

FREUND CORPORATION

FREUND Report 2021

Fiscal Year Ended February 28, 2021
(From March 1, 2020 to February 28, 2021)

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Disclaimer

Forward looking statement

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 production of this Report. Therefore, the Company's actual financial results may diverge largely from statements represented in this Report 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, 2021 (from March 1, 2020 to February 28, 2021). However, new information available after March 2021 has also been included in this Report.



Profile

We have grown on the basis of our "Hardware (pharmaceutical product manufacturing equipment, pharmaceutical excipients and other products)" and "Software (drug formulation technologies)" business models. Currently, we have 5 Group companies in Asia, the U.S. and Europe, including Japan. We are expanding our business segment not only to pharmaceutical product field but also to non-pharmaceutical product field. Based on the Group's value of "ONE FREUND", we are promoting business segment activities aimed at contributing to better medical care and health for people worldwide in management vision.

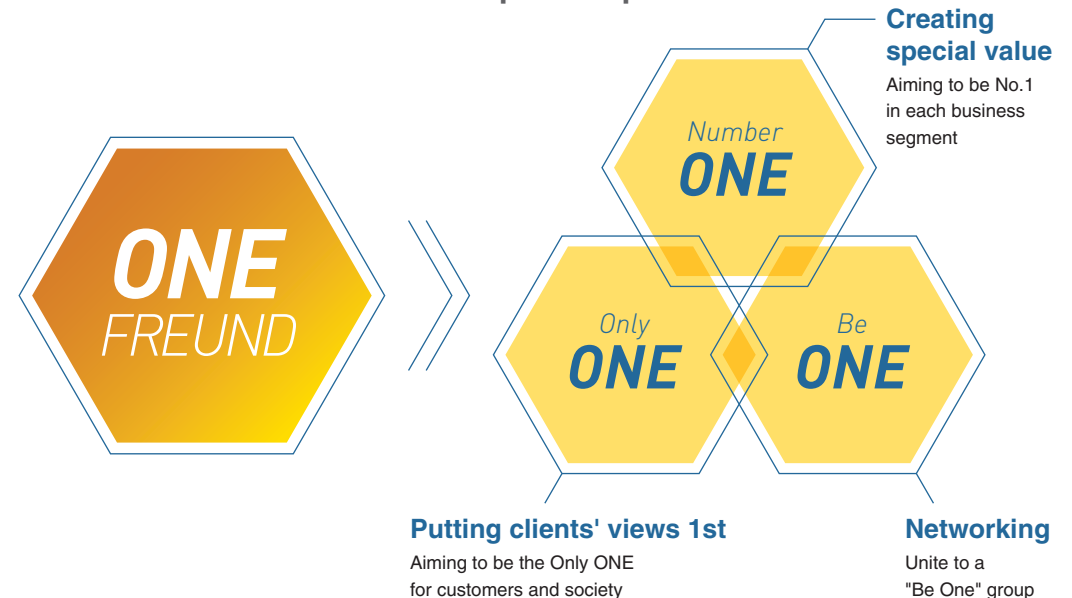
Corporate Philosophy

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.

Values which the FREUND Group holds precious



Milestones of FREUND Group

Focusing on film coating technologies for tablets, we were the first in the world to succeed in developing "automated film coating machine" and "film coating liquid." Since our foundation in 1964, FREUND CORPORATION has been on a path as a research and development type company based on granulation/coating technologies under corporate philosophy of "Develop the Future through Creativity®."

Founding period

1964-1969

Founded amidst high economic growth period

- 1964** **Management** Established in Kanda Tsukasamachi, Chiyoda-ku, Tokyo
- Machinery** Developed and launched testing machine "FM-2 model" and manufacturing machine "FM-5 model" for automated film coating machine
- Chemicals** Developed and launched film coating liquid for pharmaceuticals "FC-101" and "EC-101"
- 1969** **Machinery** Developed and launched fluid bed granulation, coating and drying machine "FLOW COATER"

Innovation period

1970-1989

Grew dramatically in line with economic growth of Japan

- 1971** **Machinery** Developed and launched automated sugar and film coating machine "HICOATER"
- 1978** **Chemicals** Developed and launched food preservatives "Antimold-102"
- 1980** **Management** Established Freund Kasei Corporation in Urawa City, Saitama Prefecture (currently Saitama City) (merged in March 2014)
- 1987** **Chemicals** Developed and launched multiple function type food preservatives "Negamold"

Growth period

1990-2019

Expanded target markets to the world through globalization

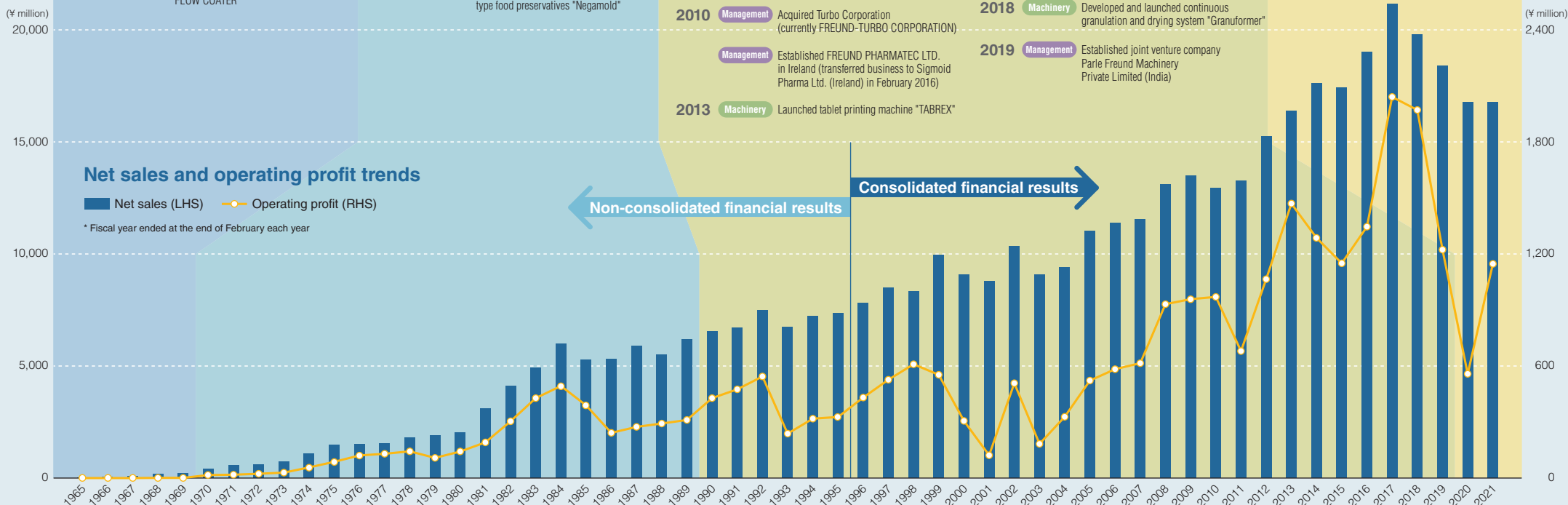
- 1992** **Management** Established the "Hamamatsu facility / Technology Development Research Center" in Hamamatsu City, Shizuoka Prefecture
- 1996** **Management** Registered shares on the Over-The-Counter Market with the Japan Securities Dealers Association (later JASDAQ)
- 1997** **Management** Acquired VECTOR CORPORATION (U.S.) (currently FREUND-VECTOR CORPORATION)
- 2008** **Machinery** Developed and launched new tablet coating machine "HICOATER FZ"
- 2010** **Management** Acquired Turbo Corporation (currently FREUND-TURBO CORPORATION)
- 2013** **Machinery** Launched tablet printing machine "TABREX"
- 2014** **Management** Celebrated the 50th anniversary since FREUND's founding
- Machinery** Developed continuous granulation and drying system "Granuformer concept model"
- 2015** **Chemicals** Launched pharmaceutical excipients for orally disintegrating tablets "NONPAREIL-105 (150)"
- 2016** **Machinery** Developed and launched tablet imprinting machine "TABREX Rev."
- 2018** **Machinery** Developed and launched continuous granulation and drying system "Granuformer"
- 2019** **Management** Established joint venture company Parle Freund Machinery Private Limited (India)

