

FREUND CORPORATION

FREUND Report 2019

Fiscal Year Ended February 28, 2019

(From March 1, 2018 to February 28, 2019)

Contents

- Profile..... 1
- FREUND Group's Business Scope Based on Pharmaceutical Products Manufacturing Process..... 2
- FREUND Group's Value Creation Base..... 3
- Striving to Solve Social Issues..... 4
- 10-Year Financial Data..... 5
- 5-Year Financial Highlights..... 6
- Message from the President and CEO..... 7
- Financial Strategy..... 12
- Close-Up: Machinery Business Segment—Where Open Innovation Takes Place... 13
- Research and Development..... 14
- Corporate Governance..... 15
- Message from an External Audit & Supervisory Board Member..... 20
- Solidifying a Foundation for Nurturing Human Talents..... 21
- Company and Stock Information..... 22



Corporate Philosophy

“Develop the Future through Creativity®”

Management Vision

Contributing to better medical care and health for people worldwide, and creating and fostering technologies for fulfilling lives and food safety.

Our Businesses

The foundations of our technologies originate in processing small granules from various raw materials, making layers and coating particles and tablets. We are highly unique in the world in that it boasts technologies in both products and drug formulation technologies.

Disclaimer Statement

Notes regarding the Company's Estimates:

This Report contains forward looking plans, estimates, strategies, financial results and other statements. Such information is based on the most accurate information available at the time of this document's creation. Therefore, the Company's actual financial results may diverge largely from statements represented in this document due to the influence of various risks and uncertainties. Influencing factors include the economic environment, competitive pressures, related regulations and laws, changes in product development conditions and fluctuations in foreign exchange rates relating to the Company's businesses. Furthermore, the factors influencing the Company's estimates and other statements are not limited to the above.

Note: The details of this Report are based on the results of the fiscal year ended February 28, 2019 (from March 1, 2018 to February 28, 2019). However, new information available after March 2019 has also been included in this Report.

Machinery Business Segment

Manufacture and sales of granulating and coating equipment for pharmaceutical, food, cosmetic and other products

Characteristics

- Granulating/coating equipment boasting the top share of the Japanese market
- Accelerated deployment of businesses in Asia, as well as Europe and North America via a U.S. subsidiary
- Development of equipment based on drug formulation technologies
- Integration of granulating/coating and pulverizing/classifying technologies to expand equipment sales for other industrial business fields

Chemicals Business Segment

Manufacture and sale of pharmaceutical excipients, food preservatives and dietary supplements

Characteristics

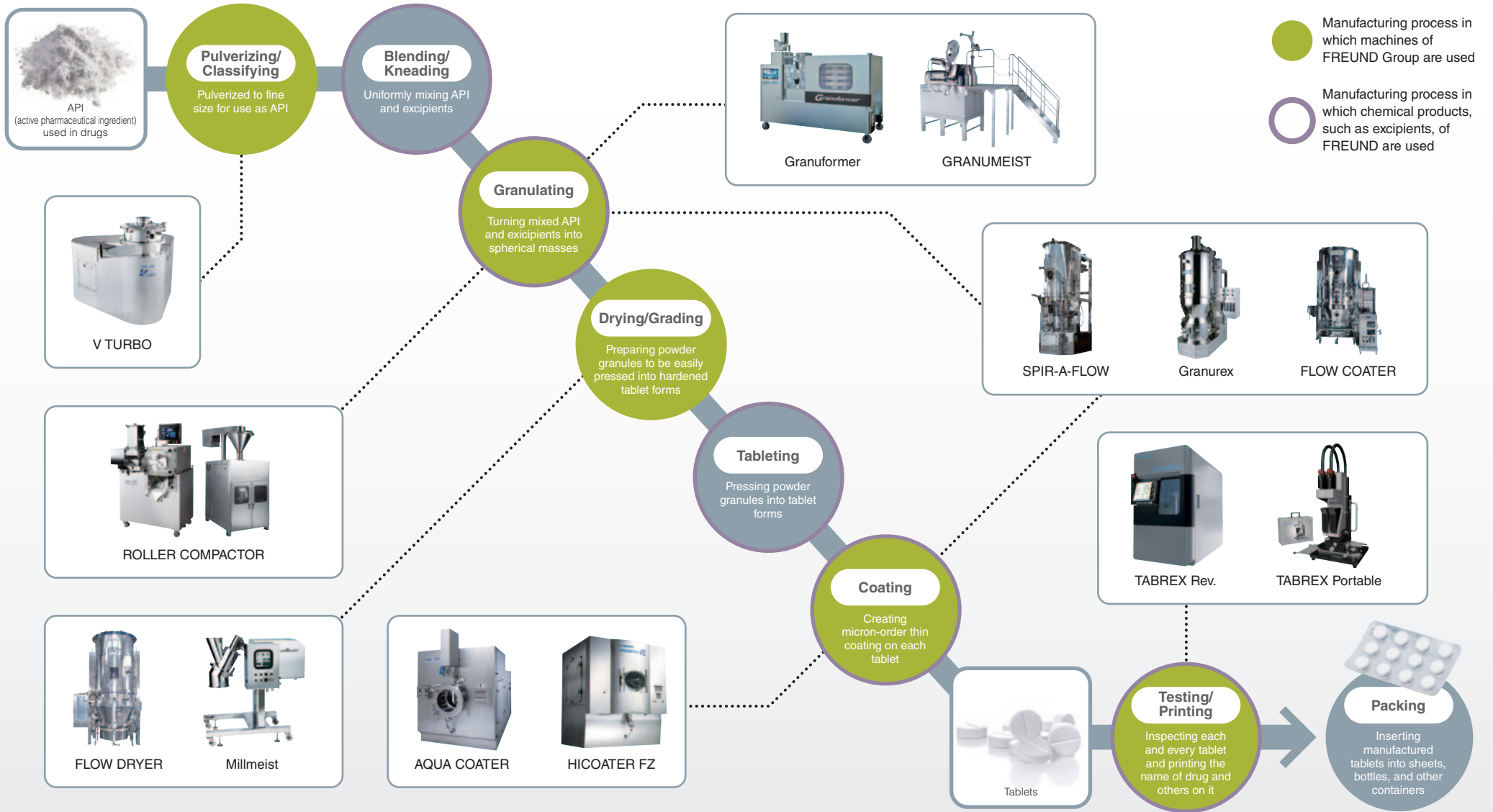
- Pharmaceutical excipients manufactured at GMP* certified facilities
- Food preservatives used to preserve the quality of various foods contributing to food safety
- Commercialization of dietary supplements and seamless mini-capsules jointly developed with client companies using granulating and coating technologies

*GMP: Good Manufacturing Practice

FREUND Group Business Portfolio

Business Segment	Machinery Business			Chemicals Business
	FREUND	FREUND-VECTOR	FREUND-TURBO	FREUND
Business Field ¹	Pharmaceutical Products	○	○	△ (Pharmaceutical Excipients)
	Non-Pharmaceutical Products	○	△	○ (Functional Food Materials) (Food Preservatives)
Internal Manufacturing Process ²	Developing / Designing	○	○	○
	Manufacturing	—	○	○
	Testing	○	○	○

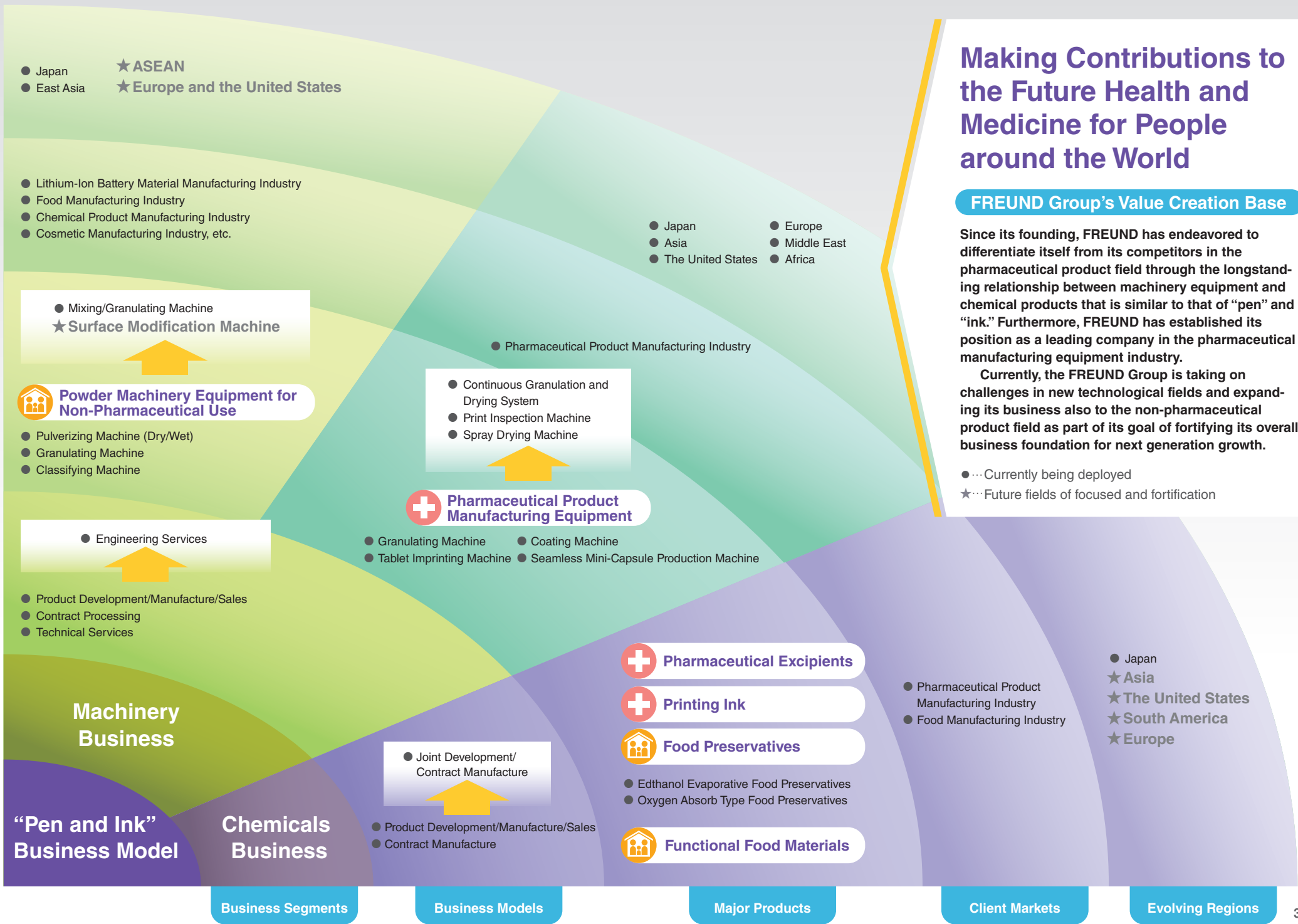
1. The "△" marks reflect products which are supplied on a partial basis.
2. The "△" marks reflect internal manufacturing processes of which some are outsourced.



