April 5, 2016

Consolidated Financial Results for the Fiscal Year Ended February 29, 2016

[Japanese GAAP]

Company name: Freund Corporation
Listing: Tokyo (JASDAQ)
Securities code: 6312
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Scheduled date of Annual General Meeting of Shareholders: May 26, 2016
Scheduled date of filing of Annual Securities Report: May 27, 2016
Scheduled date of payment of dividend: May 27, 2016
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 29, 2016 (March 1, 2015 – February 29, 2016)

(1) 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. 29, 2016	19,027	9.2	1,346	17.1	1,394	11.6	961	38.1
Fiscal year ended Feb. 28, 2015	17,424	(1.1)	1,150	(10.6)	1,249	(6.9)	695	(11.7)

Note: Comprehensive income
Fiscal year ended Feb. 29, 2016: 798 million yen (down 21.7%)
Fiscal year ended Feb. 28, 2015: 1,020 million yen (down 18.9%)

	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. 29, 2016	55.74	-	8.5	8.1	7.1
Fiscal year ended Feb. 28, 2015	40.36	-	6.6	7.6	6.6

Reference: Equity in earnings of affiliates
Fiscal year ended Feb. 29, 2016: - million yen
Fiscal year ended Feb. 28, 2015: - million yen

Note: 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. 29, 2016	17,206	11,529	67.0	668.57
As of Feb. 28, 2015	17,277	11,180	63.6	637.19

Reference: Equity capital As of Feb. 29, 2016: 11,529 million yen As of Feb. 28, 2015: 10,987 million yen

Note: 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. 29, 2016	290	(432)	(331)	4,042
Fiscal year ended Feb. 28, 2015	822	(240)	(284)	4,548

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. 28, 2015	-	0.00	-	30.00	30.00	258	37.2	2.4
Fiscal year ended Feb. 29, 2016	-	0.00	-	25.00	25.00	215	22.4	1.9
Fiscal year ending Feb. 28, 2017 (forecast)	-	0.00	-	15.00	15.00		21.9	

Note 1: The Company conducted a 2-for-1 common stock split on March 1, 2016. The dividend per share forecast for the fiscal year ending Feb. 28, 2017 has been adjusted to reflect the stock split.

Note 2: Breakdown of the year-end dividend for the fiscal year ended Feb. 28, 2015:
Ordinary dividends: 25.00 yen; Commemorative dividends: 5.00 yen

3. Consolidated Forecast for the Fiscal Year Ending February 28, 2017 (March 1, 2016 – February 28, 2017)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	8,000	3.9	370	86.0	370	46.7	240	94.1	13.92
Full year	20,000	5.1	1,900	41.1	1,900	36.2	1,180	22.8	68.43

Note: The Company conducted a 2-for-1 common stock split on March 1, 2016. The net income per share forecast has been adjusted to reflect the stock split.

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Newly added: - Excluded: 1 (Freund Pharmatec Ltd.)

(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

(3) Number of outstanding shares (common stock)

1) Number of shares outstanding at the end of the period (including treasury shares)
As of Feb. 29, 2016: 18,400,000 shares As of Feb. 28, 2015: 18,400,000 shares

2) Number of treasury shares at the end of the period
As of Feb. 29, 2016: 1,155,444 shares As of Feb. 28, 2015: 1,155,444 shares

3) Average number of shares outstanding during the period
Fiscal year ended Feb. 29, 2016: 17,244,556 shares Fiscal year ended Feb. 28, 2015: 17,244,566 shares

Note: The Company conducted a 2-for-1 common stock split on March 1, 2016. The number of outstanding shares (common stock) has been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended February 29, 2016 (March 1, 2015 – February 29, 2016)

(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. 29, 2016	13,741	2.8	1,096	(2.7)	1,289	(3.6)	700	13.9
Fiscal year ended Feb. 28, 2015	13,364	(2.4)	1,126	(9.2)	1,338	(1.6)	615	(26.4)

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended Feb. 29, 2016	40.64	-
Fiscal year ended Feb. 28, 2015	35.69	-

Note: 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. 29, 2016	15,539	10,707	68.9	620.90
As of Feb. 28, 2015	15,218	10,285	67.6	596.44

Reference: Shareholders' equity As of Feb. 29, 2016: 10,707 million yen As of Feb. 28, 2015: 10,285 million yen

Note: 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.

Indication of audit procedure implementation status

The current financial report is not subject to the audit procedures based on the Financial Instruments and Exchange Act. At the time of disclosure, the audit procedures for the financial statements have not been completed.

