



FREUND CORPORATION

Integrated Report 2017

Fiscal Year Ended February 28, 2017
(From March 1, 2016 to February 28, 2017)

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Profile

For over half a century, FREUND CORPORATION ("FREUND" or the "Company") has developed numerous granulating and coating equipment and excipient products using its highly unique technologies.

The foundations of our technologies originate in processing small granules from various raw materials and coating particles and tablets. FREUND is highly unique in that it boasts technologies in both products ("Hardware") and dosage formulation technologies ("Software"). We have endeavored to generate highly functional pharmaceutical excipients and food ingredients through evolution of both Hardware and Software.

The FREUND Group (the "Group") is currently endeavoring to achieve further advancements in its powder and particle design technologies, along with efforts to enter new technological fields outside the field of pharmaceutical products including mechatronics and software and thereby expanding the breadth of its overall business. At the same time, we are implementing measures to strengthen our business foundations to achieve growth in the coming age.

With regard to FY02/17 financial results data, the Company's consolidated subsidiaries FREUND-VECTOR CORPORATION ("FREUND-VECTOR") and FREUND-TURBO CORPORATION ("FREUND-TURBO") changed their accounting periods to end in February, which led both companies to record irregular accounting periods of 14 months from January 1, 2016 to February 28, 2017.

Notes Regarding the Company's Estimates:
This Report contains forward looking plans, estimates, strategies, earnings and other statements. Such information is based upon 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 upon the results of the fiscal year 2017 (from March 1, 2016 to February 28, 2017). However, new information available after March 2017 has also been included in this Report.

FREUND's Business

FREUND Group consists of two business segments.

Machinery Business
In the pharmaceutical product field, the Machinery Business Segment focuses on the development of machinery equipment mainly for granulation and coating. FREUND's domestic market share for granulation and coating equipment is about 70%. FREUND is also driving sales in the Asian markets as well as in the European and American markets.

In the non-pharmaceutical product field, the business segment focuses on developing, manufacturing and selling industrial equipment for various industries by integrating granulating and coating technologies with grinding and classifying technologies. This value-added equipment is applied to toners, fine ceramics, catalyst processes, food, fragrance and seeds.

Chemicals Business
The Chemicals Business Segment provides excipients in its mainstay pharmaceutical product field to meet the needs of the industry for effective drug formulation technologies. It is also commercializing dietary supplements and seamless mini capsules in a joint development project with client companies by leveraging on FREUND's granulating and coating technologies.

In the non-pharmaceutical product field, the business segment provides functional food materials based on its particle processing technologies cultivated over many years, as well as proprietary food preservatives.

FREUND GROUP

FREUND CORPORATION

FREUND-TURBO CORPORATION

FREUND-VECTOR CORPORATION (United States)

FREUND Group Business Portfolio

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

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

Challenge to Create Corporate Value (1)

Striving to Solve Social Issues

The FREUND Group's technologies are commonly used in peoples' daily lives. For example, our machinery and formulation technologies are used to manufacture drugs "that are not bitter" and "that do not require water to be ingested." Furthermore, the Group provides technologies that contribute to improvements in the health and lifestyles of people in the areas of food and industrial sectors that are used every day.

PROVISION OF VALUE TO SOCIETY

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

EXAMPLE 1:
Frontline of Medicine



Tablet Coating Machine
"HICOATER FZ"



Pharmaceutical Excipients
"Granulol F (Fine)"



Tablet Imprinting Machine
"TABREX Rev."

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 creation of Hardware and Software, represented by products and drug formulation technologies respectively, 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.

Improving lifestyles of elderly by pursuing "easy to ingest" drugs

The active ingredients of drugs account for only several percent of their total volume, 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 formulation technology and allows for easier ingestion of drugs by assisting the swallowing process.

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 appear similar*. FREUND prints on drugs to allow for easy identification and contributes to prevention of medical mistakes worldwide. Therefore, FREUND has developed the industry's first safe drug ingestion concept that involves a new generation tablet imprinting/inspection machine and specialized inks.