FREUND Group's Business Scope Based on Pharmaceutical Products Manufacturing Process

Machinery equipment and chemical products such as excipients used in the manufacturing process of pharmaceutical products (tablets, granules, and others) are the main products of the FREUND Group. FREUND is unique in that it is the only company in the global industry that conducts both the machinery and chemicals businesses.

We introduce the main products of the FREUND Group used in the manufacturing process for pharmaceutical products.



Making Contributions to the Future Health and Medicine for People around the World

FREUND Group's Value Creation Base

Since its founding, FREUND has endeavored to differentiate itself from its competitors in the pharmaceutical product field through the longstanding relationship between machinery equipment and chemical products that is similar to that of "pen" and "ink." Furthermore, FREUND has established its position as a leading company in the pharmaceutical manufacturing equipment industry.

Currently, the FREUND Group is taking on challenges in new technological fields and expanding its business also to the non-pharmaceutical product field as part of its goal of fortifying its overall business foundation for next generation growth.

- ... Currently being deployed
- ★ ... Future fields of focused and fortification



EXAMPLE:

Frontline of Medicine

Provision of Value to Society

Improving the quality of medical care by increasing the value addition of pharmaceutical products

Improving drug efficacy through granulating and coating technologies

For over half a century, FREUND CORPORATION has leveraged its core competencies of granulating and coating technologies, along with its products and drug formulation technologies, to increase the value of pharmaceutical products. At the same time, FREUND has conducted manufacturing that enables more people to access high value-added pharmaceutical products, and the Group strives to improve the quality of medical care worldwide.



Continuous Granulation and Drying System "Granulformer"

Contributing to aging society by pursuing "easy to ingest" drugs

Active pharmaceutical ingredients account for only several percent of total volume of drugs, with the remaining portion being excipients that are used to make drugs into sizes that are easy to swallow and for coating of the surface to mask the bitter taste. FREUND is strengthening the development of orally disintegrating tablet (ODT) related products which use a unique drug formulation technology and allows for easier ingestion of drugs by assisting the swallowing process.



Pharmaceutical Excipients "Granulot F (Fine)"

Preventing medical mistakes caused by dispensing errors

In the dispensing field, there are incidents of medical mistakes due to patients taking the wrong drugs because they are similar in appearance and name*. FREUND prints on drugs to allow for easy identification and contributes to prevention of medical mistakes worldwide. To do so, FREUND developed the industry's first safe drug ingestion concept that involves a new generation tablet imprinting/inspection machine and specialized inks.



Tablet Imprinting Machine "TABREX Rev."

*Source: The Japan Council for Quality Health Care

Taking on New Challenges for the Future

Striving to Solve Social Issues

FREUND Group's Core Technologies

Granulating
Coating
Pulverizing/Classifying
Consolidation Adjustment

Client Markets

Pharmaceutical Product Manufacturing Industry
Food Manufacturing Industry
Chemical Product Manufacturing Industry
Cosmetic Manufacturing Industry
Lithium-Ion Battery Material Manufacturing Industry, etc.



EXAMPLE:

Food and Health

Provision of Value to Society

Better taste and health; supporting enriched lives of people

Pursuing fresh taste, safety and security

Food preservatives are small pouches placed inside of packaging to protect the flavor and ensure the safety and security of freshly cooked pastries and breads, Japanese confectionaries and other products. FREUND develops food quality prolonging agents based on its "ethanol evaporation" technology which preserves bacteriostatic effects in order to deliver fresh, tasty products as well as safety and security.



Food Preservative "Antimold"

Maximizing the effect of effective food ingredients with advanced drug formulation technologies

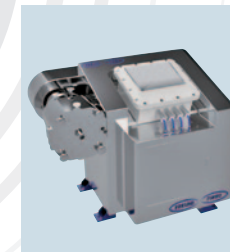
Along with the increased concern for health, demand for supplements and health foods is on the rise. FREUND is contributing to healthy lives together with health support manufacturers by using advanced drug formulation technologies to promote the function of effective food ingredients and enable easier ingestion.



Food Coating Agent "AQ shelax"

Creating new markets for the next generation using FREUND's unique pulverizing technologies

The FREUND Group's powder pulverization technology is used to create products in the cosmetic, food and other industries that support peoples' daily lives. For example, this technology is used in foundations which many women wear daily. The fine powders manufactured by the Group's equipment help to produce "healthy looking and clean skin."



High viscosity wet grinding mill and separator "AQUA TURBO TZ"

The FREUND Group boasts of core competencies in granulating, coating, pulverizing, classifying and other technologies, and in addition to covering pharmaceutical products, it is also expanding its businesses into the non-pharmaceutical product field including food and other industrial applications. The Group is thereby taking on new challenges that enable it to contribute to improving the quality of health and life of people.

10-Year Financial Data

FREUND CORPORATION and Consolidated Subsidiaries
Ended February 2010 to February 2019

(¥ million)

	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19
For the year										
Net sales	12,943	13,257	15,236	16,396	17,616	17,424	19,027	21,164	19,801	18,408
Cost of sales	8,675	9,318	10,624	11,313	12,377	11,978	12,921	14,343	12,985	12,220
Selling, general and administrative expenses	3,297	3,259	3,546	3,612	3,952	4,295	4,759	4,779	4,845	4,964
Operating profit	970	680	1,065	1,470	1,286	1,150	1,346	2,041	1,971	1,223
Profit attributable to owners of parent	563	516	608	765	787	695	961	1,064	1,477	843
EBITDA ¹	1,207	960	1,351	1,717	1,610	1,478	1,687	2,396	2,329	1,575
Orders received	8,049	11,005	12,200	12,117	12,804	14,340	15,109	18,286	12,129	12,574
Order backlog at end of period	3,238	5,282	6,148	5,809	5,551	6,780	7,328	8,790	5,906	5,555
Capital investment	175	469	218	222	477	545	266	564	524	627
Depreciation	212	257	264	232	303	308	321	338	344	344
R&D expenses	312	355	390	435	464	592	687	640	862	832
Cash flows from operating activities	457	65	1,219	740	1,227	822	290	3,605	594	435
Cash flows from investing activities	(198)	(623)	(154)	(332)	(423)	(240)	(432)	(351)	(493)	(566)
Cash flows from financing activities	(154)	(196)	(134)	(164)	(226)	(284)	(331)	(277)	(499)	(921)
At end of period										
Total assets	12,049	12,196	14,342	14,971	15,550	17,277	17,206	19,101	19,125	17,465
Net assets	7,939	8,071	8,489	9,315	10,392	11,180	11,529	12,185	13,242	13,250
(Equity)	7,814	7,952	8,356	9,197	10,239	10,987	11,529	12,185	13,242	13,250
Per share data²										
Earnings per share (EPS, ¥)	32.71	29.98	35.30	44.38	45.69	40.36	55.74	61.72	85.69	50.15
Book value per share (BPS, ¥)	453.15	461.16	484.56	533.37	593.76	637.19	668.57	706.62	767.91	791.34
Dividend ³ per share (DPS, ¥)	7.50	7.50	7.50	10.00	12.50	15.00	12.50	20.00	20.00	20.00
Major indicators										
Operating margin (%)	7.5	5.1	7.0	9.0	7.3	6.6	7.1	9.6	10.0	6.6
Return on assets (ROA, %)	4.7	4.3	4.2	5.1	5.1	4.0	5.6	5.6	7.7	4.8
Return on equity (ROE, %)	7.4	6.6	7.5	8.7	8.1	6.6	8.5	9.0	11.6	6.4
Dividend payout ratio (%)	22.9	25.0	21.2	22.5	27.4	37.2	22.4	32.4	23.3	39.9
Equity ratio (%)	64.9	65.2	58.3	61.4	65.8	63.6	67.0	63.8	69.2	75.9

1. EBITDA = Operating profit + Technical support fee + Interest expenses + Depreciation

2. The Company carried out a 2-for-1 split of common shares on June 1, 2009 and March 1, 2016. The "per share" calculations are based on the assumption that the stock splits were conducted at the beginning of FY02/10.

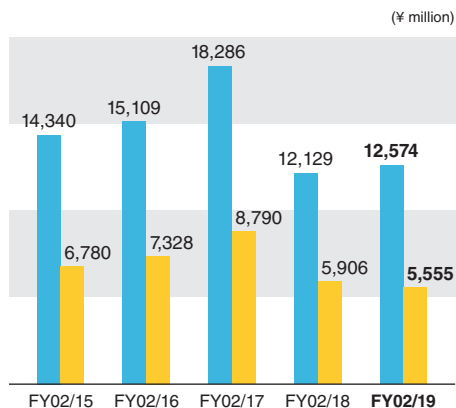
3. Dividend per share includes commemorative dividends of ¥2.50 (for FY02/15) and ¥5.00 (for FY02/17).

5-Year Financial Highlights

FREUND CORPORATION and Consolidated Subsidiaries
 Ended February 2015 to February 2019

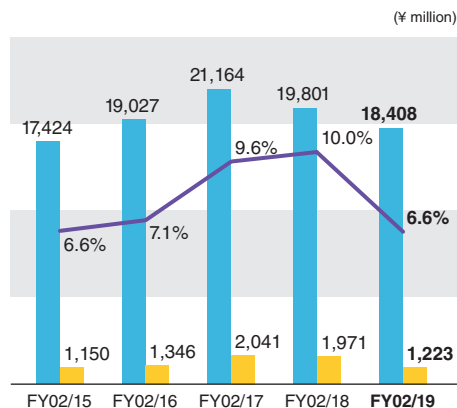
Orders received Order backlog

Orders received Order backlog



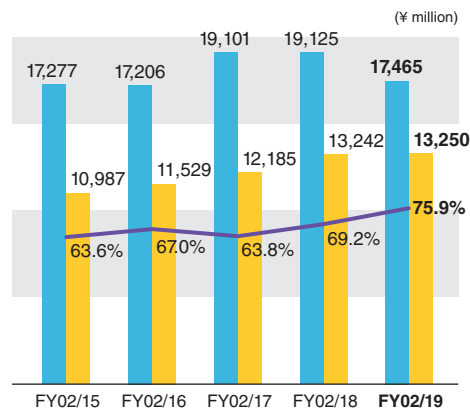
Net sales and operating profit Operating margin