To the future

2020-

Fly to the future with creativity

- 2020** **Management** Acquired Cos.Mec S.r.l. (Italy)
- 2021** **Management** Establishes joint venture company Freund-Chineway Pharmaceutical Technology Center Co., Ltd. (China) (planned)

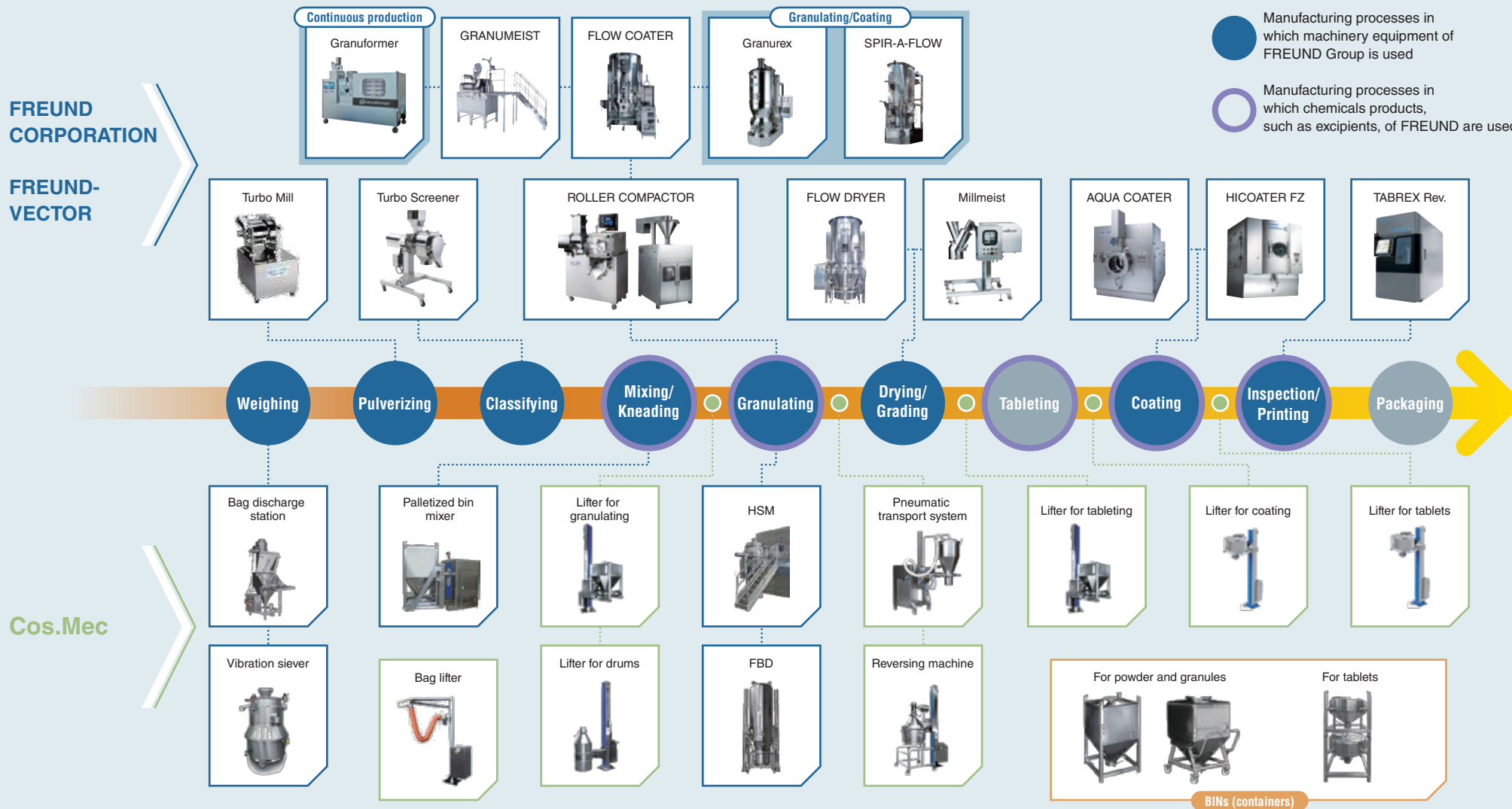


Manufacturing Process for Pharmaceutical Products and FREUND Group's Business Scope

Our main products are machinery equipment and chemicals products such as excipients, which are used in the process of manufacturing pharmaceutical products (tablets and granules, etc.). FREUND is the only enterprise in the world that conducts both the machinery and chemicals businesses in pharmaceutical related business. Furthermore, in November 2020, the Group's product lineup expanded significantly with Italy's Cos.Mec joining the Group, which material handling equipment that is used in the ancillary processes for pharmaceutical products.



Please see here for product details.



Overview of Business Segments and Relationship with Society

Based on technologies such as granulating, coating, pulverizing, classifying, the FREUND Group is expanding its businesses into the non-pharmaceutical product field including food and other industrial applications in addition to the pharmaceutical product field. The Group is thereby taking on new challenges that can contribute to improving the quality of health and life of people.

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 world market as well as the Japanese market
- Accelerating deployment of businesses in Asia, as well as Europe and North America via subsidiaries in the U.S. and Italy
- Developing equipment based on drug formulation technologies
- Focusing on sales expansion of equipment for other industrial business fields by integrating granulating/coating and pulverizing/classifying technologies

Chemicals Business Segment

Manufacture and sales of pharmaceutical excipients, food preservatives and health foods

Characteristics

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

*GMP: Good Manufacturing Practice

Provision of Values 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
"Granuformer"

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."

Provision of Values 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 Preservatives
"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
"Chitocost"

Provision of Values to Society

Taking on challenges in new technological fields to support enriched and convenient lives

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 make up 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 is pursuing the goal of “contributing to better medical care and health for people worldwide” based on its corporate value of “ONE FREUND.”

In the fiscal year ended February 28, 2021 (hereinafter “FY02/21”), the first fiscal year of the 8th Medium-Term Management Plan, which aims to build a new business foundation for sustainable growth by “putting clients’ views 1st,” economic activities were greatly affected by the spread of the COVID-19 infection on a global scale. Under the environment, we asked Iwao Fusejima, President and CEO, who says “I was reminded of the fact that the FREUND Group’s businesses are deeply involved in medical care and health of people,” on the outline of the Group’s business activities and future initiatives.

ONE FREUND

Iwao Fusejima
President and CEO



FY02/21: Overview of Business Activities

Japan's macro economy suffered an unprecedented slump from the spring of 2020 due to the COVID-19 pandemic. Economic activities resumed after the full termination of the declaration of a state of emergency in May, and the economy showed a gradual recovery trend. However, the third wave arrived from autumn onward, slowing the pace of economic recovery, and the outlook became uncertain.

The Japanese pharmaceutical industry is under pressure to respond to various issues, including strengthening of medical cost control measures such as drug price revisions and promotion of generic drug use, rising R&D expenses, and increasing development risks. Growth in generic drugs market is expected to slow down as the government-implemented measures to promote dissemination have run their course.

