets.

FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)

(1) Impairment losses on assets (Thousands of yen)

Use	Item	Company	Location	Impairment losses
Assets to be sold	Buildings and structures Others	Freund Corporation	Shinjyuku-ku, Tokyo	22,338
Idle assets	Buildings and structures Land	Freund Corporation	Hamamatsu, Shizuoka	12,925

(2) Reason for decision to post impairment losses

The Group recognized impairment losses on assets to be sold because there were no avenues for their further use following the decision to relocate the office. The buildings, structures and land which had been used for leasing were reclassified as idle assets and as a result their value fell well below the original book value. Impairment losses were recognized on these assets to reflect the above changes.

(3) Amount of impairment loss

Buildings and structures	22,433 thousand yen
Land	12,323 thousand yen
Others	507 thousand yen

(4) Method used to group assets

The Group uses product categories to group its assets. Grouping is based on the smallest independent cash flow generating unit.

(5) Method for calculating recoverable amount

The recoverable amount is measured at its net selling price. The net selling price is measured at estimated disposal price.

FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)

(1) Impairment losses on assets (Thousands of yen)

Use	Item	Company	Location	Impairment losses
Assets to be sold	Buildings and structures Land	Freund Corporation	Hamamatsu, Shizuoka	89,334
Idle assets	Telephone subscription right	Freund Corporation	Shinjyuku-ku, Tokyo, etc.	1,980

(2) Reason for decision to post impairment losses

For assets to be sold, due to the decision to sell dormitories and other employee housing during this fiscal year, the book values of these properties were written down to the amounts that can be recovered. This reduction was recognized as an impairment loss.

For idle assets, the book value of telephone subscription rights that became unused was written down to the amount that can be recovered and the reduction was recognized as an impairment loss.

(3) Amount of impairment loss

Buildings and structures	12,413 thousand yen
Land	76,921 thousand yen
Telephone subscription right	1,980 thousand yen

(4) Method used to group assets

The Group uses product categories to group its assets. Grouping is based on the smallest independent cash flow generating unit.

(5) Method for calculating recoverable amount

The recoverable amount is measured at its net selling price. The net selling price is measured at estimated disposal price.

Notes to Consolidated Statement of Comprehensive Income

*1. Re-classification adjustments and tax effect with respect to other comprehensive income

(Thousands of yen)

	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)	FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)
Valuation difference on available-for-sale securities:		
Amount incurred during the year	(28,544)	23,232
Re-classification adjustments	-	-
Before tax effect adjustments	(28,544)	23,232
Tax effect	10,961	(6,691)
Valuation difference on available-for-sale securities	(17,582)	16,540
Foreign currency translation adjustment:		
Amount incurred during the year	(70,978)	(134,855)
Re-classification adjustments	(61,029)	-
Foreign currency translation adjustment	(132,007)	(134,855)
Remeasurements of defined benefit plans, net of tax:		
Amount incurred during the year	(9,260)	(13,330)
Re-classification adjustments	1,362	2,306
Before tax effect adjustments	(7,897)	(11,024)
Tax effect	1,976	2,943
Remeasurements of defined benefit plans, net of tax	(5,921)	(8,080)
Total other comprehensive income	(155,512)	(126,395)

Notes to Consolidated Statement of Changes in Equity

FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)

1. Type of share and the number of outstanding shares and treasury shares (Shares)

	Number of shares as of Mar. 1, 2015	Increase	Decrease	Number of shares as of Feb. 29, 2016
Outstanding shares				
Common stock	9,200,000	-	-	9,200,000
Total	9,200,000	-	-	9,200,000
Treasury shares				
Common stock	577,722	-	-	577,722
Total	577,722	-	-	577,722

Note: The Company conducted a 2-for-1 common stock split on March 1, 2016. The above figures are based on the number of shares before the stock split.