Net sales Operating profit
Operating margin



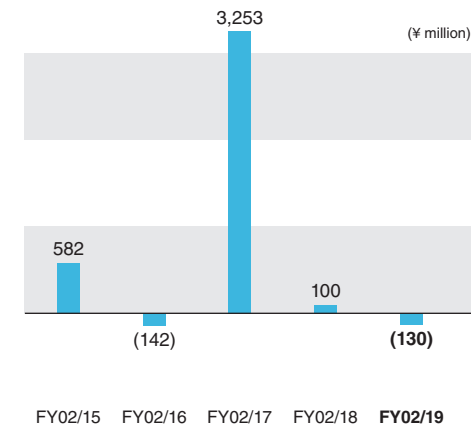
Total assets and equity Equity ratio

Total assets Equity
Equity ratio



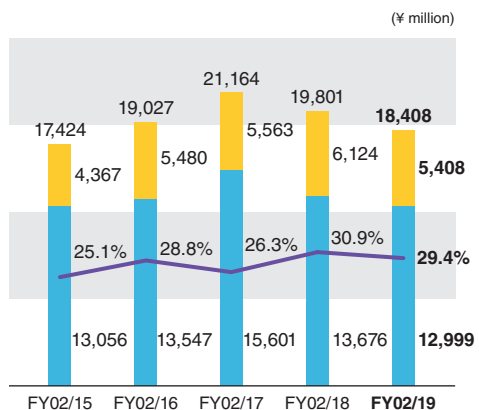
Free cash flows

Free cash flows



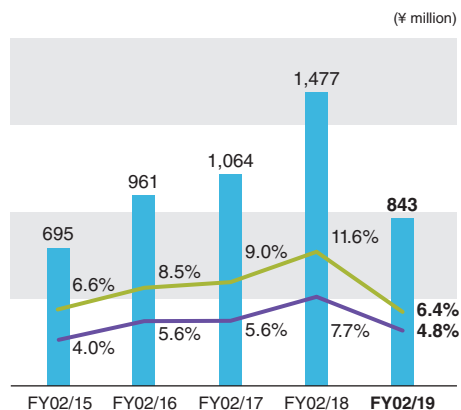
Net sales by region Overseas sales ratio

Japan Overseas
Overseas sales ratio



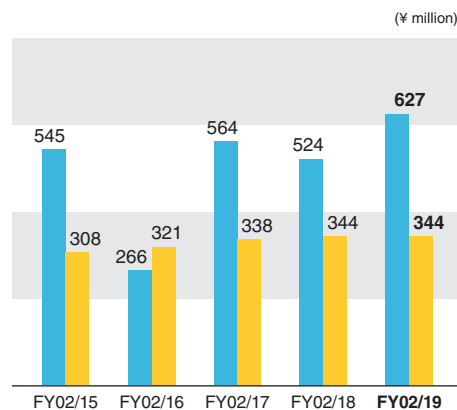
Profit attributable to owners of parent Return on assets (ROA), Return on equity (ROE)

Profit attributable to owners of parent
Return on assets (ROA) Return on equity (ROE)



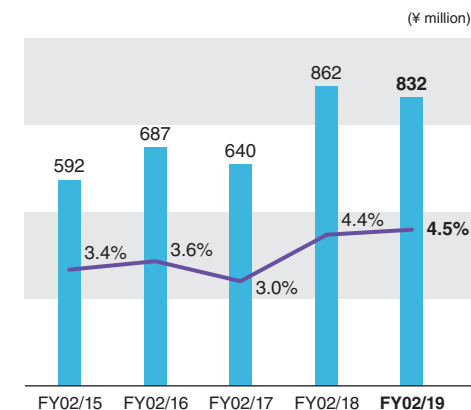
Capital investment Depreciation

Capital investment Depreciation



R&D expenses R&D expenses ratio

R&D expenses R&D expenses ratio



ONE FREUND

Message from the President and CEO “Develop the Future through Creativity®”

The FREUND Group is promoting a global business strategy with the goal of realizing its concept for corporate value of “ONE FREUND.”

Based upon the current 7th Medium-Term Management Plan (for the fiscal years February 2018 to 2022), the second year of the Plan, the fiscal year February 2019 (hereinafter referred to as FY02/19), was designated as a period to establish the “foundations to capture future growth” with preparations for a “strong growth period” being conducted in the latter two years of the Plan, and further progress was made in facilitating a strong management foundation to support growth in the next generation. At the same time, the pace of expansion of the share of generic drugs within the Japanese pharmaceutical product market advanced at a faster than expected pace. Against this backdrop, President and CEO Iwao Fusejima will explain FREUND’s business activities for the creation of new businesses and strengthening of existing businesses, and future key strategies.



A handwritten signature in black ink, appearing to read 'Iwao Fusejima', written in a cursive style.

Iwao Fusejima
President and CEO

FY02/19: Overview of Business Activities

FREUND seeks to promote key strategies including to “strengthen its global business deployment in the pharmaceutical products field,” “expand sales of continuous granulating systems, tablet imprinting equipment and other strategic products,” “strengthen the industrial machinery business related to new materials such as lithium ion batteries.” Also, the Company will “strengthen its collaboration with academia based upon open innovation” and “cultivate human resources through exchange of technologies” as part of efforts to strengthen

the management foundation to support growth in the next generation.

An overview of business activities in both the pharmaceutical and non-pharmaceutical product fields is provided below.

Business Activities in Pharmaceutical Product Field

Machinery Business Segment

In Japan, generic drugs account for 73% in volume terms of the total pharmaceutical product market, and they are expected to achieve the 80% target for September 2020

determined by the Cabinet in 2017 ahead of schedule. Against this backdrop, generic drug manufacturers are adopting an ever more cautious stance toward new capital investments, and demand for FREUND equipment slowed a step further in the current fiscal year. However, the Company’s implementation of aggressive sales activities appears to be bringing about a recovery in new orders. In the realm of strategic products, delays in delivery of “Granuformer” continuous granulating machines and delays in installations of “TABREX Rev.” tablet imprinting machines (internalized external inspection function) arising from the need to make technical adjustments led to

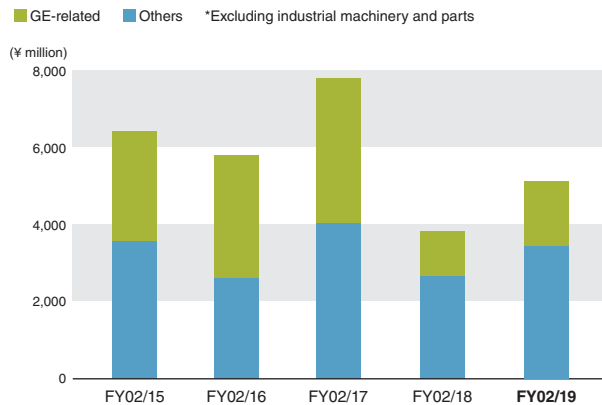
opportunity losses and caused both sales and profits to decline.

In overseas markets, FREUND-VECTOR CORPORATION based in the United States has booked orders for a large project in Brazil. However, the negative influence of a disappearance of inquiries for large projects in Europe like those booked in the previous term, and an expansion in the used equipment market accompanying the restructuring of the pharmaceutical industry and closure of numerous plants in the United States has led to increased difficulties in sales activities. With these business trends in place, our Group sustained investments to expand its business realms and our overseas business performance slowed accordingly.

Chemicals Business Segment

For pharmaceutical excipients used in oral ingested pharmaceutical products, continued strong demand within the Japanese market for "NONPAREIL," which is manufactured in-house, allowed capacity utilization rates to trend at high levels. In overseas markets, aggressive sales efforts in India and other parts of Asia have been successful in expanding sales of high value-added products, and allowed both sales and profits to grow.

Machinery Business Segment: Trend of Pharmaceutical Product Field Orders Received (GE-related and Others)



Business Activities in Non-Pharmaceutical Product Field

Machinery Business Segment

FREUND-TURBO CORPORATION, which specializes in pulverizing machines, encountered increased uncertainties in their lithium ion battery related businesses which previously had strong inquiries in China and other parts of East Asia, due to the trade frictions between the United States and China among other factors, but was able to secure higher sales on the back of aggressive sales activities. At the same time, increases in anticipatory investments related to product development put downward

pressure on profits. Moreover, an extraordinary loss was recorded due to an impairment loss recorded on the acquisition of Akira Kiko Co., Ltd.

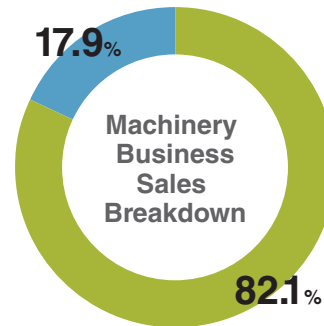
Chemicals Business Segment

Aggressive sales activities in Japan and other Asian countries contributed to an expansion in sales of food quality preserving agents. In addition, the mandatory introduction of HACCP (Hazard Analysis and Critical Control Point) standards contributed to favorable order trends for "EZ-200," the only water activity measuring equipment manufactured in Japan.

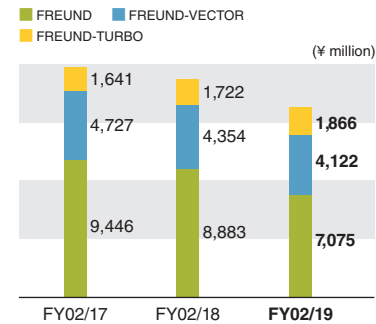
Operating Performances by Business Segment

Machinery Business

■ Pharmaceutical Product Field ■ Industrial Product Field

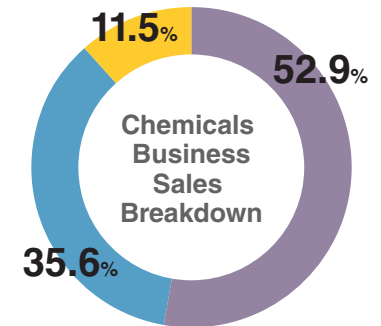


Net Sales by Group Company



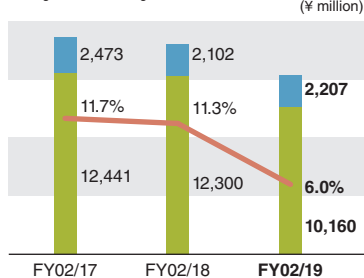
Chemicals Business

■ Pharmaceutical Excipients ■ Food Preservatives ■ Other New Products



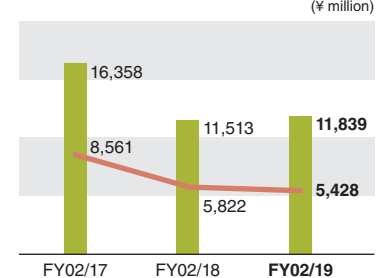
Net Sales by Product Field and Segment Profit Margin

■ Pharmaceutical Product Field ■ Industrial Product Field
— Segment Profit Margin