Cautionary statement with respect to forecasts of future performance and other special items

- The Company conducted a 2-for-1 common stock split on March 1, 2016.
- Forecasts regarding future performance in these materials are based on assumptions judged to be valid and information available to the Company as of the announcement date of the summary. These statements are not promises by the Company regarding future performance. As such, 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 for further information concerning forecasts.

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1. Analysis of Results of Operations and Financial Position

(1) Analysis of Results of Operations

The Japanese economy continued to recover slowly during the fiscal year ended on February 29, 2016 as corporate earnings improved along with the yen's weakness. However, the yen began to strengthen after January 2016 as increasing uncertainty about the global economy caused investors to buy the yen in order to avoid risk. In addition, there were concerns about an economic downturn in Japan caused by economic declines in China and other emerging countries in Asia and in resource-producing countries. As a result, the outlook remained unclear during the fiscal year.

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 9.2% year-over-year to 19,027 million yen, operating income increased 17.1% to 1,346 million yen, ordinary income was up 11.6% to 1,394 million yen, and net income increased 38.1% to 961 million yen.

Results by business segment were as follows.

Machinery Business Segment

In the machinery sector, where granulating and coating devices are the main products, sales and operating 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 were higher because of growth in sales in North America but there was a small decrease in operating income due to up-front investments for expanding operations.

At Freund-Turbo Corporation, numerous measures to build a more powerful business infrastructure resulted in growth in sales and operating income.

As a result, net sales rose 19.2 % year-over-year to 13,037 million yen and segment profit increased 7.3 % to 1,189 million yen.

Chemical and Food Business Segment

There was a small decrease in sales of chemicals because of the shift of functional excipients used for making oral drugs from low-margin to high-margin products. Operating income was higher even though sales were lower.

Sales of food preservatives increased only slightly despite aggressive marketing efforts because of heated competition. There was also a small decrease in operating income.

Sales of dietary supplements that use Freund's technologies decreased because of lower production by a major customer and operating income decreased, too.

As a result, net sales dropped 7.6% year-over-year to 5,990 million yen, while segment profit rose 9.6% year-over-year to 519 million yen.

In the fiscal year ending on February 28, 2017, the outlook for the Japan's economy is to recover at a moderate pace as corporate earnings and household income increase. There are many concerns about the outlook for the global economy that include the effects of the end of U.S. quantitative easing, the uncertain economic outlook in China and emerging Asian countries, and the effects of the drop in prices of crude oil and other resources. Overall, the operating environment is expected to remain uncertain.

This is the final year of the Freund Group's sixth medium-term management plan called Change & Challenge, which covers the three-year period ending on February 28, 2017. The central goal of this plan is "realization of growth through creativity and the achievement of a lean business structure in order to advance to the next stage of progress." We will further strengthen sales activities in the machinery and chemical and food sectors, quickly launch new products, and aim for higher sales of our main products. In addition, we will increase measures for the overseas growth of product development activities and sales.

Based on these strategies, we expect sales, operating income, ordinary income, and profit attributable to owners of parent to rise by 5.1%, 41.1%, 36.2% and 22.8% year-over-year to 20,000 million yen, 1,900 million yen, 1,900 million yen and 1,180 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 decreased 70 million yen over the end of the previous fiscal year to 17,206 million yen at the end of the fiscal year under review. This mainly reflected decreases in cash and deposits of 828 million yen, and construction in progress of 203 million yen, while there are increases in work in process of 579 million yen, notes and accounts receivable-trade of 276 million yen, and electronically recorded monetary claims-operating of 145 million yen.

Liabilities decreased 419 million yen from the end of the previous fiscal year to 5,677 million yen at the end of fiscal year under review. This mainly reflected decreases in notes and accounts payable-trade of 152 million yen and income taxes payable of 267 million yen.

Net assets increased 348 million yen over the end of the previous fiscal year to 11,529 million yen at the end of the fiscal year under review. This mainly reflected an increase in retained earnings of 699 million yen while there was a decrease in foreign currency translation adjustment of 134 million yen.

b. Cash flows

The balance of cash and cash equivalents at the end of the fiscal year under review was 4,042 million yen, down 505 million yen over the end of the previous fiscal year (this compares with an increase of 440 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 290 million yen (down 64.7% year-over-year). Although there were negative factors including an increase in inventories of 620 million yen and income taxes paid of 550 million yen, there were positive factors including depreciation of 321 million yen and income before income taxes and minority interests of 1,141 million yen.