2. Dividends

(1) Dividend payment

Resolution	Type of share	Total dividends (Thousands of yen)	Dividend per share (yen)	Record date	Effective date
Annual General Meeting of Shareholders on May 28, 2015	Common stock	258,668	30	February 28, 2015	May 29, 2015

(2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

Resolution	Type of share	Total dividends (Thousands of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
Annual General Meeting of Shareholders on May 26, 2016	Common stock	215,556	Retained earnings	25	February 29, 2016	May 27, 2016

Note: The Company conducted a 2-for-1 common stock split on March 1, 2016. The dividend amounts above are based on the number of shares before the stock split.

FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)

1. Type of share and the number of outstanding shares and treasury shares (Shares)

	Number of shares as of Mar. 1, 2016	Increase	Decrease	Number of shares as of Feb. 28, 2017
Outstanding shares				
Common stock (Notes 1, 2)	9,200,000	9,200,000	-	18,400,000
Total	9,200,000	9,200,000	-	18,400,000
Treasury shares				
Common stock (Notes 1, 3)	577,722	577,756	-	1,155,478
Total	577,722	577,756	-	1,155,478

Notes: 1. The Company conducted a 2-for-1 common stock split on March 1, 2016.
2. Number of outstanding shares of common stock increased 9,200,000 shares due to the stock split.
3. Number of treasury shares of common stock increased 577,756 shares due to increases of 577,722 shares by the stock split and 34 shares by the purchase of odd-lot shares.

2. Dividends

(1) Dividend payment

Resolution	Type of share	Total dividends (Thousands of yen)	Dividend per share (yen)	Record date	Effective date
Annual General Meeting of Shareholders on May 26, 2016	Common stock	215,556	25	February 29, 2016	May 27, 2016

Note: The Company conducted a 2-for-1 common stock split on March 1, 2016. The dividend amounts above are based on the number of shares before the stock split.

(2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

Resolution	Type of share	Total dividends (Thousands of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
Annual General Meeting of Shareholders on May 26, 2017	Common stock	344,890	Retained earnings	20	February 28, 2017	May 29, 2017

Notes to Consolidated Statement of Cash Flows

*1. Reconciliation between cash and cash equivalents at the end of the fiscal year and amounts on the consolidated balance sheet

(Thousands of yen)

	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)	FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)
Cash and deposits	4,042,296	6,982,822
Time deposits with maturities over three months	-	-
Cash and cash equivalents	4,042,296	6,982,822

*2. Assets and liabilities of a subsidiary excluded from the scope of consolidation due to sale of its shares

FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)

Freund Pharmatec Ltd. is no longer a consolidated subsidiary due to the sale of its shares. The breakdown of assets and liabilities as of the date of the sale, as well as the sales price of Freund Pharmatec Ltd.'s shares and net payments for the sales.

	(Thousands of yen)
Current assets	368,735
Non-current assets	140,926
Current liabilities	(6,967)
Foreign currency translation adjustment	(59,434)
Loss on sales of shares of subsidiaries	(217,345)
Sales price of shares	225,914
Accounts receivable-other	(52,708)
Cash and cash equivalents	(303,692)
Net payments for the sales	(130,485)

FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)

Not applicable.

Segment and Other Information

Segment information

1. Overview of reportable segment

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The primary business activities of the Group include manufacture and sale of machinery and chemical products. Consequently, the Group has two reportable business segments: the Machinery Business and the Chemicals Business.

Main products and services of each reportable segment

Machinery Business:	Granulating devices, construction of granulating machinery plants, measuring instruments and parts, and outsourced granulation of synthetic resins
Chemicals Business:	Pharmaceutical excipients and dietary supplements; food preservatives; R&D, formulation studies and other projects for pharmaceuticals, food, chemicals and other products

2. Calculation method for net sales, profit or loss, assets, liabilities, and other items for each reportable segment

The accounting policies for reportable business segments are generally the same as those described in "Significant Accounting Policies in the Preparation of Consolidated Financial Statements."