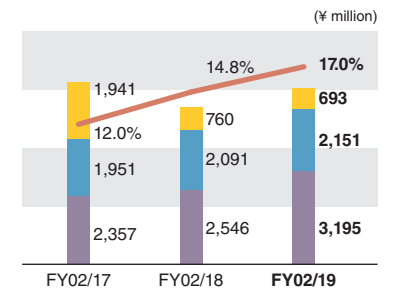
Orders Received and Order Backlog

■ Orders Received ■ Order Backlog



Net Sales by Product Field and Segment Profit Margin

■ Pharmaceutical Excipients ■ Food Preservatives ■ Other New Products ■ Segment Profit Margin



Medium-Term Measures Based on the 7th Medium-Term Management Plan

Machinery Business Segment: Strengthen Global Business Deployment in the Pharmaceutical Product Field

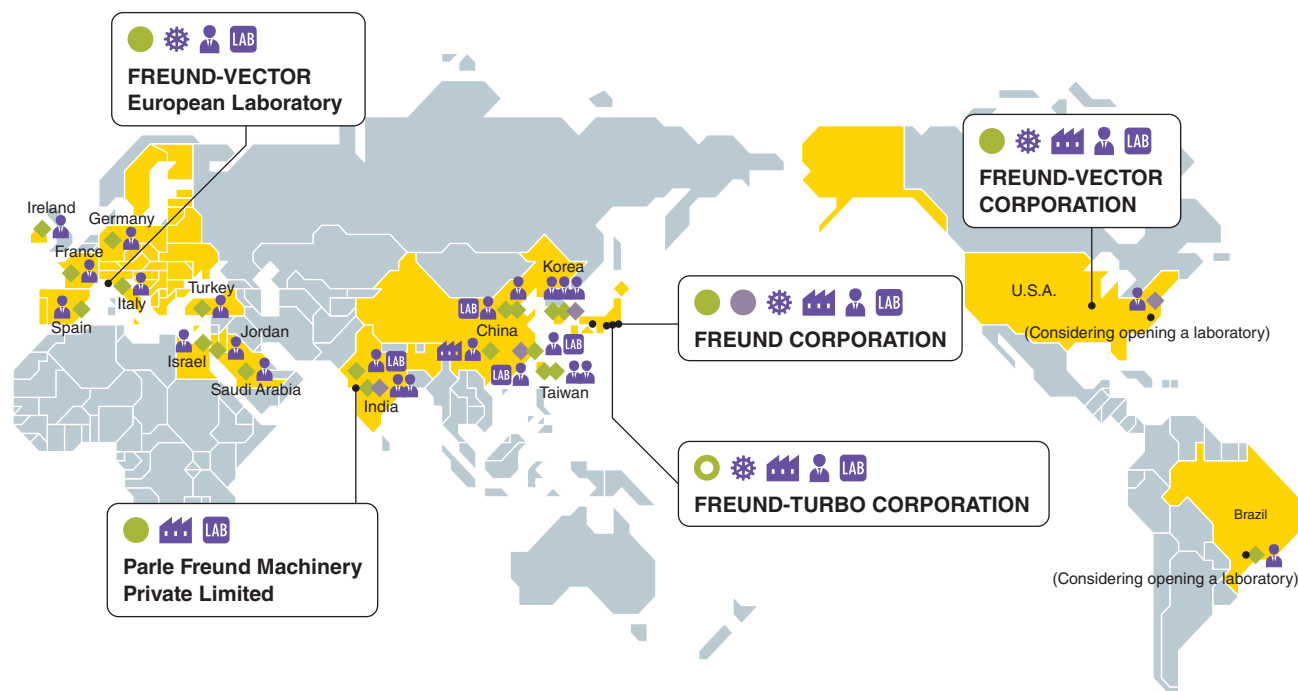
According to the “2018 World Preview, The Outlook Until 2024” (Published June 2018) by EvaluatePharma®, the average annual sales growth of global prescription medicine is expected to rise from 1.2% between 2011 to 2017 to 6.4% between 2018 to 2024, and total sales of the global prescription medicines market is expected to rise to US\$1.2 trillion in 2024. This strong growth is attributed to sustained growth in demand for pharmaceutical products, anticipation of new drug product launches, and increases in access to pharmaceutical products globally. At the same time, decline in sales due to pricing pressure in the market and expansion in generic drug and biosimilar product (bio follow-on products) applications is expected to negate some of the growth in prescription drug market.

Based upon this outlook, the business environment in FREUND’s pharmaceutical product field of the Machinery Business Segment is expected to become more difficult due to competition from equipment manufacturers in Europe and from low priced equipment manufacturers located primarily in Asia, and an expansion in the used equipment market in the United States. Therefore, it is becoming important for the Company to further strengthen its global manufacturing structure and pursue a regional strategy of selection and concentration.

In the Machinery Business within the pharmaceutical product field, both FREUND in Japan and FREUND-VECTOR CORPORATION in the United States (Marion, Iowa) maintain development, manufacturing, sales and laboratory functions and cover global markets. As part of this structure, a sales and laboratory facility is operated in Milan, Italy with sales in neighboring countries being conducted by sales agents. Furthermore, the main developing markets for pharmaceutical products including Brazil, China, and India are serviced by agents, and FREUND maintains laboratory functions in both China and India.

Amidst the ongoing fortification of its global facilities, a

FREUND Group Global Facility Overview (Pharmaceutical and Non-Pharmaceutical Product Fields)



joint venture company called Parle Freund Machinery Private Limited (hereinafter referred to as “Parle Freund”) was formed with a local sales agent in India, Parle Global Technologies Private Limited (hereinafter referred to as “Parle”), in March 2019.

The tableting and packing equipment manufacturer Parle operates multiple facilities within India, boasts of a wide range of pharmaceutical related equipment and serves as a sales representative. Parle Freund will first begin manufacture of granulating machines as the first manufacturing function for the FREUND Group within Asia

outside of Japan.

With regard to the direction of the global business deployment strategy, FREUND will increase its overseas manufacturing capabilities in the future to expand sales coverage of its existing products. The Company thereby expects to cut costs and strengthen its competitive standing in the global market including in newly developing markets. Within its three focal fields of pharmaceutical, food and cosmetic products in Japan, the Company expects to launch a full-scale entry to the food product market where pricing pressures are strong through the such efforts.



Chemicals Business Field: Strengthening the Foundations of the Pharmaceutical Excipient Business

In Japan, demand for the in-house manufactured main product “NONPAREIL” is expanding. The main reason for the strength of this product is its unrivaled and outstanding formulation characteristics which has earned it a strong reputation.

FREUND’s “NONPAREIL” is an ultra fine particle in extremely small sizes of 0.1 to 0.2mm that are now the main product size fueling the strong expansion in demand for orally disintegrating tablets (ODT), and compares with the traditional products of 0.6 to 0.7mm in particle size. FREUND’s products’ ability to readily dissolve in water differentiates it from competing products.

In addition, FREUND is currently considering capital investments to expand the output capacity by a large margin for “SmartEx®,” a direct compression agent developed through an open innovation project (Additional information about “SmartEx®” is provided in the research and development section on page 14).

Pharmaceutical excipients are essential materials in drug formulations. FREUND bears a heavy responsibility as it is the only company that can supply 0.1 to 0.2mm diameter-sized direct compression agents of “NONPAREIL” and “SmartEx®.” FREUND will first expand output capacity of

“NONPAREIL,” and also continue to consider making capital investments for “SmartEx®.”

Traditionally, most of the capital investments have been made for the Machinery Business Segment. However, large capital investments were unnecessary since FREUND adopted the fabrication-less manufacturing business model in Japan. This allowed the Company to leverage its cash on hand for its business deployment.

With regard to the pharmaceutical excipient business that is part of the equipment industry, FREUND is considering larger-scale capital investments to secure highly stable and credible supply capacity over the medium to long term. Also, the Company realizes it needs to consider a wide range of possible finance strategies in order to support anticipatory investments.

Corporate: Management Foundation Strengthening Efforts

The FREUND Group is currently taking on various challenges to achieve growth in areas which are not extensions of its current businesses, including the promotion of global deployment and establishment of new growth drivers.

Along with the start of the current Medium-Term Management Plan, I proposed the concept “ONE FREUND” as the corporate philosophy of our Group. We have also launched various companywide measures to realize this concept. For example, the Development Promotion Office under the Chemicals Development Department is seeking new business deployment methods unique to the Company by spanning both the Machinery and Chemicals Business segments.

The longstanding business model based upon a “pen and ink” model was initiated through the development of automated film coating machines and coating liquids used in this machine at the time of FREUND’s founding. This business model has led to the development of pharmaceutical excipients that match the Company’s coating machine. Along with the passing of half a century since then, the machinery equipment centered around the coating and granulating equipment has evolved, and the weakening correlation with pharmaceutical excipients

development points to a diminishing of the traditional “pen and ink” business model.

Consequently, the development of excipients aligned with “Granuformer,” which enables continuous granulation leveraging FREUND’s unique technologies, is expected to become a driver in pursuing the conventional “pen and ink” business model. Therefore, I believe we must take on the challenge of creating an organizational structure that allows for inherent cooperation between the Machinery and Chemicals Business segments.

Also, FREUND has initiated full-scale measures to fortify its human resources structure to be able to support the next generation of growth. The Company has been promoting reform of its corporate culture to achieve sustainable growth. As part of cultivating an autonomous culture, we have started training aimed to encourage individual employees to think on their own, voice their opinions and take actions independently. I am personally actively supporting such activities.

While such efforts within FREUND have just started, we will endeavor to promote various measures to our group companies to ensure further dissemination of “ONE FREUND.” (With regard to efforts to strengthen our human resources foundation, please refer to page 21.)

FY02/20: Overview of Consolidated Financial Forecasts

Looking at market conditions within Japan’s pharmaceutical market during FY02/20, new investments from generic drug manufacturers are expected to slow a step further, but new drug manufacturers are expected to increase their activities to spinoff their own manufacturing functions and transfer their manufacturing facilities to consigned manufacturers. Against this backdrop, demand for capital investment in high effect medical active ingredients ranging from small molecule pharmaceutical product development to anti-cancer agents is expected to expand. In addition to the various medium-term efforts aforementioned, efforts will be made such as fortifying the product lineup of encapsulating technologies of high effect medical active ingredients to match market needs in a timely fashion. With regard to

pharmaceutical excipients and food preservatives, further efforts will be made to expand sales.

In the non-pharmaceutical product field, FREUND-TURBO CORPORATION has been shifting its business resources from development to sales functions primarily in its dry- and wet-type equipment which it has been fortifying over the past few years. In particular, efforts will be made to accelerate sales of newly released machines including high-viscosity wet grinding mill and separator "AQUA TURBO TZ," high-speed mixing/granulating machine "BALANCE GRAN," and coating equipment "FE COATER," and strengthen its business expansion into other industrial applications including lithium ion battery applications.

We are at a stage where it appears that growth has halted in the process of building a business portfolio designed to capture the next generation of growth. However, in order to achieve strong growth from FY02/21 onwards, we will endeavor to create a highly profitable earnings structure by actively promoting business

investments and facilitating an effective management platform necessary for aggressive business management.