Cash flows from investing activities

Net cash used in investing activities was 432 million yen (up 80.1% year-over-year). This was mainly due to purchase of property, plant and equipment of 304 million yen, payments for sales of shares of subsidiaries resulting in change in scope of consolidation of 130 million yen, and payment for purchase of shares of subsidiaries from minority shareholders of 264 million yen, while there were the proceeds from withdrawal of time deposits of 295 million yen.

Cash flows from financing activities

Net cash used in financing activities was 331 million yen (up 16.5% year-over-year). This was mainly the result of cash dividends paid of 258 million yen and repayments of lease obligations of 62 million yen.

Reference: Trends in cash flow indicators

	FY2/13	FY2/14	FY2/15	FY2/16
Shareholders' equity ratio (%)	61.4	65.8	63.6	67.0
Shareholders' equity ratio based on market value (%)	85.2	65.6	61.9	101.4
Interest-bearing debt to cash flow ratio (%)	10.8	20.0	21.7	41.0
Interest coverage ratio (times)	344.7	252.5	179.7	77.3

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 28, 2015, we paid a dividend of 30 yen per share. This is the sum of an ordinary dividend of 25 yen and an additional 5 yen dividend to commemorate our 50th anniversary. For the fiscal year that ended on February 29, 2016, we plan to pay an ordinary dividend of 25 yen per share. For the next fiscal year (ending February 28, 2017), we plan to pay an ordinary dividend of 15 yen per share. Since there was a 2-for-1 stock split on March 1, 2016, this is an increase of 5 yen (equivalent to a 30 yen pre-split dividend) over the dividend that was applicable to the previous fiscal year.

We will use retained earnings for the fiscal year ended February 29, 2016 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 29, 2016.

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 29, 2016.

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 chemical and food business segment, consignment supplement business is similarly depend on sales at 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

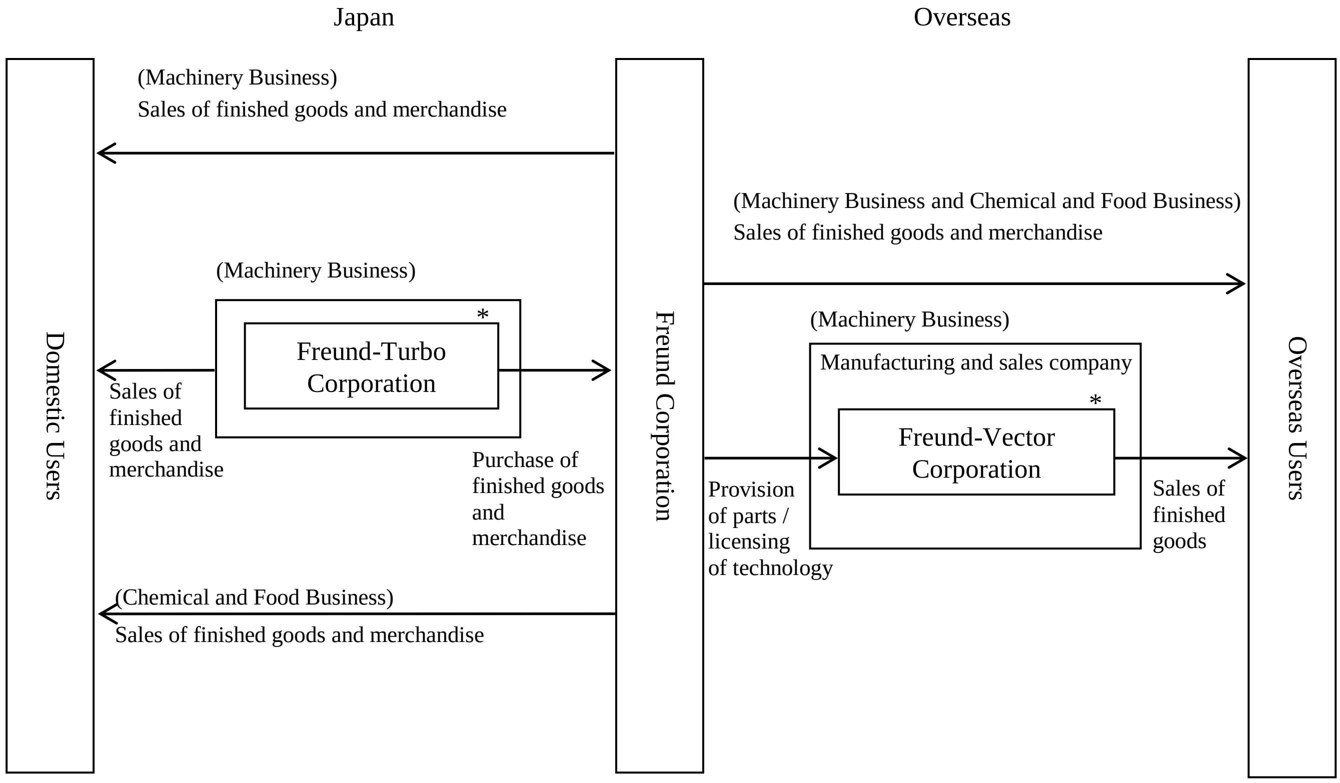
The Freund Group consists of Freund Corporation and two consolidated subsidiaries. Group companies manufacture and sell machinery and chemical and food products.