Segment profit (loss) for reportable business segments are based on operating income (loss).

Inter-segment sales are based on prices used for third-party transactions.

3. Information related to net sales, profit or loss, assets, liabilities, and other items for each reportable segment

FY2/16 (Mar. 1, 2015 – Feb. 29, 2016) (Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Machinery Business	Chemicals Business	Total		
Net sales					
External sales	13,037,379	5,990,254	19,027,633	-	19,027,633
Inter-segment sales and transfers	-	-	-	-	-
Total	13,037,379	5,990,254	19,027,633	-	19,027,633
Segment profit	1,189,638	519,776	1,709,415	(362,473)	1,346,941
Segment assets	9,468,047	3,344,864	12,812,911	4,393,741	17,206,653
Other items					
Depreciation	197,267	114,852	312,119	9,778	321,898
Increase in property, plant and equipment and intangible assets	222,480	40,979	263,460	2,861	266,322

Notes:1. Contents of adjustments are as follows.

(1) The negative adjustment of 362,473 thousand yen to segment profit is 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) The 4,393,741 thousand yen adjustment to segment assets is corporate assets that are not allocated to any of the reportable segments. Corporate assets mainly consist of the Company’s surplus funds (cash and deposits), long-term investment funds (investment securities and insurance funds), and assets of the administrative operations of the Company.

(3) The 9,778 thousand yen adjustment to depreciation is mainly depreciation of corporate assets that are not allocated to any of the reportable segments.

(4) The 2,861 thousand yen adjustment to increase in property, plant and equipment and intangible assets is mainly the sum of corporate assets that are not allocated to the reportable segments.

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

FY2/17 (Mar. 1, 2016 – Feb. 28, 2017) (Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Machinery Business	Chemicals Business	Total		
Net sales					
External sales	14,914,713	6,249,829	21,164,542	-	21,164,542
Inter-segment sales and transfers	-	-	-	-	-
Total	14,914,713	6,249,829	21,164,542	-	21,164,542
Segment profit	1,750,118	748,360	2,498,478	(456,944)	2,041,534
Segment assets	8,838,366	3,457,501	12,295,867	6,805,673	19,101,540
Other items					
Depreciation	233,486	90,627	324,113	14,293	338,407
Increase in property, plant and equipment and intangible assets	372,899	155,451	528,350	36,064	564,415

Notes:1. Contents of adjustments are as follows.

(1) The negative adjustment of 456,944 thousand yen to segment profit is 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) The 6,805,673 thousand yen adjustment to segment assets is corporate assets that are not allocated to any of the reportable segments. Corporate assets mainly consist of the Company’s surplus funds (cash and deposits), long-term investment funds (investment securities and insurance funds), and assets of the administrative operations of the Company.

(3) The 14,293 thousand yen adjustment to depreciation is mainly depreciation of corporate assets that are not allocated to any of the reportable segments.

(4) The 36,064 thousand yen adjustment to increase in property, plant and equipment and intangible assets is mainly the sum of corporate assets that are not allocated to the reportable segments.

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

Related information

FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)

1. Information by product or service

This information is omitted because the same information is presented in segment information.

2. Information by region

(1) Net sales (Thousands of yen)

Japan	North America	Latin America	Europe	Other	Total
13,547,006	2,190,033	1,325,140	937,851	1,027,601	19,027,633

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

(2) Property, plant and equipment (Thousands of yen)

Japan	North America	Europe	Total
2,208,912	808,528	117,681	3,135,122

3. Information by major client (Thousands of yen)

Name	Net sales	Related segments
Lion Corporation	1,549,737	Machinery Business and Chemicals Business

FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)

1. Information by product or service

This information is omitted because the same information is presented in segment information.