To Our Stakeholders

I feel that we are currently in a period that is riddled with deep uncertainties in which both growth and contraction progress rapidly not only in the pharmaceutical industry, but also in the global economy as a whole. Because we are currently operating in this type of environment, I believe we need to develop products that match market needs and can be differentiated.

We recognize our obligation to the market and our stakeholders to pursue the creation of value addition that only FREUND can provide. I believe that the pursuit of value addition that is unique to our Group will lead to fulfilling our goal of "contributing to better medical care and health for people worldwide, and creating and fostering technologies for fulfilling lives and food safety," which in turn will enable us to contribute to society.



We will continue our endeavors in establishing a foundation to realize the next generation of growth as an entire group by fostering the corporate culture of "ONE FREUND," and ask for the continued support of all of our stakeholders.

FY02/20: Overview of Consolidated Financial Forecasts/Forecasts by Business Segment

Consolidated Financial Forecasts	FY02/19 (Actual)	FY02/20 (Forecasts)	YoY Changes	
			(¥ million)	%
Net sales	18,408	17,500	(908)	(4.9)
Operating profit	1,223	1,000	(223)	(18.2)
Ordinary profit	1,326	1,000	(326)	(24.6)
Profit attributable to owners of parent	843	700	(143)	(17.0)
EPS (¥)	50.15	41.8	(8.35)	(16.7)
Capital investment	627	700	—	—
Depreciation	344	350	—	—
R&D expenses	832	750	—	—

Financial Forecasts by Business Segment	FY02/19 (Actual)	FY02/20 (Forecasts)	YoY Changes	
			(¥ million)	%
Consolidated net sales	18,408	17,500	(908)	(4.9)
Machinery Business	12,368	11,000	(1,368)	(11.1)
Chemicals Business	6,040	6,500	+459	+7.6
Segment profit	1,223	1,000	(223)	(18.2)
Machinery Business	737	—	—	—
Chemicals Business	1,024	—	—	—
Adjustments	(538)	—	—	—
Exchange rate (¥/US\$)	110.5	105.0	—	—

Financial Strategy

Basic Policy

FREUND maintains “safety,” “growth” and “efficiency” as the main cornerstones of its financial strategy, and seeks to secure adequate safety while pursuing both growth and efficiency over the medium and long terms. FREUND also maintains a fundamental stance of creating a financial foundation that can support sustained growth.

1 Safety: Securing Cash on Hand

FREUND seeks to secure adequate amounts of liquid assets to sustain business operations despite any worsening in the external business environment. Also, the Company pursues a cash flow management strategy which considers stability of its businesses and capital efficiency, and thereby aims to secure adequate levels of cash and deposits, with a target for cash and deposits turnover ratio of 3.0 months.

FREUND views the securing of adequate levels of cash on hand as a foundation for increasing its corporate value, and as an essential element in securing stability of its various businesses as well as in promoting its growth strategies.

In addition, FREUND seeks to secure financial soundness by avoiding the risk of pricing fluctuations of its liquid assets, and subsequently does not maintain any marketable securities or other instruments for the purposes of cash management.

2 Growth: Strategic Upfront Investments

FREUND is a company that conducts anticipatory research and development by forecasting the future needs and trends of the pharmaceutical and food product industries. With regard to research and development expenses, the Company deploys a strategy of allocating investments to anticipatory research and development in business realms with promising futures. During FY02/19, research and development expenses amounted to ¥832 million.

FREUND is adequately considering future trends, profitability, and recoverability of investments in its capital investment strategy to create a foundation for future growth.

Furthermore, the Company is facilitating a financial foundation that will enable it to flexibly conduct strategic anticipatory investments with a goal of establishing a strong earnings generating structure going forward.

3 Efficiency: Raising Capital Efficiency

FREUND maintains operating margin and return on equity targets of 10% or more and 8% or more (the average ROE during the past three fiscal years was 9.0%) respectively on a consolidated basis as key performance indicators. Until now, the Company has adopted a management strategy of avoiding reliance upon interest bearing liabilities from the perspective of profitability and capital efficiency.

At the same time, FREUND seeks to increase total shareholder returns to levels that exceed the cost to shareholders from the perspective of improving shareholder value.

FREUND has traditionally pursued a strategy of allocating liquid assets to investments with a view to profitability and capital efficiency. However, going forward, the Company plans to consider various sources of capital funding and establish a financial foundation that takes increased capital efficiency into consideration while implementing its growth strategies.

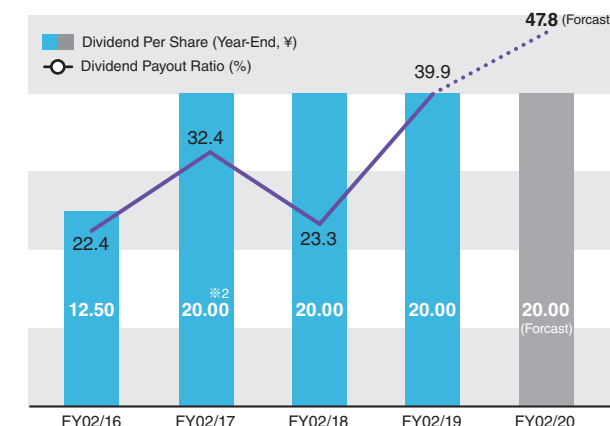
4 Return to Shareholders

FREUND maintains the maximization of shareholder value as one of its most important management issues. Regarding dividends, FREUND implements a fundamental policy of returning profits in line with the Company’s full

year earnings performance, and maintains a target for dividend payout ratio of 30% on a consolidated basis. The Company seeks to maintain a policy of paying stable levels of dividends while comprehensively taking into account aspects of strengthening its management foundation based upon securing of adequate levels of liquid assets, and of enhancing internal retention with a view to strategically expand businesses in the future. FREUND paid a full-year dividend of ¥20 per share for a dividend payout ratio of 39.9% on a consolidated basis during FY02/19.

In addition, FREUND performed a stock buyback of 500,000 shares in FY02/19. Going forward, the Company considers finding a balance between share pricing and maintaining ample liquidity in the stock market as an important topic of dialogue with shareholders and investors.

Dividend/Dividend Payout Ratio Trends*1



*1: A 2 for 1 stock split was conducted on March 1, 2016; however, this stock split was assumed to have been conducted at the start of FY02/16 for the purposes of consistency of data.

*2: A commemorative dividend of JPY5.00 per share was paid in FY02/17.

Where Open Innovation Takes Place

Pharmaceutical Product Field

FREUND's strategic product "Granuformer," a continuous granulating machine, realizes "strict quality control conditions" which are critical in pharmaceutical product manufacturing, owing to a transition from the conventional batch-format production to a continuous-format production, as well as to proprietary, internalized quality control and automated control functions which uses process analytical technology (PAT).

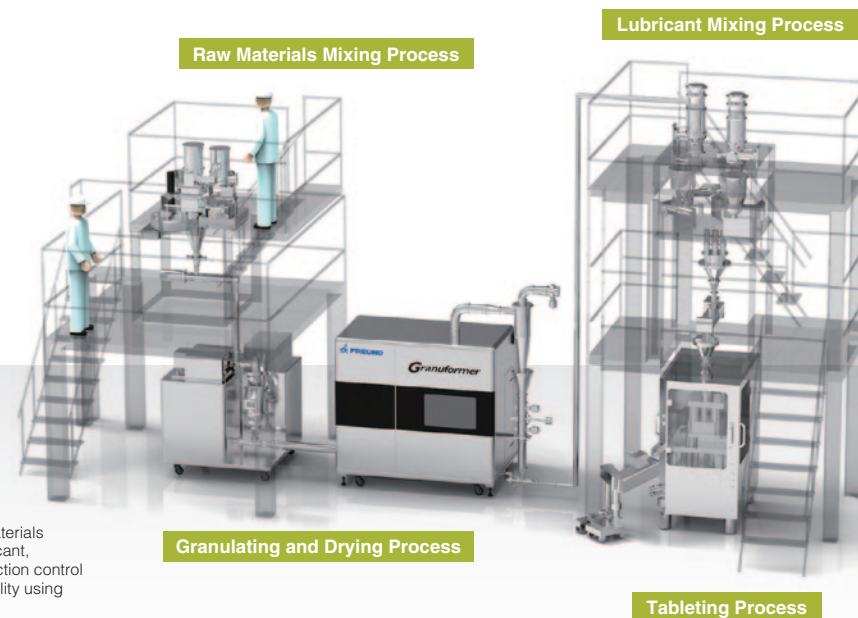
The continuous production system based upon "Granuformer" also employs raw material and lubricant mixing equipment in the prior and post processes, and is also linked to tableting machines. Currently, FREUND is working in cooperation with various development partners to discover various operational issues to achieve coordinated operation between the tableting machines and the equipment used in the prior and post processes. "Granuformer" and tableting process equipment have already been linked and operational testing for continuous production has been started.

The establishment of an overall system will lead to the ability for overall control of all systems, and will subsequently allow for quick production of base powders through a single process. Furthermore, it will enable manufacturing of tablets in small to large quantities freely and on demand.

In recent years, manufacturers in Europe and North America have continued their efforts to increase productivity, achieve stable quality, and reduce costs by

Overall Continuous Production System Overview

The following processes are conducted: raw materials provision – mixing – granulating – drying – lubricant, late-stage mixing – tableting. In addition, production control is conducted through monitoring of product quality using process analytical technology (PAT).



implementing continuous production for pharmaceutical product manufacturing. Similar efforts have begun to materialize in the Japanese market as well. Against this backdrop, FREUND is endeavoring to expand sales of "Granuformer" within Japan, and is implementing efforts to strengthen sales activities coordinated within the Group companies operating in Europe and North America based upon the philosophy of "ONE FREUND."

Non-Pharmaceutical Product Field

Within the group companies, FREUND-TURBO CORPORATION (hereinafter referred to as "FT") boasts of strengths in dry-type (powder-use) pulverizing, granulating and classifying machines, and is strengthening its product lineup through implementing open innovation in various forms.

For example, the "V TURBO," a pulverizing machine with built-in classifying function, boasts of the industry's top levels of performance through software adjustments which include high-speed pulverizing and classifying mechanisms that allow for balanced revolutions. These developments have been made possible through the participation of

external advisors.

The new dry- and wet-type stirring/granulating machine "BALANCE GRAN" added to FREUND's product lineup in 2018 was created using new technologies acquired through the acquisition of FT. Also, during the same year, the "Nishinomiya-Kita Center" was opened in Nishinomiya City, Hyogo Prefecture, and serves as a facility where open innovation is conducted for powder technologies.

The ultra-fine pulverizing machine "Nano Turbo" that was also introduced in 2018 is a wet (fluid-use) equipment which boasts of ultra-high-pressure technologies, and was developed through the technological cooperation formed with a manufacturer with strengths in such technologies. In addition, the "FE Coater," a coating machine, aims for quick responses to the various needs within the expanding realm of lithium ion battery applications, and is based on a business model that relies upon developmental and manufacturing capabilities of OEM partners.