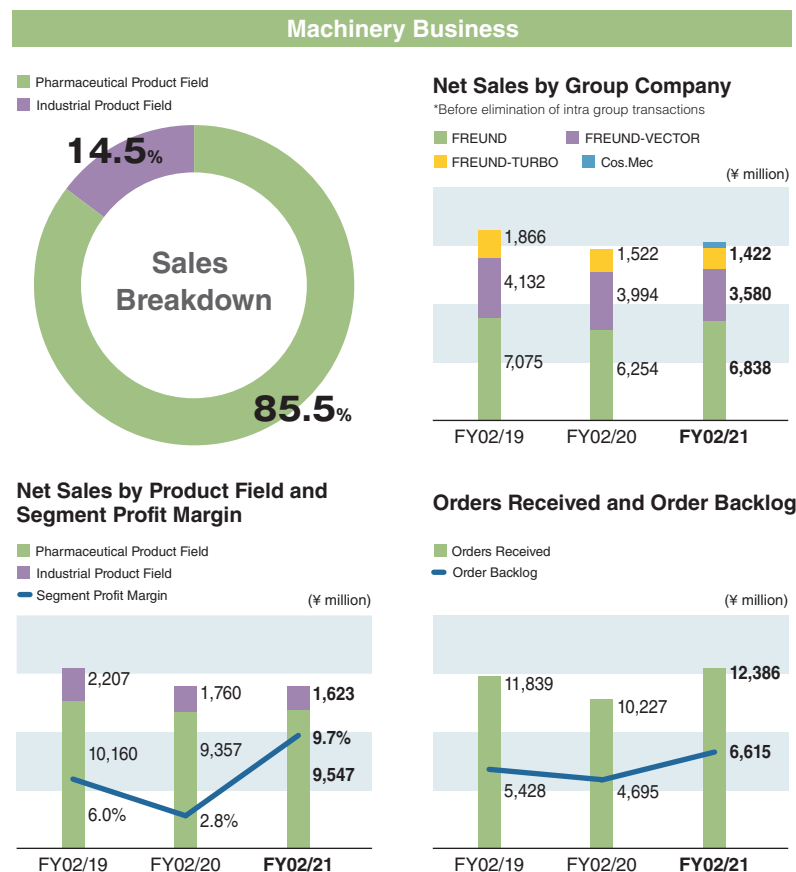
The global economy was heading toward recovery, albeit moderately, as countries sought to maintain economic activities and curb the spread of infections after the COVID-19 pandemic significantly curtailed their economic activities. However, the economic recovery is becoming increasingly uncertain due to the resurgence of infections caused by the outbreak of variant viruses and other factors.

Business Activities in Pharmaceutical Product Field

Overview of Machinery Business

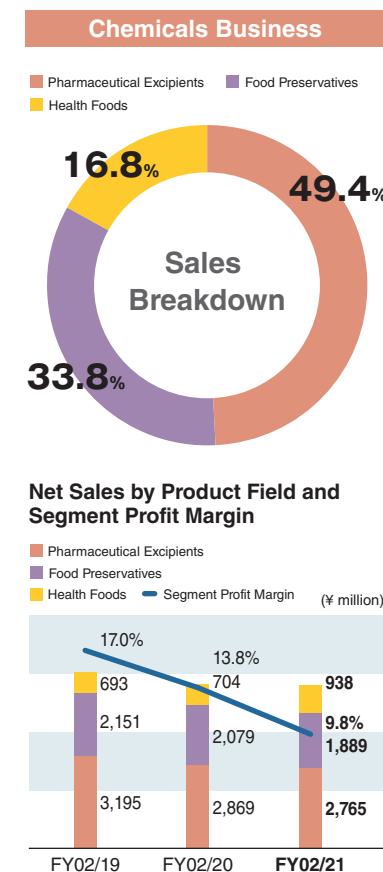
In addition to the COVID-19 pandemic, the Japanese market was in a challenging environment of the reduction in drug prices, but we succeeded in strengthening sales activities from the clients' viewpoints, enabling us to capture pharmaceutical companies' capital investment demand and receive orders. Furthermore, the Customer Division, which was

Operating Performances by Business Segment



newly established in September 2019, worked closely with the sales/marketing department and the service technology department to achieve delivery on time even in the COVID-19 pandemic, achieving in financial results in line with the forecasts.

In the overseas markets, sales activities were significantly affected by the COVID-19 pandemic in India, Europe and the U.S., but operating profit increased due to the U.S. FREUND-VECTOR receiving subsidies from the U.S. government as a



countermeasure against COVID-19 and group-wide efforts to reduce expenses. In China, where economic activities resumed at the early stage, and the sales efforts by FREUND and 2 local sales agents led to the largest ever net sales.

Overview of Chemicals Business

In Japan, some products were affected by the client manufacturers' production adjustments and shifts in

delivery timing to the fiscal year ending February 2022 (hereinafter "FY02/22"). However, in the overseas market, exports increased in response to the expansion of demand in China and the transfer of production to overseas plants by domestic pharmaceutical companies, resulting in a higher-than-expected figures. In addition, new orders have been piling up in the Japanese market, and we are steadily strengthening our sales base from FY02/22 onward.

Business Activities in Non-Pharmaceutical Product Field

In the Machinery Business Segment, the chemical industry and battery industry, which are our major client markets, were affected by the COVID-19 pandemic. However, orders from these industries have begun to pick up in anticipation of the end of the COVID-19 pandemic, and earnings are expected to recover from FY02/22 onward.

In the Chemicals Business Segment, sales related to inbound demand, and for department stores and theme parks, etc. declined, and the food preservatives business was significantly affected by the COVID-19 pandemic.

Review of the First Year of the 8th Medium-Term Management Plan

Business Foundation Reform by Putting Clients' Views 1st

With the launch of the Customer Division and the integration of technology, machinery sales, excipient sales and overseas sales departments from "putting clients' views 1st," the awareness of "everyone is a salesperson" has increased. Efforts, such as that the technology department immediately responding to

The 8th Medium-Term Management Plan (FY02/21-FY02/23)



clients' needs on site captured by the sales department, are gradually being strengthened.

Especially in Japan, where productive working population is declining, demand for automation and labor saving is increasing. Cost reduction for ongoing reduction in drug prices is also critical. In response to these potential clients' needs, we have begun to work toward stable operations for stable supply of pharmaceutical products by making full use of continuous production technologies and building a sensor based production control system.

Initiatives to Promote Global Deployment

In November 2020, we made Cos.Mec S.r.l. (Head Office: Milan, Italy, hereafter "Cos.Mec"), an Italian manufacturer of manufacturing machinery equipment for pharmaceutical products, etc., a wholly owned subsidiary. In December 2020, we entered into a joint venture with a local sales agent in China to establish a

technology development research center called Freund-Chineway Pharmaceutical Technology Center Co., Ltd. (Head Office: Shanghai, China, hereinafter the "Shanghai FC Center"). The Shanghai FC Center is scheduled to be established in FY02/22, which will create a five-pillar-structure that includes Japan (FREUND), the U.S. (FREUND-VECTOR), Europe (Cos. Mec), India (Parle Freund) and China (the Shanghai FC Center), and will enhance the coverage of the entire world including emerging countries.

Please refer to page 10 for the Group's global development map, and pages 10-14 for the overview of global development.

I believe that the 3 key points of overseas businesses are as follows. First to "have good products that meet the demand of each region, then localize services to the greatest extent possible, including maintenance, and finally have strong local sales agents in each country." From these perspectives, we intend to accelerate the optimization of the Group's business foundation.

We have established a global five-pillar-structure, and I believe that we have laid the groundwork for achieving our management vision. Going forward, we will enter a phase that embodies our global management. Regardless of pharmaceutical product or nonpharmaceutical product fields, our Group will provide products that contribute to better medical care, health, fulfilling lives and food safety for people worldwide, ensure that we are promoting businesses that can contribute to the global society, and further strengthen the development of global human resources.

Progress of Measures to Strengthen Management Foundation

In September 2019, we introduced a new corporate structure and an executive officer system, marking one and half years since then. With the change from the

product-based divisional structure to the function-based divisional structure, which handles both machinery and chemicals products by function, the integration of the Machinery Business Segment and the Chemicals Business Segment has begun to progress.

Under the executive officer system, in addition to appointing general managers as executive officers, the presidents of major subsidiaries were appointed as executive officers of FREUND to strengthen its consolidated management.

In terms of administration, we have been working on workstyle reforms, including remote works, while launching a project related to business process innovation (BPI) and the restructuring of our human resources system. In FY02/22, the completion of the BPI project and the introduction of a new ERP system and the human resources system will be critical.

Furthermore, we renewed our management structure

at the start of FY02/22. First, we invited a person with management experiences as an outside director. In addition, we appointed an internal director, who joined FREUND as a new graduate and has worked with us since then, to help younger employees imagine their future career paths. We have also invited a lawyer who is a legal expert as an external audit & supervisory board member.

As stated in our management vision, our mission is to "contribute to better medical care and health for people worldwide" through businesses. To fulfill the responsibility, we will continue to strengthen our various management foundations, disseminate our corporate value of "ONE FREUND" globally, and work to create a group in which employees around the world with diverse knowledge and experience can thrive on all frontlines.