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
Chemical and Food Business	Pharmaceutical excipients and nutritional 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 covers the three-year period ending on February 28, 2017, is Change & Challenge for a second founding to become a 100-year company. The objective of the plan is "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 are concentrating all their energy on this goal. During the fiscal year that ended on February 29, 2016, there were two actions for reorganizing the Freund Group. One was the purchase of the minority interests of U.S. subsidiary Freund-Vector Corporation to make this company a wholly owned subsidiary. Another step was the sale of Freund Pharmatec Ltd., a company in Ireland that is working on the development of new drug dosage forms. In the fiscal year that ended on February 29, 2016, consolidated sales were 19,027 million yen, and consolidated operating income was 1,346 million yen.

(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. In addition, there are many sources of concern about the global economy. For example, there are worries about the effects of the end of U.S. quantitative easing, deflation in Europe and the negative impact of falling natural resource prices on the economies of emerging countries. Consequently, the operating environment is expected to remain uncertain.

The Freund Group’s goal is to increase synergies from the machinery business and chemical and food 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. We plan to quickly starting sales of revolutionary machinery and use other actions during the final year of the current medium-term management plan (ending in February 2017) in order to reach the targets of this plan: consolidated sales of 23 billion yen and consolidated operating income of 2.3 billion yen. 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 so as to ensure cross-sectional as well as inter-temporal comparability of the consolidated financial statements.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Thousands of yen)

	FY2/15 (As of Feb. 28, 2015)	FY2/16 (As of Feb. 29, 2016)
Assets		
Current assets		
Cash and deposits	4,870,566	4,042,296
Notes and accounts receivable-trade	*1, *2 5,266,889	*1 5,542,999
Electronically recorded monetary claims-operating	5,578	151,350
Merchandise and finished goods	*1 296,478	*1 330,747
Work in process	*1 931,971	*1 1,511,095
Raw materials and supplies	*1 543,437	*1 590,674
Prepaid expenses	120,830	114,910
Deferred tax assets	256,424	369,466
Other	527,353	424,172
Allowance for doubtful accounts	(37,370)	(24,122)
Total current assets	12,782,160	13,053,591
Non-current assets		
Property, plant and equipment		
Buildings and structures	2,650,606	2,773,189
Accumulated depreciation	(1,565,998)	(1,619,445)
Buildings and structures, net	*1 1,084,608	*1 1,153,744
Machinery, equipment and vehicles	1,269,842	1,202,220
Accumulated depreciation	(911,476)	(924,014)
Machinery, equipment and vehicles, net	358,366	278,205
Land	*1 1,330,712	*1 1,318,399
Construction in progress	304,404	100,983
Other	1,118,794	1,143,282
Accumulated depreciation	(793,149)	(859,493)
Other, net	325,644	283,788
Total property, plant and equipment	3,403,736	3,135,122
Intangible assets		
Goodwill	-	77,159
Software	144,494	103,183
Other	2,417	2,417
Total intangible assets	146,911	182,760
Investments and other assets		
Investment securities	348,501	322,133
Business insurance funds	314,785	290,326
Deferred tax assets	137,768	29,420
Net defined benefit asset	-	2,812
Other	148,984	195,885
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	944,640	835,179
Total non-current assets	4,495,288	4,153,061
Total assets	17,277,448	17,206,653

(Thousands of yen)