Based upon this fortified product lineup created through various open innovation, FT seeks to cultivate opportunities in various non-pharmaceutical product fields including chemicals, food and cosmetics, both inside and outside Japan.

Research and Development

Trends and Directions of Commercialization of “SmartEx®”

Within the Chemicals Business, “SmartEx®,” a pharmaceutical excipient for direct compression process used in orally disintegrating tablets (ODTs) is the first product of the open innovation process. This product has been positioned to help commemorate the 50th anniversary of FREUND since its founding, and has been jointly developed with Shin-Etsu Chemical Co., Ltd. Five years have passed since this product went on sale in 2013, and the current conditions and future direction of this business, which has started to gain traction, are explained as follows.

Background of Joint Development of “SmartEx®”

The opportunity for FREUND to work in collaboration with Shin-Etsu Chemical Co., Ltd. arose when technicians of both companies happened to meet at an academic symposium held in 2010. During that meeting, the technicians both commented that “we can make revolutionary excipients if we integrate the functional materials made by Shin-Etsu Chemical Co., Ltd. with FREUND’s granulating technologies.” The inspirations of both companies’ engineers led to consideration of concrete business as evidenced by the launch of the joint development of “SmartEx®,” a pharmaceutical excipient for direct compression process used in ODTs, in March 2012. This project represented a new challenge in collaborative development and operation with FREUND taking responsibility for manufacturing and Shin-Etsu Chemical Co., Ltd. for sales.

In the actual manufacturing process, FREUND leveraged the business resources of its Hamamatsu facility which is a key location for technological development and manufacture of excipients. After trial production, mutual physical property evaluation and discussions regarding points for improvement were conducted to determine the final specifications of the product. This process required one and a half years, and product sales were started in 2013.

Current Business Conditions of “SmartEx®”

“SmartEx®” is a co-processed excipient* that is

manufactured by multiple compounds using special processing technologies. It boasts of superior forming, disintegrating and flow property characteristics, with high preservation stability. However, commercialization of this product took a long time because of the prolonged process required for pharmaceutical companies to adopt use of new pharmaceutical excipients. Pharmaceutical companies determine the active ingredients for drugs to be launched into the market, and at the prescription design phase, they consider which excipients to use. Thereafter, they begin actual product development, perform clinical trials, and apply for approvals as pharmaceutical products. This approval process normally takes about three years.

Five years have passed since “SmartEx®” first went on sale, and sales reached ten tons in 2018. Currently, the number of pharmaceutical companies that are adopting this product is growing, as well as companies which have outstanding drug approval applications and those expected to be submitted next year. Regarding manufacturing, preparations have begun for full-scale expansion of production capacity.

Example of How “SmartEx®” Is Used for Disintegration of Medical Agent



SmartEx® Characteristics

High Formability	Applicable to medical agents with low formability
Superior Disintegrative Characteristics	Disintegrates within oral cavity with only small amounts of water within 10 seconds
Superior Oral Ingestion Characteristics	Smooth texture when orally ingested
High Liquidity	Small tablet variations even in high-speed tableting
Superior Stability	Allows for use of automated packing machine without reductions in hardness, delays in disintegrative function

“SmartEx®” is a co-process excipient manufactured through a number of different processes using multiple raw materials, and therefore requires high levels of quality control standards. Consequently, FREUND is implementing efforts to strengthen its response to the global standard of Good Manufacturing Practice (GMP: standards in manufacturing and quality control of pharmaceutical products).

*This product cannot be made simply by physical mixing alone, and requires the avoidance of crucial chemical changes. It is a product combining multiple additives that have been designed to undergo physical modification

Future Direction of the Chemicals Business

In the realm of pharmaceutical excipients, almost no development of new raw materials is conducted. At the same time, the market for existing raw materials that have been co-processed through open innovation is expected to continue expanding.

FREUND has provided granulating and coating technologies for half a century and has manufactured pharmaceutical excipients, and has therefore accumulated extensive knowhow including in raw materials and formulation technologies. Having expertise and knowhow in granulating and coating technologies is extremely important to co-processing. In addition, FREUND boasts of the capability to create co-processing lines on its own.

With “SmartEx®” as a precedent, FREUND will continue to leverage its unique strengths to create new opportunities through open innovation, and increase the speed of its response to needs of the market.

Honorary Chairman, Directors and Audit & Supervisory Board Members

Honorary Chairman and Directors



Tomohiko Manabe (External Director), Norio Shiratori (Managing Director), Yasutoyo Fusejima (Honorary Chairman), Iwao Fusejima (President and CEO), Ryuji Nakatake (External Director), Osamu Imada (External Director)

Audit & Supervisory Board Members

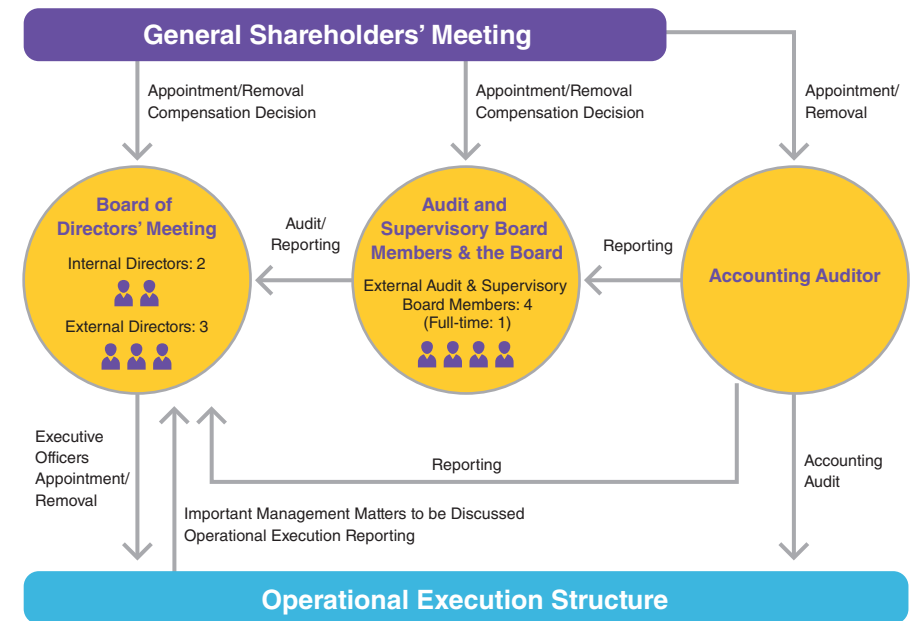


Mitsuaki Sato (External Audit & Supervisory Board Member), Sayoko Izumoto (External Audit & Supervisory Board Member), Sakae Hirano (External Audit & Supervisory Board Member (Full-time)), Masanori Sugawara (External Audit & Supervisory Board Member)

Corporate Governance to Support Sustained Growth

Starting from FY02/18, the FREUND Group has implemented its Medium-Term Management Plan entitled “ONE FREUND” based on its corporate philosophy of “Develop the Future through Creativity®.” Along with the implementation, the Group fulfills its economic responsibility to secure an appropriate level of profits through the provision of optimal products to client users through fair and appropriate competition. In addition, it fulfills its obligation to society to act as a responsible group of companies.

Corporate Governance Structure (As of May 31, 2019)



Basic Policy on Corporate Governance

The Group conducts business activities based on its management vision of “contributing to better medical care and health for people worldwide, and creating and fostering technologies for fulfilling lives and food safety.” Based on the basic principle of “corporations as public institutions,” the Group will fulfill its responsibility to conduct dialogue with shareholders and all of its other stakeholders, maintain high levels of transparency in its business activities, and conduct actions that are speedy, fair and appropriate in its endeavors to raise its corporate value. The Company recognizes the corporate governance as an important foundation thereof, and endeavors to establish an effective corporate governance structure to execute the businesses of all of its Group companies based on the functions of the board of directors that supervises the duties of the directors, and the audit & supervisory board members and the board that are independent from the board of directors and audit the performance of the professional duties of the directors.

Board of Directors

The board plays a role in establishing management policies and targets, and monitoring the management and business activities of all of the group companies. Its meeting is comprised of five directors (including three external directors) with a diverse range of experience, knowhow and specialization, and is held in principle once a month to make decisions on important management issues, and monitors the performance of professional duties. In addition, four audit & supervisory board members also participate in the board of directors' meetings to ensure that speedy and appropriate decisions are made and to strengthen the supervisory function.

Audit & Supervisory Board Members and the Board

In order to achieve the healthy development as a company and improve social credibility through audits, the Company

has appointed four audit & supervisory board members (including one full-time audit & supervisory board member) with high levels of experience and specialization needed for audits. Audits are conducted based on the structure with highly independent audit & supervisory board members. In order to enhance audits by the audit & supervisory board members, they cooperate with the Internal Audit Office under the direct supervision of the President and the accounting auditor, and further strengthen the audit structure. The Company appoints Ernst and Young (ShinNihon) as its accounting auditor.

External Directors and External Audit & Supervisory Board Members

The Company's external directors leverage a knowledge base and experiences differing from the internal directors. By being involved with the process of determining important fundamental policies, including management strategies, and supervise for execution of operations, they provide advice and supervision that are designed to realize sustained growth of the Company and improvements in its corporate value over the medium to long term.

In addition to attending the Board of Directors' meetings, the Company's external directors receive direct and indirect reports from the Internal Control Division through resolutions and discussions on financial results reporting, its internal control system reviews and other issues, and they monitor the effectiveness of its overall management.

In the process of appointing external directors, the Company will appoint persons with long experience in corporate management and with specialized knowledge.

The Company's external audit & supervisory board members view that it secures a structure to function management checking effectively through mutual restraints among the directors at the board of director's meetings, and effective audits conducted by external audit & supervisory board members. They also play a vital role objectively in monitoring the management from an external point of view. As for the appointment of external audit &

supervisory board members, the Company appoints persons with various knowledge and experience in corporate monitoring and auditing tasks.

The Company currently maintains three external directors and four external audit & supervisory board members, for whom it has submitted documents regarding the independence of external directors and audit & supervisory board members to the Tokyo Stock Exchange.

To ensure that no conflict of interests or special interests with general shareholders occur with a view to the Tokyo Stock Exchange's guidelines for independent directors and members, and for achieving high levels of healthy management and transparency, the Company maintains objective and fair judgments as criteria for independence.

Key Activities in FY02/19 and Reasons for Appointments

▶ Tomohiko Manabe (External Director)

Tomohiko Manabe was appointed as external director as he was deemed to have more than adequate ability to oversee the management based on his qualification as a certified public accountant with knowledge of the Company's businesses and superior insight regarding management in general.

He attended 16 out of 16 board of directors' meetings held in FY02/19.

