

Honorary Chairman, Directors and Audit & Supervisory Board Members

Honorary Chairman and Directors



Tomohiko Manabe External Director
 Masao Wakai Director [Newly Appointed]
 Yasutoyo Fusejima Honorary Chairman
 Iwao Fusejima President and CEO
 Ryuji Nakatake External Director
 Osamu Imada External Director

Audit & Supervisory Board Members

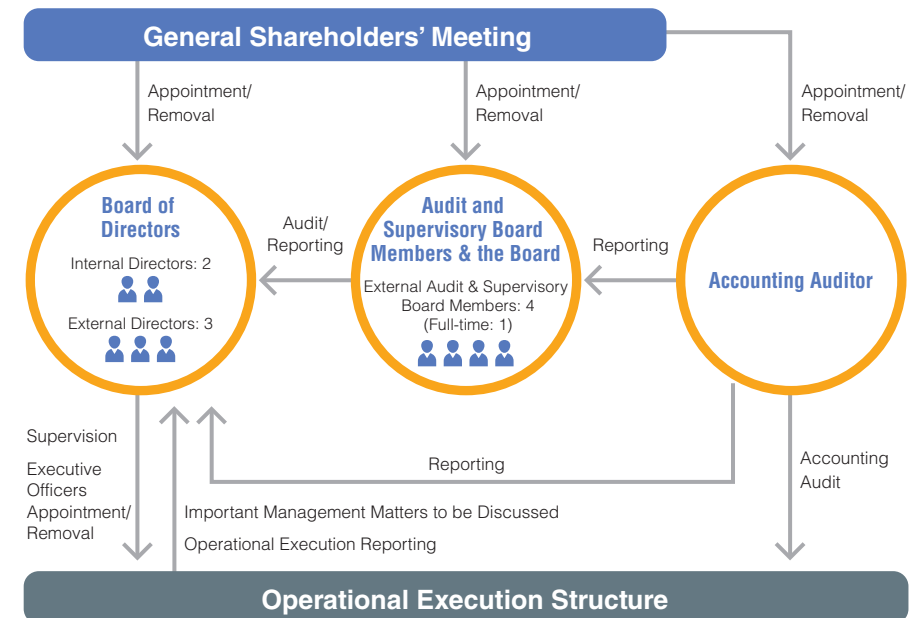


Mitsuaki Sato External Audit & Supervisory Board Member
 Sayoko Izumoto External Audit & Supervisory Board Member
 Sakae Hirano External Audit & Supervisory Board Member (Full-time)
 Masanori Sugawara External Audit & Supervisory Board Member

Corporate Governance to Support Sustained Growth

Starting from FY02/21, the FREUND Group has implemented its 8th Mid-Term Management Plan 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, 2020)



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 specialization, knowhow and experience, 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 strengthen the audit function and ensure that speedy and appropriate decisions are made.

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 conducting supervision for execution of operations, they provide advices and supervision that are

designed to realize sustained growth of the Company and improvements in its corporate value over the medium- to long-term.

The Company’s external directors receive direct and indirect reports from the Internal Control Division through resolutions and discussions on financial results reporting, internal control system reviews and other issues, and they supervise and monitor the effectiveness of its overall management.

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

Audit and Supervisory Board Members & the Board

Audit and supervisory board members & the board play a role in establishing corporate governance that achieves sound development of the Company and improvement of social trust through audits. The Board is comprised of four highly independent external audit & supervisory board members (including one full-time audit & supervisory board member) with high levels of experience and specialization needed for audits. Audit and supervisory board members cooperate with the Internal Audit Office under the direct supervision of the President and the accounting auditor, raising the audit efficiency. The Company employs Ernst & Young ShinNihon LLC as its accounting auditor.

External Directors/Supervisory Board Members

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.

As for the appointment, the Company maintains objective and fair judgments as criteria for independence 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 transparency and healthy management.

Key Activities in FY02/20 and Reasons for Appointments

▶ Mr. Tomohiko Manabe (External Director)

Mr. Manabe is deemed to have more than adequate ability to oversee the management based on his qualification as a certified public accountant with superior knowledge of the Company’s businesses and management in general. Therefore, the Company was confident in his abilities to satisfy his role as an external director.

He attended 14 out of 14 board of directors’ meetings held in FY02/20.

▶ Mr. Ryuji Nakatake (External Director)

Mr. Nakatake is deemed to have more than adequate ability to oversee the management based on his superior knowledge of management in general. Therefore, the Company was confident in his abilities to satisfy his role as an external director.

He attended 11 out of 14 board of directors’ meetings held in FY02/20.

▶ Mr. Osamu Imada (External Director)

Mr. 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 14 out of 14 board of directors’ meetings held in FY02/20.