■ FY02/22: Overview of Consolidated Financial Forecasts/Forecasts by Business Segment

Consolidated Financial Forecasts	FY02/21 (Actual)	FY02/22 (Forecasts)	YoY Changes	
			(¥ million)	%
Net sales	16,765	18,500	+1,735	+10.3
Operating profit	1,147	1,100	(47)	(4.2)
Ordinary profit	1,344	1,130	(214)	(16.0)
Profit attributable to owners of parent	995	790	(205)	(20.7)
EPS (¥)	59.47	47.18	(12.29)	(20.7)
Capital investment	637	—	—	—
Depreciation	414	—	—	—
R&D expenses	526	—	—	—

Financial Forecasts by Business Segment	FY02/21 (Actual)	FY02/22 (Forecasts)	YoY Changes	
			(¥ million)	%
Consolidated net sales	16,765	18,500	+1,735	+10.3
Machinery Business	11,171	13,100	+1,929	+17.3
Chemicals Business	5,593	5,400	(193)	(3.5)
Segment profit	1,147	1,100	(47)	(4.2)
Machinery Business	1,084	—	—	—
Chemicals Business	546	—	—	—
Adjustments	(482)	—	—	—
Exchange rate (¥/US\$)	105.98	105.00	—	—

To Our Stakeholders

With an eye on the future, we recognize that what should be protected as the core are the technologies and businesses in the pharmaceutical product field that are essential to the society, and that pharmaceutical companies which are responsible for the technologies and businesses are needed by the entire world. In FY02/21, in addition to the major pharmaceutical markets in Europe, the U. S., and India, we secured a network and product groups accessible to the pharmaceutical emerging regions such as China, Southeast Asia, and Africa.

Now that we have secured the business foundation for a wider range of global development, we believe that the key is to “contribute to better medical care and health for people worldwide and creating and fostering technologies for fulfilling lives and food safety,” as in our management vision. The entire Group will work together to promote the realization of these values, which are now important under the COVID-19 pandemic environment, and aim for a true global management.

We will continue our endeavors in establishing a foundation to realize the next generation of growth by fostering the value of “ONE FREUND,” and ask for the continued support of all our stakeholders.



Regarding Our Global Five-Pillar-Structure

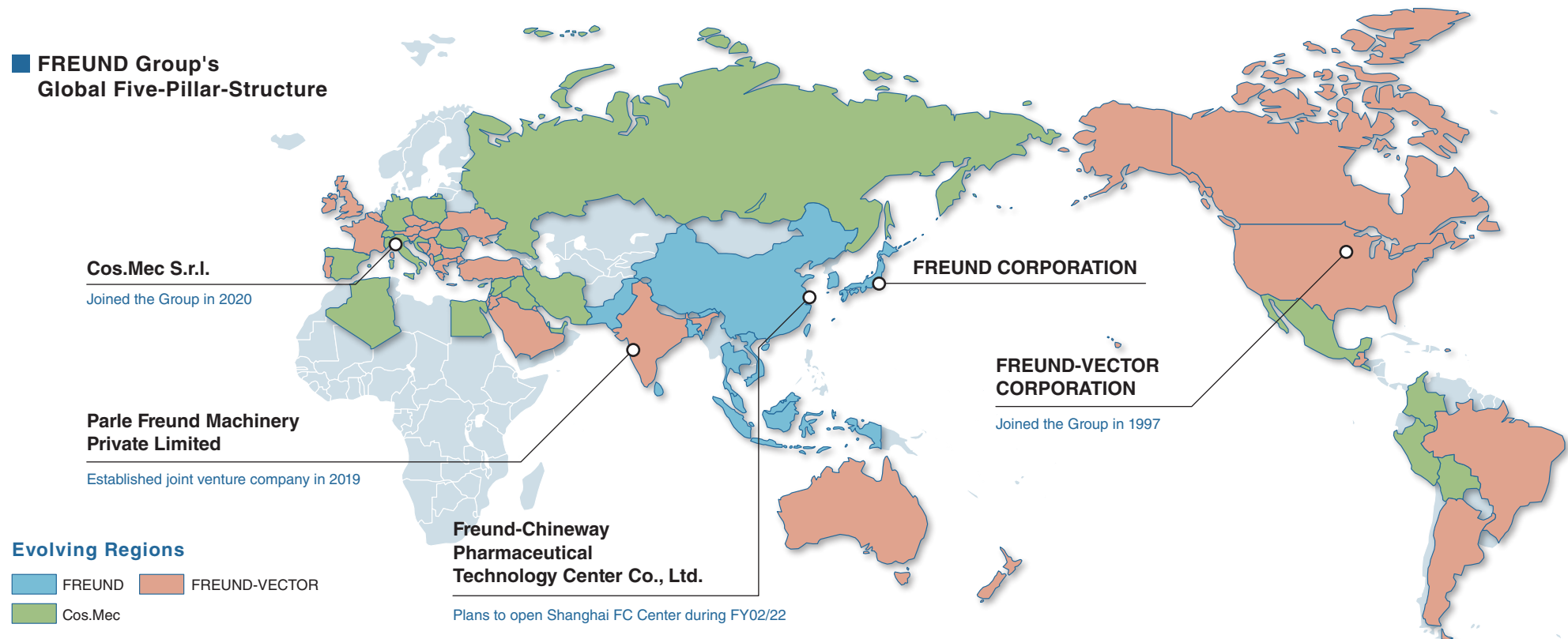
According to *IQVIA Institute for Human Data Science Forecasts (May 2021)*, a major global provider in medical information services, the world pharmaceutical market is expected to exceed \$1.6 trillion by 2025, and CAGR (5-year) is expected to be 3 to 6%. The growth during this period is expected to be driven by the U.S., and pharmaceutical emerging markets centered on China.

The U.S., the 5 European countries (Germany, France, Italy, the U.K., and Spain), which are pharmaceutical developed countries, and Japan have been the top 3 players in pharmaceutical spending. In the 5 European countries, Germany, the U.K., and Italy are expected to maintain growth rates on a par with those of the global market toward 2025.

In the pharmaceutical emerging markets, the Chinese market has grown to dominate. It has already surpassed Japan and is next to the 5 European countries. In terms of the growth rate through 2025, a significant growth is expected in Brazil, India, Turkey, and other countries.

As of May 2021, the FREUND Group has established business facilities in Japan, the U.S., India, and Italy. This will add China within this fiscal year, bringing the total to five-pillar-structure. We believe that the establishment of a structure that allows us to access the pharmaceutical developed markets, which are important in terms of market size, and the pharmaceutical emerging markets, which are expected to grow significantly in the future, has laid the foundation for full-scale global development.

FREUND Group's Global Five-Pillar-Structure



In addition to Japan, the U.S. and India, we introduce Cos.Mec, our fourth pillar, and the Shanghai FC Center, our fifth pillar, which will form our global five-pillar-structure.

Global Fourth Pillar: Cos.Mec in Italy

Cos.Mec, which joined the Group in November 2020, is a medium-sized pharmaceutical machinery manufacturer established in 1991, and is headquartered in the suburbs of Milan, where many machinery manufacturers are located. Cos.Mec has grown into a specialized manufacturer of transfer and process equipment that handles the incidental processes of drug formulations, such as transferring raw materials and intermediate materials, mixing, and storing granules, which are final products. About a decade ago, Cos.Mec has also entered machinery equipment for granulating and drying, in which we are involved.

In Europe, there are major global drug formulation machinery manufacturers such as Glatt and GEA. However, Cos.Mec has pioneered its own market with a strategy of putting Italian design on products for ancillary processes that connect core processes and selling them outside Italy and outside Europe.

In FY12/20, the net sales ratio outside Europe was 61%, of which Latin America was 35% (Mexico, Colombia, etc.), Asia was 13% (Bangladesh, etc.), the Middle East was 6% (Saudi Arabia, UAE, etc.), Africa was 7 % (Egypt, etc.), and the business development in emerging pharmaceutical regions is Cos.Mec's mainstay. Its clients are also second largest manufacturers after major global pharmaceutical companies.

In the developing regions, where populations are expanding, we believe that a potential market related to lifestyle-related diseases is extremely large. As these regions eventually age, the demand for oral solid dosages is expected to increase in response to various diseases caused by the westernization of eating habits. Amidst this trend, Cos. Mec, which understands the entire drug formulation process and can handle inexpensive manufacturing, can be said to have a great significance in joining the Group.