▶ Ryuji Nakatake (External Director)

Ryuji Nakatake was appointed as external director as he was deemed to have more than adequate ability to oversee the management based on his superior insight regarding management in general.

He attended 16 out of 16 board of directors' meetings held in FY02/19.

▶ **Osamu Imada** (External Director)

Osamu Imada was appointed as external director as he was deemed to satisfy this role based on long experience in finance and securities divisions, and in global business, combined with his wide network of business contacts in Japan and overseas as well as extensive insight regarding management.

He attended 12 out of 13 board of directors' meetings held in FY02/19.

▶ **Mitsuaki Sato** (External Audit & Supervisory Board Member)

Mitsuaki Sato was appointed as external audit & supervisory board member as he was deemed to satisfy this role by leveraging on his vast insight regarding finance and accounting as well as on his objective and fair perspective toward management in general, gained through his long experience working in finance divisions.

He attended 16 out of 16 board of directors' meetings held in FY02/19.

▶ **Masanori Sugawara** (External Audit & Supervisory Board Member)

Masanori Sugawara was appointed as external audit & supervisory board member as he was deemed to satisfy this role by leveraging on his vast insight regarding finance and accounting as well as on his objective and fair perspective toward management in general, gained through his long experience working in finance divisions and conducting audit tasks.

He attended 16 out of 16 board of directors' meetings held in FY02/19.

▶ **Sayoko Izumoto** (External Audit & Supervisory Board Member)

Sayoko Izumoto was appointed as external audit & supervisory board member as she was deemed to satisfy this role by leveraging on her long experience as a certified public accountant and on her vast insight regarding finance and accounting.

She attended 15 out of 16 board of directors' meetings held in FY02/19.

▶ **Sakae Hirano**

(External Audit & Supervisory Board Member: Full-time)
<Newly Appointed>

Sakae Hirano was appointed as external audit & supervisory board member as he was deemed to have more than adequate ability to oversee the management based on his knowledge of finance and accounting as well as superior insight regarding management in general. He meets the requirements for independent director as specified by the Tokyo Stock Exchange.

Internal Audit Office

The Internal Audit Office has been separated from the operational execution divisions to perform evaluations and validations of the appropriateness of their operations based on the rules and regulations of the Company and its subsidiaries. Moreover, it collaborates with the audit & supervisory board members and the accounting auditor as needed to raise the effectiveness of the internal audit function.

Internal Control Basic Policy

The Company identifies the internal control function as “a framework for management to control operational execution divisions.”

The Board of Directors assumes responsibility in designing basic scheme of internal controls for the group companies, and in supervising maintenance, operation and assessment of internal controls based on the Companies Act and other relevant laws as well as the Company's articles of incorporation and other internal rules.

The President and directors play a role and assume responsibility in maintaining, operating and assessing the internal controls conducted by the Company and its group companies based on the internal control basic policy set by

the Board of Directors. They also assume responsibility in establishing an environment where employees can be well conscious of internal control activities. The Company maintains a corporate philosophy of “Develop the Future through Creativity®” and seeks to make social contributions based upon this philosophy by instilling compliance and establishing a risk control structure.

Regarding compliance, the Company seeks to “not only prevent the occurrence of illegal activities but to have it and its employees act ethically and in accordance with common sense.” Because lack of awareness of compliance can often lead to the occurrence of risks, the Company believes that compliance and risk management are inseparable and it adopts a comprehensive approach to internal control including compliance through the establishment of the Internal Control Committee and Internal Audit Office.

Also, the Company revised part of its “Basic Policy on Establishment of Internal Control System” taking into account the enactment of the “Law to Partially Revise the Companies Act” and the “Ministerial Ordinance to Partially Revise the Ordinance for Enforcement of the Companies Act” on May 1, 2015. By revising the basic policy, the Company aims to further enhance the Group's compliance and crisis management structure in order to strengthen its corporate governance, and also promote structural improvement to ensure appropriateness of its businesses and effectiveness of audits by audit & supervisory board members.

Business Continuity Plan (BCP)

Along with the diversification of and increases in risks accompanying the expansion in its businesses, the Company endeavors to conduct risk management on a consolidated basis for all of the Group's individual companies.

The BCP helps to ensure that important operations

remain uninterrupted or that any interruptions are kept to a minimum by the execution of pre-established measures to promote quick recovery in the event that unforeseen natural disasters or accidents occur.

The Company will quickly implement its BCP to maintain crucial operations and to reestablish full-scale operations as quickly as possible in the event that “natural disasters” or “emerging infectious diseases” occur.

Directors' and Audit & Supervisory Board Members' Remuneration in FY02/19

The Company determines directors' remuneration and others within the limit of remuneration approved by the resolution at the general shareholders' meeting. The monthly compensation of directors is determined in a resolution passed by the Board of Directors' meeting based on the role and responsibilities of each director after taking into account the business performance and other companies' conditions. Regarding bonuses, the Company determines the total amount considering business performance for the current fiscal year, while individual bonuses to be paid to respective directors are determined in a resolution passed by the Board of Directors' meeting based on their role and responsibilities. The compensation of audit & supervisory board members is basically paid monthly and is determined through deliberations conducted at the audit & supervisory board meeting,

Classification of Directors/ Members	Total Remuneration (¥ million)	Remuneration by Category (JPY million)		Number of Directors/ Members
		Basic Salary	Bonus	
Directors (Excl. External)	79	53	26	3
Audit & Supervisory Board Members (Excl. External)	10	9	1	1
External Directors/ Members	18	15	3	6

Risk Management

The Group perceives risks as latent factors in its corporate business activities that could lead to deterioration in its social credibility or to damages in its corporate value.

The Group is exposed to various potential risks as listed below, and its financial results may unexpectedly be influenced in the event that any of these risks occur. The Group maintains a policy to acknowledge the possibility of such occurrences, and prevent the occurrence of these risks to the best of its ability, while also responding quickly and adequately in the case that they do occur. It should be noted that not all risks are cited here.

Furthermore, factors related to the future mentioned here represent those recognized as of the end of FY02/19.

Business Risks

Industry Trend Risk

The Group's net sales derive largely from transactions with companies in the pharmaceutical manufacturing industry. The industries in Japan and overseas are undergoing restructuring, and various government strategies for medical expense control are being implemented. Thus, the potential exists for the Group's financial results to be impacted.

Pricing Competition Risk

In the Machinery Business, the risk of being involved in intensive price competition is rising as a result of competition with competitors to lower prices, market entry of technology companies, and competition from low-priced products made by manufacturers in China and Southeast Asia, among other factors. In the event that unanticipated pricing competition appears, the Group's financial results may be adversely affected.

Client Relationship Risk

The Machinery Business in Japan is highly dependent on partner manufacturers. In the Chemicals Business,

pharmaceutical excipients and food preservatives are manufactured based on a make-to-stock system. Therefore, the Group's financial results may be impacted by significant changes in manufacturing capacities, technological capabilities and operating conditions of business partners or clients as well as in demand of major clients.

Collaborative Alliances with Strategic Partnership Risk

The Group maintains numerous collaborative alliances with strategic partners for development of new technologies and products, and improvements in existing products. However, unexpected changes in strategic targets, financial problems and other business issues of its partners can make maintenance of collaborative alliances difficult and could influence its financial results.

Intellectual Property Risk

The Group has established a special division for the management of intellectual property, and strictly manages patents and other intellectual property. However, the



Group's financial results may be impacted in the event that legal disputes over intellectual property are instigated by unforeseen parties or if the Group's products infringe third-party intellectual properties and this leads to legal disputes.

Product Liability Risk

While the Group's products and services are expected to be highly reliable, there is risk of defects. Although the Group maintains insurance to cover the liability for compensation for defective products, its financial results may be impacted by damage to its credibility resulting from compensation claims that exceed the coverage of its insurance or from deterioration in reputation.

Legal Regulations-Related Risk

In the various countries around the world where the Group conducts its businesses, it is subject to laws and regulations relating to business licenses, exports and imports, commerce, fair trade, patents, consumer protection, taxation, foreign currency management and environmental issues among others. These laws and regulations are continually revised, and the possibility exists that the Group's activities will be limited and monetary penalties will be levied in the event that the Group does not strictly abide by them.

Human Resources Risk

The Group needs to secure and maintain competent human resources for its new product development and sales tasks. Therefore, the Group conducts hiring on a regular basis

and hiring of experienced personnel, and thereby endeavors to secure staff and nurture them thereafter. In the event that the Group cannot hire or maintain competent technical and sales personnel, the attainment of its goals may become difficult and its financial results may be affected.

Foreign Exchange Fluctuation Risk

The expansion in the Group's overseas sales suggests that its financial results may be influenced by severe fluctuations in foreign exchange rates. Also, the value of profit and losses, assets and liabilities and other financial accounts for its overseas consolidated subsidiaries may be impacted when converted from local currencies to Japanese yen due to the exchange rates at the time of the conversion.

Natural Disaster Risk

The Group faces the possibility of disruptive damage to its manufacturing and other facilities should natural disasters such as earthquakes occur. The Group maintains insurance for damages caused by fires and earthquakes, but its financial coverage is limited and the Group may need to pay expenses for interruption of its operations or delays in production and shipments, as well as for restoration of manufacturing and other facilities.

Impairment Risk for Non-Current Assets

The Group's financial results may be affected by impairment losses resulting from the implementation of impairment accounting for non-current assets in the event

that the profitability of its businesses declines or market prices suffer dramatic declines resulting from a deterioration in operating conditions.

Overseas Business Operational Risk

1) Unexpected changes in laws and regulations, 2) occurrence of adverse political and economic issues, 3) difficulty in securing human resources, 4) social turmoil resulting from terrorism, wars, infections/diseases and other events, and 5) the manifestation of latent risks in the operating environment or in competition conditions could prevent the Group from conducting overseas businesses, which in turn could impact the Group's financial results.

Each and Every Employee Can Change the Company by Using Their Autonomous Actions and Front-Line Capabilities

In 2017, FREUND established the concept of “ONE FREUND” as the corporate value as it pursues a group management strategy in unity amongst its group companies. Also, in the same year, the Company appointed four external Audit and Supervisory Board Member to seek a more open board of directors. We asked Mitsuaki Sato, one of the Audit and Supervisory Board Member, about the current conditions of FREUND’s corporate governance and challenges in realizing the “ONE FREUND” corporate value.

External Audit & Supervisory Board Member

Mitsuaki Sato

Profile

Mitsuaki Sato previously worked in the accounting and finance divisions at Idemitsu Kosan Co., Ltd. both within and outside of Japan for an extended period of time. During this time, he cultivated a wide range of experiences and knowledge related to finance—including accounting, tax, mergers and acquisition, and initial public offerings—group company management, and corporate governance structuring among others.