▶ Mr. Sakae Hirano

(External Audit & Supervisory Board Member: Full-time)

Mr. 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 attended 10 out of 10 board of directors' meetings held in FY02/20.

*Appointed on May 30, 2019

▶ Mr. Mitsuaki Sato

(External Audit & Supervisory Board Member)

Mr. Sato has worked for years in finance divisions and has a vast knowledge of finance, accounting and management in general. Therefore, the Company was confident in his abilities to satisfy his role as an external audit & supervisory board member.

He attended 14 out of 14 board of directors' meetings held in FY02/20.

▶ Mr. Masanori Sugawara

(External Audit & Supervisory Board Member)

Mr. Sugawara has years of work experience in finance divisions and audit tasks. The Company was confident that his vast experiences in finance and accounting enable him to objectively and fairly conduct his duties as an external audit & supervisory board member.

He attended 14 out of 14 board of directors' meetings held in FY02/20.

▶ Ms. Sayoko Izumoto

(External Audit & Supervisory Board Member)

Ms. Izumoto has years of experience as a certified public accountant with a depth of knowledge regarding finance and accounting that enables her to properly conduct her duties as an external audit & supervisory board member.

She attended 13 out of 14 board of directors' meetings held in FY02/20.

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 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 and by conducting compliance transparently and establishing a risk supervisory 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 has established the Compliance and Risk Management Committee as well as the Internal Control Committee which comprehensively approaches internal controls.

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 accidents and natural disasters 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 FY02/20

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, which is determined through deliberations conducted at the auditor & supervisory board meeting, is basically paid monthly.

Classification of Directors/ Members	Total Remuneration (¥ million)	Remuneration by Category (¥ million)		Number of Directors/ Members
		Basic Salary	Bonus	
Director (Excl. External)	45	42	2	3
Audit and Supervisory Board Members (Excl. External)	2	2	—	1
External Directors/ Members	27	23	3	7

Risk Management

The Group identifies latent factors that could lead to deterioration in its credibility and to damages in its ability to create corporate value as risks to its corporate business activities.

The Group has identified the various factors listed on the following pages as potential business risks, and its financial results may 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 FY02/20.

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 the potential exists for the Group's financial results to be impacted by various government strategies including medical expense control.

Pricing Competition Risk

In the Machinery Business, intensive price competition may be possible as a result of competition with competitors, market entry of technology companies, and severe competition from low-priced products made by manufacturers in China and Southeast Asia. In the event that unanticipated pricing competition appears, the Group's financial results may be adversely affected.

Client Credit Risk

Most of the Group's clients are pharmaceutical companies with relatively stable business performance. However, the Group's financial results may be affected if the performance

of clients deteriorates in the future due to the government's policy of medical cost reduction, market entry of other industries and overseas companies, and the increasing difficulty of developing new products.

Partner Relationship Risk

The Machinery Business in Japan is highly dependent on specific 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 of its partners, financial problems and other business issues can make maintenance of collaborative alliances difficult and could influence its financial results.

Intellectual Property Risk

The Group, which is a research and development based, has established a special division for the management of intellectual property, and to strictly manage patents and other intellectual property. But in the course of conducting business in Japan and overseas, the Group's financial results may be impacted in the event that legal disputes from business competitors over intellectual property arise or infringement of third parties' intellectual properties by the Group's products.

Product Liability Risk

While the Group seeks to satisfy high expectations for quality and reliability of both the products and services the Group provides, it recognizes the 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.

Public 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 as well as exports and imports. The Group is also subject to laws and regulations relating to 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 human resources, 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, accompanying the internationalization of its business, suggests that its financial results may be influenced by severe fluctuations in foreign exchange rates. Because the Company prepares statement of income, balance sheet and other financial statements for its consolidated subsidiaries operating overseas, foreign exchange rates at the time of the conversion of these financial accounts into Japanese yen can have a profound impact on their values.

Natural Disaster Risk

The Group faces the possibility of significant damage to its manufacturing and other facilities should natural disasters such as earthquakes and infectious diseases occur. The Group maintains insurance for damages caused by fires and earthquakes, but its financial coverage is limited, and its operations may be interrupted, or production and shipments delayed. Moreover, the Group may need to pay for damages to its manufacturing facilities that are not covered by insurance.

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 or market prices suffer dramatic declines resulting from a deterioration in operating conditions.

Overseas Business Operational Risk

The manifestation of latent risks including 1) unexpected changes in laws and regulations; 2) occurrence of unforeseen adverse political and economic issues; 3) difficulty in securing human resources; 4) terrorism, wars, infectious diseases and other events; and 5) unanticipated changes in the operating environment and competition could prevent us from conducting overseas businesses, which in turn could impact the Group's financial results.