2. Information by region

(1) Net sales (Thousands of yen)

Japan	North America	Latin America	Europe	Other	Total
15,601,350	3,331,562	553,012	830,931	847,686	21,164,542

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

(2) Property, plant and equipment (Thousands of yen)

Japan	North America	Europe	Total
2,413,125	717,448	104,361	3,234,934

3. Information by major client

Not applicable.

Information related to impairment losses on non-current assets for each reportable segment

FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)

The amount of impairment losses that were not allocated to reportable segments was 35,264 thousand yen. The details are stated in the section “Notes to Consolidated Statement of Income.”

FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)

The amount of impairment losses that were not allocated to reportable segments was 91,315 thousand yen. The details are stated in the section “Notes to Consolidated Statement of Income.”

Information related to goodwill amortization and the unamortized balance for each reportable segment

FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)

Amortization of goodwill of 8,608 thousand yen was recorded in the Machinery Business segment. Unamortized balance of this goodwill was 77,159 thousand yen.

Amortization of negative goodwill is not allocated to reportable segments. In the current fiscal year, amortization of negative goodwill was 7,794 thousand yen and the unamortized balance of negative goodwill was 11,067 thousand yen.

FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)

In the Machinery Business segment, the cumulative effect at the beginning 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 FY2/17.

Information related to revisions for reportable segments

FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)

Not applicable.

FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)

As described in Changes in Accounting Policies, in line with revisions to the Corporation Tax Act, the Company has changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. Consequently, the depreciation method for business segments have been revised as well.

The effect of this change on segment profit is insignificant in FY2/17.

Information related to gain on bargain purchase for each reportable segment

Not applicable.

Per Share Information

(Yen)

	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)	FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)
Net assets per share	668.57	706.62
Net income per share	55.74	61.72

Notes: 1. The Company conducted a 2-for-1 common stock split on March 1, 2016. The net assets per share and net income per share have been calculated as if this stock split had taken place at the beginning of the previous fiscal year.
2. Diluted net income per share is not presented since the Company has no outstanding dilutive shares.
3. The basis of calculating the net income per share is as follows:

(Thousands of yen)

	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)	FY2/17 (Mar. 1, 2016 – Feb. 28, 2017)
Profit attributable to owners of the parent	961,129	1,064,266
Amounts not attributable to common shareholders	-	-
Profit attributable to common shareholders of parent	961,129	1,064,266
Average number of shares outstanding during the period (Thousand shares)	17,244	17,244

Subsequent Events

Not applicable.

6. Other Information

(1) Changes in Board Members

The Board of Directors of Freund Corporation approved a resolution on February 27, 2017 concerning the following proposed changes in Board members.

If approval is received at the 53rd Annual General Meeting of Shareholders scheduled for May 26, 2017, these changes are to become official.

1. Candidates for Audit & Supervisory Board Members

Sayoko Izumoto, External Audit & Supervisory Board Member

Brief career history

1976: Joined Tohmatsu Aoki & Co. (currently “Deloitte Touche Tohmatsu LLC”)
2002: Representative Partner of Deloitte Touche Tohmatsu (currently “Deloitte Touche Tohmatsu LLC”)
2016: Resigned from Deloitte Touche Tohmatsu LLC

Masanori Sugawara, External Audit & Supervisory Board Member

Brief career history

1976: Joined Tohoku Keiei Keisan Center
1977: Joined Hoya Crystal Corporation (currently Hoya Corporation)
2007: Joined Altech Co., Ltd.
2015: Director, Member of the Audit and Supervisory Committee of MS-Japan (current position)

Mitsuaki Sato, External Audit & Supervisory Board Member

Brief career history

1979: Joined Idemitsu Kosan Co.,Ltd.
2015: Resigned from Idemitsu Kosan Co.,Ltd.

2. Retiring directors (effective May 26, 2017)

Kazushi Iijima

(Current position) External Audit & Supervisory Board Member

Tomohiro Niizato

(Current position) External Audit & Supervisory Board Member

(2) Others

Not applicable.

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.