Leveraging Strength as an Owner-Managed Company

I believe FREUND’s strength lies in its strong leadership of the management, which includes founding family members who own a major portion of the Company. While some view family ownership as a negative factor, I am of the opposite opinion. A president who has major shareholdings in the company provides a completely different and more effective perspective than that of a “hired” president without significant stake in the company. Such differences in perspectives are inevitable. Furthermore, since the term of service is indefinite, the president will consider long-term management strategies. Above all, the speed of the decision-making process is quicker. I feel that a company with top management owning major shares has such strengths.

At the same time, management by individuals with major stakes in the company also presents risks in terms of arbitrary decision-making. However, in the case of FREUND, seven of the nine directors on the board are external directors. The diverse expertise of our directors allows for active and objective discussions at the board of directors’ meetings. Furthermore, the President listens attentively to the opinions expressed during the board of directors’ meetings in order to arrive at management decisions.

FREUND maintains the three functions of accounting auditor, audit & supervisory board, and the Internal Audit Office as part

of its governance structure. It currently retains one person to oversee the Internal Audit Office. I believe it is extremely important that the basic policies of governance are fully understood and implemented in the performance of day-to-day business tasks. I therefore believe there is a need to strengthen the Internal Audit Office.

“ONE FREUND” Implementation Strategy

FREUND is prone to the common weakness of companies managed by founding family members with major shareholdings where employees are overly dependent on top management. Overcoming this weakness should lead to the realization of “ONE FREUND” in the true sense among employees rather than simply acknowledging it as a slogan.

One of the characteristics of the management style of Sazo Idemitsu, the founder of Idemitsu Kosan Co., Ltd. where I worked for an extended period of time, was his belief in the need to “cultivate human resources.” Consequently, various measures were implemented to cultivate personnel and I also learned to think thoroughly and act autonomously having worked in such an environment.

I have heard that a strategy to cultivate employees who can act autonomously has been initiated at FREUND as well. And while the strategy may undergo “trial and error” in the initial stages, it is my desire that these efforts to “cultivate human

resources” are maintained. If the ability of each and every employee to think and act autonomously leads to taking on Group-wide challenges, a sense of unity amongst the Group should be cultivated naturally. And I believe the Company can make positive changes through making such efforts in strengthening the front-line capabilities of its employees an integral part of FREUND’s corporate culture.

Hoping that FREUND Becomes Japan’s Best Company

I believe that FREUND, which operates in the realms of medical, food and other businesses, holds considerable potential to make essential contributions to the society and to create new value addition. Moreover, the Company’s employees working on the front line of its businesses possess the capabilities to work earnestly and complete their tasks thoroughly. Such capabilities allow FREUND to maintain its position as a dependable and credible business partner.

It is my hope that all employees drive their tasks forward based on the recognition of and pride in the fact that they are engaging in meaningful work that contributes to society at a marvelous company, and thus seek to make FREUND the best company in Japan. I am committed to supporting this endeavor.

Solidifying a Foundation for Nurturing Human Talents that Supports Our Next-Generation Growth

While the FREUND Group had seen sustained strong growth, it recorded declines in both sales and profits in FY02/19. Consequently, the Company has initiated efforts to strengthen its human resources foundation by leveraging “dialogue” among the Group companies to achieve its “ONE FREUND” concept for corporate value.

Background to Training Camp for Executives

Awareness of problems among employees on the front line of business has declined due in part to the high levels of profits achieved by the FREUND Group during the past several years. In addition, the relatively strong chain of command from the top directors holding major stakes in the Company has led to a dilution in the ability of employees to think, speak and act autonomously.

Surveys of opinions within the Company revealed that there is a need to make reforms including changes to corporate culture and the strengthening of the human resources foundation in order to realize sustained growth going into the next generation. So as one of the first steps, FREUND implemented a training camp for its executives in order to instill a new mindset.

Efforts to Bring About Autonomous Thinking

A key word for this training camp was “think.” In order for directors and employees to practice this in the workplace, a software was introduced to create a mind map for use in various business tasks. Also, the General Affairs and Personnel Department created a handbook used in 17 study groups at various facilities on how to create a mind map for logical thinking.

In consideration of potential opposition to new endeavors like these, each facility held discussions with President Iwao

Fusejima. Fusejima discussed his management vision at length with employees in order to gain an understanding from everyone while also sharing the goals of this training camp.

“Dialogue” Led to “Mutual Understanding,” Creating a Mutual Sense of Trust

The main theme of the training camp was “dialogue.” The same theme was set for the first day, and based on the main rule of “you are free to say anything without being criticized,” participants were grouped into multiple teams to discuss their ideas about “dialogue.” On the second day, participants used mind maps to share their mission and business task targets prepared beforehand. Through these processes, participants gained an understanding of the need for cooperation and collaboration beyond the bounds of teams. At the same time, participants acknowledged that “dialogue” leads to mutual understanding and serves as the foundation for forming relationships.

Aim of the Training Camp Is “The First Step to Reform”

At the foundation of the training camp, which was based upon the theme of deepening mutual understanding through dialogue, was the basic philosophy that “improving the quality of relationships and thinking is the base for improvements in performance which leads to improvements in quality of actions and results*.”



In order for an organization to achieve success, improving “the quality of its relationships” is important, and therefore, members must deepen mutual understanding, respect one another, and think in a coordinated manner through dialogue. By doing so, members can increase their awareness and interest in the task at hand and improve their “quality of thinking.” This training camp was the start and a first step in efforts of initiating this process.

*Please refer to “Circulatory Model for Organizational Success” by Daniel Kim, former professor of the Massachusetts Institute of Technology.

Further Endeavors to Strengthen Our Human Resources Foundation

Currently, FREUND has plans to conduct trainings for management on a regular basis, and is considering holding offsite meetings and trainings for younger employees as well. In addition, President Iwao Fusejima has started hosting lunches entitled “shuffle lunches” to promote dialogue between employees from different divisions and floors.

FREUND plans to extend such new activities currently centered around the parent company to various Group companies, thereby creating synergetic effects through “dialogue.” At the same time, the Company seeks to leverage on such efforts to strengthen its human resources foundation with a view to realizing the corporate value of “ONE FREUND.”

Company and Stock Information

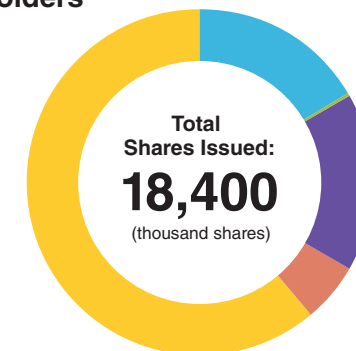
(As of February 28, 2019)

COMPANY NAME:	FREUND CORPORATION
ESTABLISHED:	April 22, 1964
CAPITAL STOCK:	¥1,035,600,000
EMPLOYEES:	372 (Consolidated)
HEAD OFFICE LOCATION:	FREUND Bldg. 6-25-13 Nishishinjuku, Shinjuku-ku, Tokyo
WEBSITE:	http://www.freund.co.jp/english/
STOCK LISTING:	TSE JASDAQ Standard (Securities Code: 6312)
FISCAL YEAR:	From March 1 to the last day of February next year
ANNUAL GENERAL SHAREHOLDERS' MEETING:	Held in May of every year
SHAREHOLDER REGISTRAR ADMINISTRATOR:	MITSUBISHI UFJ TRUST AND BANKING CORPORATION
TOTAL NUMBER OF SHARES ISSUED:	18,400,000
TOTAL NUMBER OF SHAREHOLDERS:	13,769

Major Shareholders (Top Ten)	Shares owned (1,000)	Ownership ratio (%)
K. K. Fusejima Yokosha	1,648	9.84
Yasutoyo Fusejima	1,300	7.77
The Bank of Mitsubishi UFJ, Ltd.	836	4.99
Sumitomo Mitsui Banking Corporation	744	4.44
Okawara Mfg. Co., Ltd.	673	4.02
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT	557	3.33
FREUND Employee Shareholding Circle	416	2.48
The Shizuoka Bank, Ltd.	368	2.20
Meiji Yasuda Life Insurance Company	360	2.15
Iwao Fusejima	282	1.69

The Company has 1,655,000 shares (9.00%) of treasury shares.
Shareholding percentage stakes are calculated after excluding 1,655,000 shares of treasury shares.

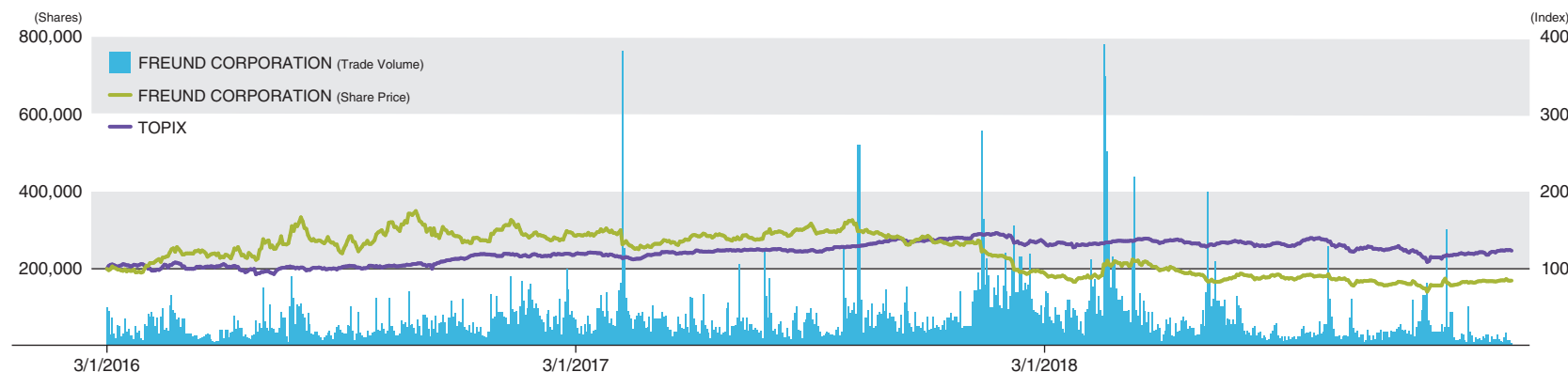
Shareholder Distribution by Type of Shareholders



	Thousand shares	Percentage
FINANCIAL INSTITUTIONS	3,031	16.47
FINANCIAL INSTRUMENTS FIRMS	60	0.33
OTHER CORPORATIONS	3,082	16.75
FOREIGN CORPORATIONS	1,023	5.56
INDIVIDUALS, OTHERS	11,202	60.88

Note: Treasury shares are included in the category of "Individuals, Others"

Trends of Share Price, Trading Volume and TOPIX



Note:
Share prices and trading volumes prior to the stock split shown in the chart above have been adjusted to reflect the stock split. FREUND CORPORATION and TOPIX prices have been adjusted to show relative valuations on March 1, 2016 as 100.

FREUND CORPORATION

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