		FY2/15 (As of Feb. 28, 2015)	FY2/16 (As of Feb. 29, 2016)
Liabilities			
Current liabilities			
Notes and accounts payable-trade	*2	1,833,333	1,680,871
Electronically recorded obligations-operating	*2	953,608	899,494
Lease obligations		64,753	64,642
Income taxes payable		332,544	65,043
Accrued consumption taxes		87,921	12,585
Accrued expenses		386,453	409,464
Advances received		1,242,586	1,288,049
Provision for bonuses		233,683	259,898
Provision for directors' bonuses		59,000	61,000
Asset retirement obligations		-	19,199
Other		233,351	555,327
Total current liabilities		5,427,236	5,315,576
Non-current liabilities			
Long-term accounts payable-other		309,143	52,563
Lease obligations		113,498	54,193
Net defined benefit liability		187,425	194,094
Negative goodwill		18,862	11,067
Asset retirement obligations		15,555	4,213
Other		25,488	45,762
Total non-current liabilities		669,973	361,893
Total liabilities		6,097,209	5,677,469
Net assets			
Shareholders' equity			
Capital stock		1,035,600	1,035,600
Capital surplus		1,280,522	1,280,522
Retained earnings		8,816,001	9,515,679
Treasury shares		(201,313)	(201,313)
Total shareholders' equity		10,930,810	11,630,488
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities		34,183	16,600
Foreign currency translation adjustment		34,187	(100,775)
Remeasurements of defined benefit plans		(11,208)	(17,129)
Total accumulated other comprehensive income		57,162	(101,304)
Minority interests		192,266	-
Total net assets		11,180,239	11,529,183
Total liabilities and net assets		17,277,448	17,206,653

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

(Thousands of yen)

	FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)
Net sales	17,424,279	19,027,633
Cost of sales	11,978,398	12,921,519
Gross profit	5,445,881	6,106,114
Selling, general and administrative expenses	*1, *2 4,295,538	*1, *2 4,759,173
Operating income	1,150,342	1,346,941
Non-operating income		
Interest income	2,202	1,554
Dividend income	4,853	5,187
Technical support fee	15,285	14,796
Rent income	2,472	1,991
Insurance premiums refunded cancellation	13,570	17,238
Foreign exchange gains	44,839	-
Amortization of negative goodwill	7,794	7,794
Other	15,677	16,313
Total non-operating income	106,696	64,877
Non-operating expenses		
Interest expenses	4,578	3,756
Provision of allowance for doubtful accounts	1,750	-
Foreign exchange losses	-	12,973
Other	1,168	436
Total non-operating expenses	7,496	17,165
Ordinary income	1,249,542	1,394,653
Extraordinary income		
Gain on sales of non-current assets	*3 10,030	*3 3,830
Total extraordinary income	10,030	3,830
Extraordinary losses		
Loss on sales of non-current assets	*4 375	-
Loss on retirement of non-current assets	*5 2,407	*5 4,235
Impairment loss	-	*6 35,264
Loss on valuation of investment securities	1,800	-
Loss on valuation of golf club membership	525	-
Loss on sales of shares of subsidiaries	-	217,345
Loss on cancellation of leases	1,400	-
Total extraordinary losses	6,507	256,845
Income before income taxes and minority interests	1,253,065	1,141,638
Income taxes-current	561,983	153,716
Income taxes-deferred	(25,214)	33,575
Total income taxes	536,768	187,292
Income before minority interests	716,297	954,345
Minority interests in income (loss)	20,330	(6,783)
Net income	695,966	961,129

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)
Income before minority interests	716,297	954,345
Other comprehensive income		
Valuation difference on available-for-sale securities	19,248	(17,582)
Foreign currency translation adjustment	284,602	(132,007)
Remeasurements of defined benefit plans, net of tax	-	(5,921)
Total other comprehensive income	*1 303,851	*1 (155,512)
Comprehensive income	1,020,148	798,833
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	975,683	802,661
Comprehensive income attributable to minority interests	44,465	(3,828)

(3) Consolidated Statement of Changes in Equity

FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)

(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	8,335,593	(201,269)	10,450,446
Cumulative effects of changes in accounting policies					-
Restated balance	1,035,600	1,280,522	8,335,593	(201,269)	10,450,446
Changes of items during period					
Dividends of surplus			(215,557)		(215,557)
Net income			695,966		695,966
Purchase of treasury shares				(44)	(44)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	480,408	(44)	480,363
Balance at end of current period	1,035,600	1,280,522	8,816,001	(201,313)	10,930,810

(Thousands of yen)

	Accumulated other comprehensive income				Minority 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	14,934	(226,280)	-	(211,346)	153,791	10,392,891
Cumulative effects of changes in accounting policies						-
Restated balance	14,934	(226,280)	-	(211,346)	153,791	10,392,891
Changes of items during period						
Dividends of surplus						(215,557)
Net income						695,966
Purchase of treasury shares						(44)
Net changes of items other than shareholders' equity	19,248	260,468	(11,208)	268,509	38,474	306,983
Total changes of items during period	19,248	260,468	(11,208)	268,509	38,474	787,347
Balance at end of current period	34,183	34,187	(11,208)	57,162	192,266	11,180,239