With Cos.Mec joining the Group, our Group's evolving regions and products have expanded largely. Going forward, we will optimize the Group's business foundation from the perspectives of providing better products that are suitable for each market, responding to regional needs for services including maintenance, and cultivating high-quality local agents.

Overview of Cos.Mec

Company Name	Cos.Mec S.r.l.
Head Office	Via Aldo Moro, 17/19, 20037, Paderno Dugnano, Milan, Italy
Representative	Angelo Lamanna
Business Summary	Manufacturing and sales of manufacturing machinery equipment for pharmaceutical and other products
Major Pharmaceutical Manufacturing Machinery Equipment	Transfer and process equipment Material handling system Mainly containers, vibrating sieves, air transfer equipment, cone mill pulverizers, container/drum blenders, lifters, washing equipment, etc.
Major Pharmaceutical Client Markets	Granulating machinery equipment Granulation system Fluid bed granulating and drying equipment, stirring and granulating equipment
Capital Stock	Italy, Spain, Russia, Mexico, Colombia, Bangladesh, Saudi Arabia, UAE, Egypt, etc.
Established	EUR80,000 (¥9.7 million)
	1991

Cos.Mec's Business Performance and Financial Position for the Past 3 Years

Unit: EUR1,000 (¥ million)

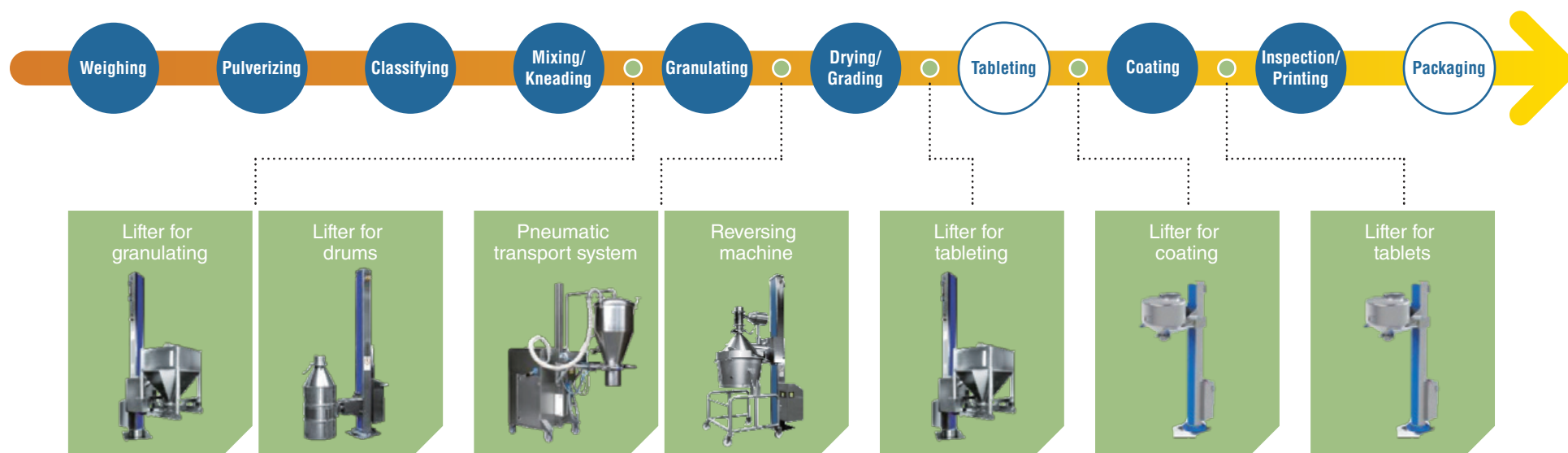
	FY12/17	FY12/18	FY12/19
Net assets	1,128 (138)	1,664 (203)	1,927 (236)
Total assets	7,894 (966)	9,499 (1,163)	11,031 (1,350)
Net sales	10,080 (1,234)	9,130 (1,118)	10,016 (1,226)
Operating profit	541 (66)	641 (78)	634 (77)
Ordinary profit	526 (64)	933 (114)	689 (84)
Profit for the year	349 (42)	736 (90)	492 (60)

(NOTE) Converted at EUR1=JPY122.45 (as of November 4, 2020)

External view of Cos.Mec's head office and manufacturing plant



Pharmaceutical manufacturing process covered by Cos.Mec



● Processes covered by products of FREUND, FREUND-VECTOR, and FREUND-TURBO ● Cos.Mec's products

Message from Cos.Mec Management



Angelo Lamanna
Founder, Managing Director

As a “global partner in solid dosages,” we have been providing machinery and plant designing solutions to pharmaceutical, chemical and food manufacturers inside and outside Italy for 30 years in compliance with pharmaceutical manufacturing guidelines of each country. We work closely with our clients to provide not only comprehensive but also customized solutions for transferring and processing processes of powders and granules to meet their various manufacturing needs.

Our missions are as follows:

- | | |
|---|---|
| 1 Design and engineering in Italy (Made in Italy) | 5 Efficient pre-and post-sales and local support in the main world markets |
| 2 Compliance with international regulations and procedures | 6 Quality materials |
| 3 Quality, effectiveness, and safety | 7 High level of process automation |
| 4 Excellent value for money | 8 Simple use |

On November 5, 2020, Cos.Mec transferred its entire stake to FREUND CORPORATION. As a member of the FREUND Group, Cos.Mec has become a part of a multinational company with operations in Japan, the U.S., Italy and India. Currently, we have begun activities to improve our corporate values in line with the integrated strategies of the FREUND Group in terms of both technologies and sales.

Please visit our head office and plant in the suburbs of Milan, Italy. We will be waiting for you.

Global Fifth Pillar: Shanghai FC Center

Although major global drug formulation machinery manufacturers are entering the Chinese market, which is a huge emerging market for pharmaceutical products, we see this as a market in which we can demonstrate the Group's advantage, since China has a high confidence in Japanese quality. In order to strengthen our product development support of Chinese pharmaceutical companies and translate our advantages into business opportunities, we plan to open the Shanghai FC Center, our technology development research center, during FY02/22.

Under the pharmaceutical regulatory reform by the Chinese government that began in 2015, manufacturing processes based on GMP (Good Manufacturing Practice) and highly functional additives have become essential elements. In this trend, the center will raise awareness of our products by collectively testing our machinery and excipient products as a research facility that handles both our machinery and pharmaceutical excipients in China.

Overview of Shanghai FC Center

Company Name	Freund-Chineway Pharmaceutical Technology Center Co., Ltd (Chinese name: 富仁德昌制技(上海)有限公司)
Head Office	Shanghai, People's Republic of China
Investment Ratio	Chineway 51%, FREUND 49%
Capital Stock	RMB50 million
Business Summary	Drug formulation technology services for Chinese pharmaceutical manufacturers
Scheduled Date to Open the Research Center	During FY02/22

Message from Shanghai FC Center Management



Sherry Fang

Managing Director of Shanghai FC Center,
Chairman of Shanghai Chineway
Pharmaceutical Technology Co, Ltd.

I am delighted to have signed the Joint Venture Agreement for the Shanghai FC Center. Shanghai Chineway Pharmaceutical Technology Co, Ltd. (hereinafter "Chineway") is one of the leading distributors of pharmaceutical excipients in China, formed in 2000. With more than 20 years of experience in developing pharmaceutical businesses in China and customer base of more than one thousand customers, Chineway is expanding its business in pharmaceutical equipment, API and technology transfer, especially in solid dosages. With the vision to be a "Total Solution Provider" to the China pharmaceutical industry, Chineway has been seeking for long-term partners globally to develop businesses in China.

FREUND has a business model that integrates "Pen and Ink" and "Hardware and Software" to provide services combining machinery, excipients, as well as drug formulation technologies, which is a perfect match with Chineway's vision of providing total solutions with pharmaceutical industry in China.

Therefore, after having served as a distributor for FREUND excipients for a few years, Chineway embarked a new journey to form the JV with FREUND, and to further develop and expand the business scope to pharmaceutical equipment and technology transfer for the pharmaceutical customers in China.

China is the second largest pharmaceutical market in the world. Although the market is large and growing, competitions are very intensive. The Shanghai FC Center will strive for winning in the Chinese market with emphasis on advanced technologies, premium qualities, and the putting clients' view first principle.

10-Year Financial Data of FREUND Group

FREUND CORPORATION and Consolidated Subsidiaries
Ended February 2012 to February 2021

(¥ million)

	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21
For the year										
Net sales	15,236	16,396	17,616	17,424	19,027	21,164	19,801	18,408	16,772	16,765
Cost of sales	10,624	11,313	12,377	11,978	12,921	14,343	12,985	12,220	11,344	11,126
Selling, general and administrative expenses	3,546	3,612	3,952	4,295	4,759	4,779	4,845	4,964	4,870	4,491
Operating profit	1,065	1,470	1,286	1,150	1,346	2,041	1,971	1,223	558	1,147
Profit attributable to owners of parent	608	765	787	695	961	1,064	1,477	843	381	995
EBITDA ¹	1,351	1,717	1,610	1,478	1,687	2,396	2,329	1,575	951	1,574
Orders received	12,200	12,117	12,804	14,340	15,109	18,286	12,129	12,574	11,006	12,386
Order backlog at end of period	6,148	5,809	5,551	6,780	7,328	8,790	5,906	5,555	4,897	6,615
Capital investment	218	222	477	545	266	564	524	627	951	637
Depreciation	264	232	303	308	321	338	344	344	386	414
R&D expenses	390	435	464	592	687	640	862	832	725	526
Cash flows from operating activities	1,219	740	1,227	822	290	3,605	594	435	(27)	2,280
Cash flows from investing activities	(154)	(332)	(423)	(240)	(432)	(351)	(493)	(566)	(852)	(1,726)
Cash flows from financing activities	(134)	(164)	(226)	(284)	(331)	(277)	(499)	(921)	(325)	(371)
At end of period										
Total assets	14,342	14,971	15,550	17,277	17,206	19,101	19,125	17,465	18,505	20,499
Net assets	8,489	9,315	10,392	11,180	11,529	12,185	13,242	13,250	13,243	13,884
(Equity)	8,356	9,197	10,239	10,987	11,529	12,185	13,242	13,250	13,243	13,884
Per share data²										
Earnings per share (EPS, ¥)	35.30	44.38	45.69	40.36	55.74	61.72	85.69	50.15	22.79	59.47
Book value per share (BPS, ¥)	484.56	533.37	593.76	637.19	668.57	706.62	767.91	791.34	790.94	829.21
Dividend ³ per share (DPS, ¥)	7.50	10.00	12.50	15.00	25.00	20.00	20.00	20.00	20.00	20.00
Major indicators										
Operating margin (%)	7.0	9.0	7.3	6.6	7.1	9.6	10.0	6.6	3.3	6.8
Return on assets (ROA, %)	4.2	5.1	5.1	4.0	5.6	5.6	7.7	4.8	2.1	4.9
Return on equity (ROE, %)	7.5	8.7	8.1	6.6	8.5	9.0	11.6	6.4	2.9	7.3
Dividend payout ratio (%)	21.2	22.5	27.4	37.2	22.4	32.4	23.3	39.9	87.8	33.6
Equity ratio (%)	58.3	61.4	65.8	63.6	67.0	63.8	69.2	75.9	71.6	67.7

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

2. The Company carried out a 2-for-1 split of common shares on March 1, 2016. The "per share" calculations are based on the assumption that the stock splits were conducted at the beginning of FY02/12.

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

Analysis of Business Results

Through the risk-diversification management, the FREUND Group has built a stable earnings structure that is not susceptible to market fluctuations, focusing on the financial strategies to build a business portfolio that enables a sustainable growth. In the fiscal year ended February 2021 (hereinafter “FY 02/21”), the macro-economy was severely affected by the COVID-19 pandemic. However, in the first fiscal year of the 8th Medium-Term Management Plan (hereinafter “the Plan”), we evaluate that we almost achieved financial results that we had anticipated. With the pharmaceutical industry as our main clients, the financial results were supported by the client base and brand value that has been built over many years, particularly in Japan.

Overview of Results of Operations by Group Company

FREUND Japan Pharmaceutical and non-pharmaceutical product fields

The Machinery Business Segment strengthened the appeal of products and services based on “putting clients’ views 1st,” one of the management goals of the Plan, and the businesses in Japan contributed significantly to both net sales and profits. In addition, 2 local sales agent companies contributed to net sales growth in the Chinese market.

In the Chemicals Business Segment, net sales and profits declined due to the impact of production adjustments by some pharmaceutical companies in the pharmaceutical excipient business, despite an increase in exports to China and Europe following the production shift to overseas by the Japanese pharmaceutical companies.

FREUND-TURBO Japan Non-pharmaceutical product field

Net sales and profits declined mainly due to the impact of a decline in demand from chemical and industrial equipment manufacturers in the 1H FY02/21. However, FREUND-TURBO’s product lineup has been enhanced as the brand recognition of strategic product of high-speed mixing/granulating machine “BALANCE GRAN” has progressed. In FY02/22, FREUND-TURBO is working to expand sales of these strengths.

FREUND-VECTOR The U.S. Pharmaceutical product field

Net sales decreased due to the significant impact of the COVID-19 pandemic. Affected by the stronger dollar, FREUND-VECTOR’s competitiveness declined on a dollar basis and demand declined significantly in Brazil and Latin America, which had been active for the past several years. Profits rose due to cost reductions and a coronavirus countermeasure subsidy from the U.S. government.

Cos.Mec Italy Pharmaceutical product field

Cos.Mec joined the Group in November 2020. In FY02/21, it showed a strong performance, although the contribution was limited to the Q4.

Key Performance Indicators to Be Emphasized in the Future

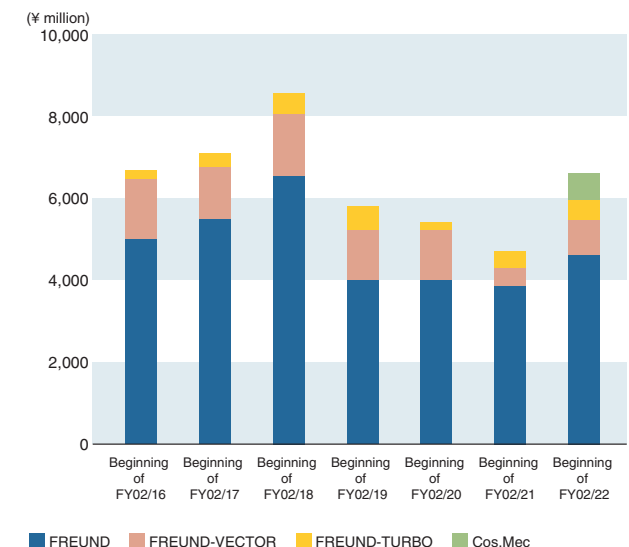
We believe that the key performance indicators to be emphasized in the future are net sales, operating profit, and order backlog at beginning of period of each group company. For FREUND on a non-consolidated basis with multiple business segments, net sales and gross profit of the Machinery Business Segment and the Chemicals Business Segment (pharmaceutical excipients and food preservatives) are key indicators.

In addition, order backlog at beginning of period and the order-taking activities in the 1H will be the key

foundation for the full-year results, we would like to aim for leveling the results that tend to be biased in the 2H to make them more stable.

Furthermore, based on our belief that developments are the base of our net sales, we will focus on the new product ratio within 3 years after launch. To this end, we are strengthening stage-management of new product developments in every business segment.