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)
Net income			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				Minority 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)
Net income						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

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)
Cash flows from operating activities		
Income before income taxes and minority interests	1,253,065	1,141,638
Depreciation	308,370	321,898
Impairment loss	-	35,264
Loss (gain) on valuation of investment securities	1,800	-
Loss on valuation of golf club memberships	525	-
Increase (decrease) in provision for bonuses	28,511	26,099
Increase (decrease) in provision for directors' bonuses	(6,000)	2,000
Increase (decrease) in allowance for doubtful accounts	(5,896)	(13,321)
Interest and dividend income	(7,056)	(6,742)
Interest expenses	4,578	3,756
Foreign exchange losses (gains)	(44,585)	14,213
Loss (gain) on sales of property, plant and equipment	(9,655)	(3,830)
Loss (gain) on sales of shares of subsidiaries	-	217,345
Loss (gain) on cancellation of insurance contract	(13,570)	(17,238)
Decrease (increase) in notes and accounts receivable-trade	(781,365)	(430,893)
Decrease (increase) in inventories	12,959	(620,626)
Decrease (increase) in other assets	(193,148)	229,088
Increase (decrease) in notes and accounts payable-trade	345,984	(170,336)
Increase (decrease) in advances received	252,409	45,053
Increase (decrease) in other liabilities	36,843	7,860
Other, net	(5,084)	5,298
Subtotal	1,178,685	786,527
Interest and dividend income received	7,056	6,742
Interest expenses paid	(4,578)	(3,756)
Income taxes refund	59,393	51,553
Income taxes paid	(417,810)	(550,877)
Net cash provided by (used in) operating activities	822,746	290,190
Cash flows from investing activities		
Payments into time deposits	(521,050)	-
Proceeds from withdrawal of time deposits	689,470	295,482
Purchase of property, plant and equipment	(453,659)	(304,065)
Payments for retirement of property, plant and equipment	(43)	-
Proceeds from sales of property, plant and equipment	28,636	1,615
Purchase of intangible assets	(14,497)	(3,155)
Purchase of investment securities	(2,068)	(2,164)
Payment for purchase of shares of subsidiaries from minority shareholders	-	(264,189)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	-	*2 (130,485)
Purchase of insurance funds	(4,171)	(1,242)
Proceeds from cancellation of insurance funds	43,118	42,940
Payments for guarantee deposits	(3,564)	(67,880)
Proceeds from collection of guarantee deposits	19,853	394
Repayments of guarantee deposits received	(285)	-
Payments for asset retirement obligations	(22,000)	-
Net cash provided by (used in) investing activities	(240,261)	(432,751)

(Thousands of yen)

	FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)
Cash flows from financing activities		
Purchase of treasury shares	(44)	-
Repayments of lease obligations	(63,312)	(62,774)
Cash dividends paid	(215,217)	(258,228)
Cash dividends paid to minority shareholders	(5,990)	(10,615)
Net cash provided by (used in) financing activities	(284,565)	(331,618)
Effect of exchange rate change on cash and cash equivalents	142,859	(31,701)
Net increase (decrease) in cash and cash equivalents	440,779	(505,881)
Cash and cash equivalents at beginning of period	4,107,398	4,548,178
Cash and cash equivalents at end of period	*1 4,548,178	*1 4,042,296

(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

Freund International, Ltd., which was a consolidated subsidiary of the Company at the end the previous fiscal year, was excluded from the scope of consolidation in the current fiscal year as this company was absorbed by Freund-Vector Corporation on January 1, 2015.

All shares of specified subsidiary Freund Pharmatec Ltd. were sold on February 4, 2016, and this company was excluded from the scope of consolidation with January 1, 2016 as an assumed selling date.

2. Fiscal year of consolidated subsidiaries

The fiscal year end of the domestic and foreign consolidated subsidiaries is December 31.

The consolidated financial statements include the financial statements of consolidated subsidiaries as of December 31, and necessary adjustments have been made for the consolidation concerning material transactions arising between this date and the consolidated balance sheet date.

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.)

Chemical & Food 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 acquired on or after April 1, 1998 (excluding facilities attached to buildings) 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

The Company and its domestic consolidated subsidiary

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.

Foreign consolidated subsidiary

To prepare for credit losses on accounts receivable, allowances are provided 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 and the minority interests 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

The Company has applied the “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, March 26, 2015) from the current fiscal year, for provisions set forth in the main clauses of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits. Accordingly, the Company reviewed the methods for calculating retirement benefit obligations and service costs, and revised the method of attributing estimated retirement benefit obligations to periods from the straight-line basis to the benefit formula basis, and revised the method of determining the discount rate from the method using a single discount rate calculated based on the estimated average remaining years of service of employees to the method using a single weighted average discount rate reflecting the estimated period and amount of benefit payment.