Order Backlog at Beginning of Period of Group Companies



Honorary Chairman, Directors and Audit & Supervisory Board Members

Honorary Chairman and Directors



Ryuji Nakatake
External Director

Masao Wakai
Managing Director

Yasutoyo Fusejima
Honorary Chairman

Iwao Fusejima
President and CEO

Toshiaki Honda
Director

Hisashi Tanaka
External Director

Audit & Supervisory Board Members



Sayoko Izumoto
External Audit & Supervisory Board Member

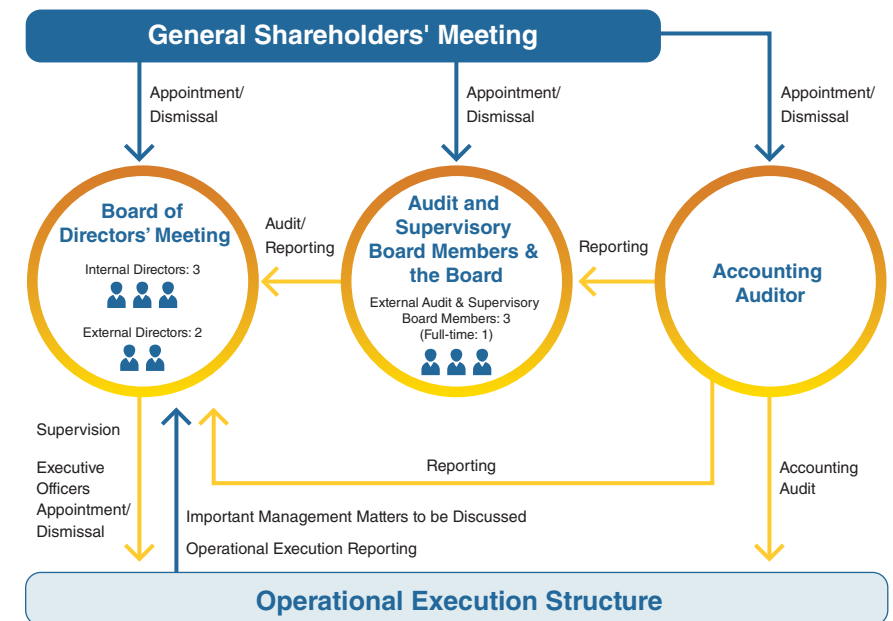
Sakae Hirano
Full-time Audit & Supervisory Board Member

Kazunari Hamada
External Audit & Supervisory Board Member

Corporate Governance to Support Sustained Growth

Starting from FY02/21, the FREUND Group has implemented its 8th Medium-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 competitions. In addition, it fulfills its obligation to the society to act as a responsible group of companies.

Corporate Governance Structure (As of May 31, 2021)



Reasons for Appointment of External Director and External Audit & Supervisory Board Member and Major Activities in FY02/21

Ryuji Nakatake

Reappointed

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 11 out of 11 board of directors' meetings held in FY02/21

Hisashi Tanaka

Newly appointed

External Director

Takashi Tanaka was appointed as external director as he was deemed to be able to contribute to strengthening management oversight and corporate governance by having abundant experience and wide-ranging insight as a manager.

Sakae Hirano

Current position

Full-time Audit & Supervisory Board Member

Sakae Hirano was appointed as full-time 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 11 out of 11 board of directors' meetings and 12 out of 12 audit & supervisory board members' meetings held in FY02/21.

Sayoko Izumoto

Reappointed

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 11 out of 11 board of directors' meetings and 12 out of 12 audit & supervisory board members' meetings held in FY02/21.

Kazunari Hamada

Newly appointed

External Audit & Supervisory Board Member

Kazunari Hamada was appointed as an external audit & supervisory board member as he was deemed to satisfy this role having specialized knowledge and experiences as an attorney from an objective standpoint as a legal expert.

Message from Full-Time Audit & Supervisory Board Member



Sakae Hirano

Full-Time Audit & Supervisory Board Member

Review of FY02/21

In FY02/21, we began enhancing the overseas business, promoting business process innovation (BPI), and fundamentally revising our human resources system. And we took the first step in line with the 8th Medium-Term Management Plan's management goals.

On the other hand, it was a year to prevent COVID-19 infection. Remote-work was introduced in full-scale, and web conferencing has become commonplace both inside and outside the company. As an audit & supervisory board member, I have reaffirmed the importance of auditing activities utilizing electronic information and remote communications, while placing importance on face-to-face relationships.

Future Outlook for FREUND Group

As well as business, auditing activities need to be firmly adapted to globalization. The audit & supervisory board is now composed of 3 instead of 4 members. All members, including a full-time one, are external independent members, which is a highly independent auditing system. In addition, the newly appointed audit & supervisory board member, Mr. Hamada, is a legal expert who has been absent so far, and is particularly familiar with the overseas activities of Japanese companies, and is the best human resource for us to promote global expansion. As an accountant, Ms. Izumoto, who was reappointed, is fully demonstrating her knowledge on international accounting and her abundant experiences as an external officer. As a full-time audit & supervisory board member, I will make full use of my experiences in finance and overseas business activities.

In order to globalize, it is also necessary to deepen the coordination of 3-way auditing with our Internal Audit Office and the auditing firm including its global network. We are committed to contributing to the sound development of our business activities globally, while making the most of expertise in the 3-way auditing process.

Message from Newly Appointed Directors and Audit & Supervisory Board Member

On May 28, 2021, we renewed our directors and audit & supervisory board members structure. Under the new structure, we will strengthen governance, develop human resources for leaders, and strengthen global business foundation. This section introduces Mr. Masao Wakai, who has been in charge of corporate planning as an internal director and promoted to managing director, Mr. Toshiaki Honda, a newly appointed internal director, who is in charge of promoting businesses from user's-point-of-view, and Mr. Hisashi Tanaka, a newly appointed external director, who has been in the pharmaceutical industry for many years and is also familiar with global management, and Mr. Kazunari Hamada, a newly appointed external audit & supervisory board member, who is an attorney with global legal experiences.

Internal Directors



Masao Wakai

Managing Director

For our Group, FY02/21 was the new start year in many ways. First, as the first year of the 8th Medium-Term Management Plan, we newly set seven management goals for the next 3 years. Secondly, the new corporate structure with 7 divisions was established, and the heads of the divisions were appointed as executive officers. We organized a new management meeting with 11 members, including 8 executive officers, President Fushijima, and 2 presidents of subsidiaries, to address issues and share information throughout the Group.

The financial results for FY02/21 were partially affected by the COVID-19 pandemic and net sales were slightly below the plan. However, thanks to constant efforts by various divisions and affiliates, operating profit and other profit items were able to exceed the plan significantly.

In FY02/22, we will continue to work on seven management goals of the 8th Medium-Term Management Plan. Aiming for financial forecasts of consolidated net sales of ¥18.5 billion and operating profit of ¥1.1 billion, we will further accelerate our growing strategies. Particularly in Japan, we will focus on supporting pharmaceutical companies in improving and upgrading their production processes. Overseas, we will pursue synergies with the acquired Cos.Mec in Italy and utilize the Shanghai FC Center, a technology development research center, to be established within this fiscal year. In addition, we will strengthen our production system of chemical products and upgrade our computer system.

We appreciate the continued support of our stakeholders.



Toshiaki Honda

Director

Since joining FREUND as a new graduate, I have been in charge of sales activities. Currently, I lead the Customer Business Division, which integrates technical, machinery business sales, excipients sales, and overseas sales departments. What I pursue at the front lines of businesses is how to create values for customers of our clients, that is, for society-oriented markets based on our corporate philosophy of "Developing the Future with Creativity®."

In addition, I would like to work together with each and every employee to raise awareness at business sites and foster businesses that can contribute to society in line with our management vision. I will contribute to raising this awareness as a company.

I was newly appointed as an internal director, and am only a director who has worked at FREUND since having joined as a new graduate. My strength is that I understand our clients and business front lines. I may have a strong short-term perspective now. However, as a director, I would like to take on the challenge of expanding our business segment domains, while balancing short-term perspectives with medium-to long-term perspectives of 10 or 20 years from now.

Leveraging my strengths as an employee who has worked at FREUND for many years, I will work together with business sites to realize sustainable and stable business growth.

External Directors



Hisashi Tanaka

External Director (Independent)

For many years, I have overseen pharmaceutical research, stationed in the U.S., and clinical research at the laboratory of a major domestic pharmaceutical manufacturer. In my current position, I launched the Chinese business also. The Chinese pharmaceutical products industry has been dominated by traditional Chinese herbal medicines, and there is no original new drug. It is still at the stage of imitating pharmaceutical products in developed nations. The spread of generic products is about to begin. On the other hand, we must consider China catching up in a short period of time. FREUND will make a full-scale entry into China in the future, and I would like to proceed with discussions on such assumptions.

The FREUND Group has specifically defined the three axes of "Number ONE," "Only ONE" and "Be ONE" based on the Group Values "ONE FREUND," and I think this is excellent. In order to translate these into businesses in a concrete manner, we need to develop a diverse range of human resources globally.

When I was at a pharmaceutical manufacturer, I had the experience of learning how to work globally under the guidance of a boss from a foreign-affiliated company, such as communicating with overseas authorities for drug approval applications in Europe and the U.S. In addition, at the research laboratory, I was given personnel rights and focused on developing human resources. I would like to contribute to the construction of the next-generation growth foundation by utilizing my experience in promoting such global businesses and developing human resources.

Currently, the implementation of the 8th Medium-Term Management Plan is our highest priority. However, I would like to provide the advice we need to make in order to become a 100-year company that lies ahead of us. I would like to fulfill my responsibilities as an external director by making solid comments from an external perspective.

External Audit & Supervisory Board Member



Kazunari Hamada

External Audit & Supervisory Board Member (Independent)

As an attorney, I have provided various advices on domestic and overseas matters, and there was an opportunity to be seconded to Japan Airlines (JAL) at the time of the merger between JAL and Japan Air System (JAS). It was very valuable that I was able to experience the frontline of management decisions from the perspective of a legal expert from within the company.

Since FREUND is a company with an Audit & Supervisory Board, audit & supervisory board members do not have any involvement in management, however, they have a role to work together with directors who are responsible for management while maintaining tense relationship, and make the company desirable. From an attorney's perspective, I would like to actively speak out about what I think and what I find questionable, making use of my experiences and knowledge that I have cultivated by seeing other companies.

The number of companies transitioning to the Audit & Supervisory Committee system has increased, but it cannot be said that governance will be effective only through the mechanism. I think it is important to balance and harmonize the relationships between directors and audit & supervisory board members. From corporate governance's perspective, I would like to increase the effectiveness of the 3-way auditing process through repeated discussions at the Audit & Supervisory Board and collaboration with the accounting auditor and the Internal Audit Office.

This is the first time that I participate in an operating company as an external audit & supervisory board member, so I will do my best and keep that in mind. The FREUND Group supports markets such as pharmaceutical products and foods, which are essential to people in the world. I feel that the role that can be played globally will expand further in the future.

To realize this, I will strive to meet the expectations of our stakeholders by making the workplace and company more comfortable for our employees to work and by consequently increasing our corporate values.

About Risk Management

Business and Other Risks

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 FY02/21.

For details of each risk item, please refer to our website below.

<https://www.freund.co.jp/ir/policy/risk.html> (Japanese only)

- | | |
|--|--|
| 1 Industry Trend Risk | 9 Human Resources Risk |
| 2 Pricing Competition Risk | 10 Foreign Exchange Fluctuation Risk |
| 3 Client Company Credibility Risk | 11 Natural Disaster Risk |
| 4 Business Partner Relationship Risk | 12 Impairment Risk for Non-Current Assets |
| 5 Collaborative Alliances with Strategic Partnership Risk | 13 Overseas Business Operational Risk |
| 6 Intellectual Property Risk | 14 Information Leakage Risk |
| 7 Product Liability Risk | 15 COVID-19 Related Risk |
| 8 Public Regulations-Related Risk | |

Risks to Be Watched Closely in the Future

In terms of business operations, the risk of the worldwide spread of COVID-19 infection became apparent in FY02/21. In addition, we are aware of the following risks that should be watched closely in the future.

Industry Trend Risk

In Japan, the reduction in drug price is expected to continue, and there is a possibility of a reorganization of the pharmaceutical industry. As stated in the M&A of Cos.Mec in Italy in November 2020 and the opening of the Shanghai FC Center in FY02/21, the Group is working to increase its presence in overseas markets and accelerate the global expansion of pharmaceutical product field, while promoting Machinery Business and Chemicals Business related to the non-pharmaceutical fields of food, batteries, and chemicals, as well as expanding its geographical and business areas.

Overseas Business Operational Risk

Trends in financials and healthcare policies around the world affect the management of pharmaceutical companies. Pharmaceutical companies in the U.S. and other developed countries are taking cost-cutting measures, such as transferring manufacturing to lower-cost emerging countries. Our Group's priority countries and regions for business expansion include India, China, and Southeast Asia, where populations and incomes are expected to grow, and we are required to manage risks related to business expansion in these countries and regions. To this end, we are strengthening our understanding of conditions by country/region, drafting strategies, and monitoring individual transactions.

Company and Stock Information

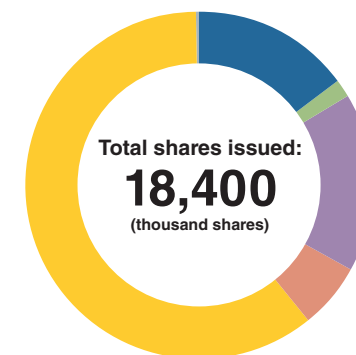
(As of February 28, 2021)

Company Name:	FREUND CORPORATION
Established:	April 22, 1964
Capital Stock:	¥1,035,600,000
Employees:	484 (Consolidated)
Head Office Location:	FREUND Bldg. 6-25-13, Nishishinjuku, Shinjuku-ku, Tokyo
Website:	https://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 Registry Administrator:	Mitsubishi UFJ Trust and Banking Corporation
Total Number of Shares Issued:	18,400,000 shares
Total Number of Shareholders:	15,713

Major Shareholders (Top Ten)	Shares owned (thousand shares)	Ownership ratio (%)
K. K. Fusejima Yokosha	1,648	9.84
Yasutoyo Fusejima	1,256	7.50
MUFG Bank , Ltd.	836	4.99
Sumitomo Mitsui Banking Corporation	744	4.44
Okawara Mfg. Co., Ltd.	673	4.02
PERSHING-DIV. OF DLJ SECS. CORP.	503	3.00
Freund Employee Shareholding Circle	401	2.39
The Shizuoka Bank, Ltd.	368	2.19
Meiji Yasuda Life Insurance Company	360	2.14
QUINTET PRIVATE BANK (EUROPE)S.A. 107704	321	1.92

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.

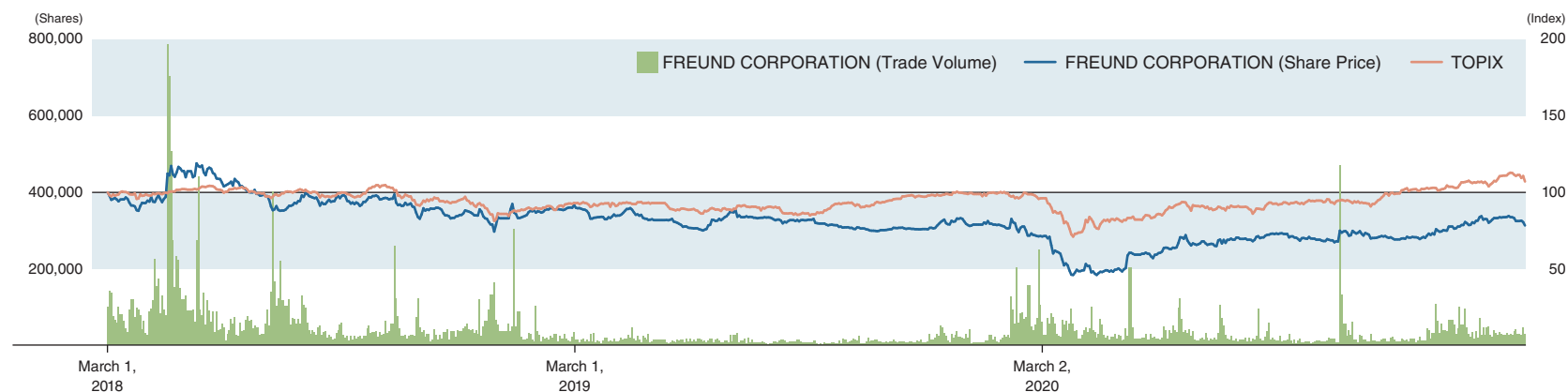
Shareholder Distribution by Type of Shareholders



	No. of shares held (thousand shares)	Percentage (%)
Financial Institutions	2,716	14.76
Financial Instruments Firms	304	1.65
Other Corporations	3,063	16.65
Foreign Corporations	1,145	6.22
Individuals, Others	11,160	60.65
Government and Local Public Bodies	12	0.07

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 have been adjusted to reflect the stock split. FREUND CORPORATION and TOPIX prices have been adjusted to show relative valuations on March 1, 2018 as 100.

FREUND CORPORATION

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