For the application of these accounting standards, etc. in accordance with the transitional accounting treatments set forth in Paragraph 37 of the Accounting Standard for Retirement Benefits, the adjustments associated with the change in calculation methods of retirement benefit obligations and service costs are recorded in retained earnings at the beginning of the current fiscal year.

The result was an increase of 4,112 thousand yen in net defined benefit liability and a decrease of 2,782 thousand yen in retained earnings at the beginning of the current fiscal year. The effect of this change on operating income, ordinary income, and income before income taxes and minority interests 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)

	FY2/15 (As of Feb. 28, 2015)	FY2/16 (As of Feb. 29, 2016)
Notes and accounts receivable-trade	642,254	638,368
Merchandise and finished goods	98,473	103,255
Work in process	476,685	467,926
Raw materials and supplies	297,993	311,940
Buildings	404,587	382,767
Land	1,003,028	1,003,028
Total	2,923,024	2,907,287

Liabilities with collateral

There are no corresponding liabilities.

*2. Notes receivable/payable maturing on the balance sheet date and electronically recorded obligations-operating

Notes receivable/payable maturing on the balance sheet date and electronically recorded obligations-operating are treated as if they were settled at the clearing date of notes.

Consequently, as the balance sheet date was a bank holiday, the following notes receivable/payable maturing on the balance sheet date and electronically recorded obligations-operating were included in the ending balance of notes receivable/payable of the fiscal year.

(Thousands of yen)

	FY2/15 (As of Feb. 28, 2015)	FY2/16 (As of Feb. 29, 2016)
Notes receivable-trade	30,359	-
Notes payable-trade	56,640	-
Electronically recorded obligations-operating	147,516	-

Notes to Consolidated Statement of Income

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

	FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)
Salaries and allowances	1,039,381	1,221,619
Provision for bonuses	157,578	185,151
Provision for directors' bonuses	59,000	61,000
Retirement benefit expenses	48,562	47,614
Depreciation	156,423	170,298
Research and development expenses	592,613	687,257

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

FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)
592,613	687,257

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

	FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)
Machinery and equipment	9,471	3,830
Tools, furniture and fixtures	559	-
Total	10,030	3,830

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

	FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)
Facilities attached to buildings	0	-
Machinery and equipment	341	-
Tools, furniture and fixtures	34	-
Total	375	-

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

	FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)
Facilities attached to buildings	2,046	999
Structures	0	-
Machinery and equipment	193	3,236
Vehicles	0	-
Tools, furniture and fixtures	167	0
Total	2,407	4,235

*6. 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 Others	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.

Notes to Consolidated Statement of Comprehensive Income

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

(Thousands of yen)

	FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)
Valuation difference on available-for-sale securities:		
Amount incurred during the year	29,889	(28,544)
Re-classification adjustments	-	-
Before tax effect adjustments	29,889	(28,544)
Tax effect	(10,640)	10,961
Valuation difference on available-for-sale securities	19,248	(17,582)
Foreign currency translation adjustment:		
Amount incurred during the year	284,602	(70,978)
Re-classification adjustments	-	(61,029)
Foreign currency translation adjustment	284,602	(132,007)
Remeasurements of defined benefit plans, net of tax:		
Amount incurred during the year	-	(9,260)
Re-classification adjustments	-	1,362
Before tax effect adjustments	-	(7,897)
Tax effect	-	1,976
Remeasurements of defined benefit plans, net of tax	-	(5,921)
Total other comprehensive income	303,851	(155,512)

Notes to Consolidated Statement of Changes in Equity

FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)

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

	Number of shares as of Mar. 1, 2014	Increase	Decrease	Number of shares as of Feb. 28, 2015
Outstanding shares				
Common stock	9,200,000	-	-	9,200,000
Total	9,200,000	-	-	9,200,000
Treasury shares				
Common stock	577,685	37	-	577,722
Total	577,685	37	-	577,722

Note: The increase in the number of treasury shares of common stock is due to 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 29, 2014	Common stock	215,557	25	February 28, 2014	May 30, 2014

(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 28, 2015	Common stock	258,668	Retained earnings	30	February 28, 2015	May 29, 2015

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

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.

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)

	FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)
Cash and deposits	4,870,566	4,042,296
Time deposits with maturities over three months	(322,388)	-
Cash and cash equivalents	4,548,178	4,042,296

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

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)

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 and foods. Consequently, the Group has two reportable business segments: the Machinery Business and the Chemical and Food 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

Chemical and Food Business: Pharmaceutical excipients and nutritional supplements; food preservatives; R&D, formulation studies and other projects for pharmaceuticals, food, chemicals and other products; and development and technology licensing of new dosage forms of pharmaceutical 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

FY2/15 (Mar. 1, 2014 – Feb. 28, 2015) (Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Machinery Business	Chemical and Food Business	Total		
Net sales					
External sales	10,941,689	6,482,590	17,424,279	-	17,424,279
Inter-segment sales and transfers	-	-	-	-	-
Total	10,941,689	6,482,590	17,424,279	-	17,424,279
Segment profit	1,108,509	474,125	1,582,635	(432,293)	1,150,342
Segment assets	8,447,544	4,347,316	12,794,861	4,482,587	17,277,448
Other items					
Depreciation	171,017	126,658	297,675	10,695	308,370
Increase in property, plant and equipment and intangible assets	484,001	56,745	540,746	5,185	545,931

Notes: 1. Contents of adjustments are as follows.

(1) The negative adjustment of 432,293 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 4,482,587 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 10,695 thousand yen adjustment to depreciation is mainly depreciation of corporate assets that are not allocated to any of the reportable segments.

(4) The 5,185 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.

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

	Reportable segment			Adjustment (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Machinery Business	Chemical and Food 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.

Related information

FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)

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
13,056,357	1,599,752	1,071,019	450,257	1,246,891	17,424,279

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

2. In FY2/15, net sales included in "Other" in prior periods were reclassified into "Latin America" and "Other" in association with revisions to administrative segments.

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

Japan	North America	Europe	Total
2,282,163	834,073	287,498	3,403,736

3. Information by major client (Thousands of yen)

Name	Net sales	Related segments
Lion Corporation	2,131,565	Machinery Business and Chemical and Food Business

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 Chemical and Food Business

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

FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)

Not applicable.

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."

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

FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)

Not applicable.

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.

Information related to gain on bargain purchase for each reportable segment

Not applicable.

Per Share Information

(Yen)

	FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)
Net assets per share	637.19	668.57
Net income per share	40.36	55.74

Notes: 1. Following the resolution of the Board of Directors on January 25, 2016, the Company conducted a 2-for-1 common stock split on March 1, 2016. The net assets per share and net income per share has 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)

	FY2/15 (Mar. 1, 2014 – Feb. 28, 2015)	FY2/16 (Mar. 1, 2015 – Feb. 29, 2016)
Net income	695,966	961,129
Amounts not attributable to common shareholders	-	-
Net income available to common shares	695,966	961,129
Average number of shares outstanding during the period (Thousand shares)	17,244	17,244

Subsequent Events

Following the resolution of the Board of Directors on January 25, 2016, the Company conducted a 2-for-1 common stock split on March 1, 2016.

1. Purpose of the stock split

The purpose of the stock split is to enhance the liquidity of the Company's shares to make investment easier and expand the investor base.

2. Summary of the stock split

(1) Method of the stock split

Shareholders listed in the final shareholder register on the record date of Monday, February 29, 2016 will receive two shares of common stock for each share held on the same day.

(2) Increase in the number of shares due to the stock split

Total number of shares outstanding before the stock split : 9,200,000 shares

Increase in the number of shares due to the stock split : 9,200,000 shares

Number of shares outstanding after the stock split : 18,400,000 shares

Number of shares authorized after the stock split : 60,000,000 shares

3. Schedule

Announcement date : Friday, February 12, 2016

Record date : Monday, February 29, 2016

Effective date : Tuesday, March 1, 2016

4. The effect of these changes on per share information

The effect of these changes on per share information is shown in the corresponding section.

6. Other Information

(1) Change in Directors

The Board of Directors of Freund Corporation approved a resolution on March 29, 2016 concerning the following proposed changes in directors.

If approval is received at the 52nd Annual General Meeting of Shareholders scheduled for May 26, 2016, these changes are to become official.

1. Director candidate for promotion

Norio Shiratori

(New position) Managing Director, General Manager, Corporate Strategy & Planning Office

(Current position) Director, General Manager, Corporate Strategy & Planning Office

2. Candidates for director appointment

Narimichi Takei

(New position) Director, General Manager, Chemicals Division

(Current position) General Manager, Chemicals Division

3. Retiring directors (effective May 26, 2016)

Yasutoyo Fusejima

(Current position) Director

Takashi Gushiken

(Current position) Director

(2) Others

Not applicable.