*Source: The Japan Council for Quality Health Care

PROVISION OF VALUE TO SOCIETY

Better taste and health. Supporting enriched lifestyles of people.

EXAMPLE 2:
Food and Health



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 and freshness of products.



Food Preservative
"Antimold"

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

Along with the increased concern for health in recent years, demand for supplements and health foods is on the rise. FREUND's advanced drug formulation technologies are used to promote the function of effective food ingredients and to enable easier ingestion, thereby contributing to healthy lifestyles together with health support manufacturers.



Food Coating Agent
"AQ shelax"

PROVISION OF VALUE TO SOCIETY

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

EXAMPLE 3:
Advanced Industry



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

For example, synthetic resin pulverizing machinery is used to manufacture copying use toners to create even more clear and beautiful characters and pictures. The Group uses its unique fine and high-speed pulverizing technologies to take on challenges in new areas such as lithium ion batteries and to contribute to new market creation that makes peoples' lives more enriched and convenient.



Fine Pulverizer with Built-in Classifier
"V TURBO"

Challenge to Create Corporate Value (2)


History of Challenge and Creativity

The FREUND Group is a research and development based group of companies that leverages its core competencies of granulating, coating and pulverizing technologies to provide machinery equipment ("Pen"), and chemical and food products ("Ink") to the pharmaceutical and food industries. In the future, FREUND will continue to contribute to the health and medical care of people around the world by creating and nurturing technologies that secure safety of foods and enrich peoples' lives.

**FOUNDING PERIOD:
1964-**

Founded amidst Japan's high economic growth period


FREUND was founded in April 1964 and became the world's first company to develop automated film coating equipment and film coating fluids. Moreover, the Company acquired the world's first patent for pharmaceutical use excipient granules. Thereafter, "FLOW COATER" fluid bed granulation, coating and drying machine and other products were introduced. Marketing networks were created within Japan and in overseas markets.



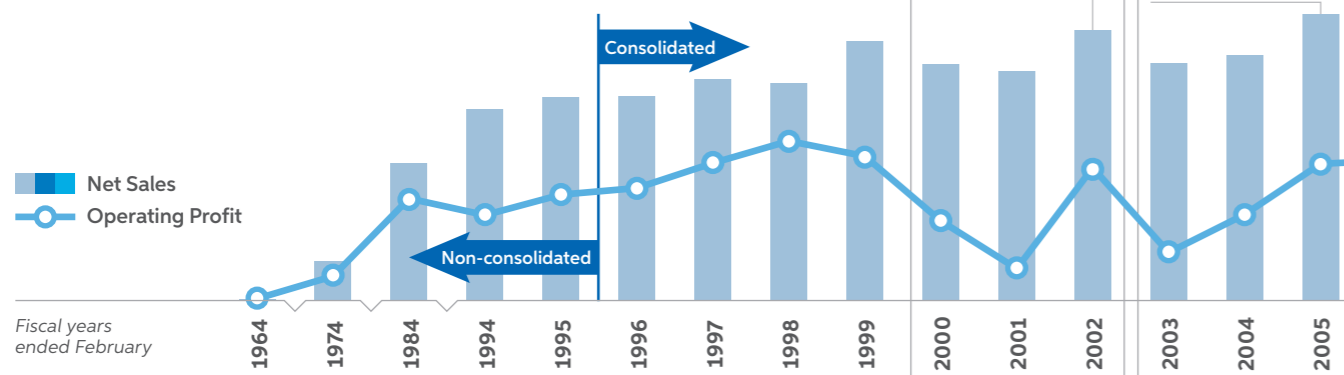
**INNOVATION PERIOD:
1970-**

Business expansion amidst Japan's high economic growth

FREUND broadened its product lineup range to include the "ROLLER COMPACTOR" dry granulation machine, "HICOATER" automated sugar and film coating machine, "CF-Granulator" centrifugal-flow type granulating and coating machine and the first direct compression pharmaceutical excipient. FREUND also signed a licensing agreement with Vector Corporation of the United States (currently known as FREUND-VECTOR). Furthermore, the "Antimold" food preservatives business was started.




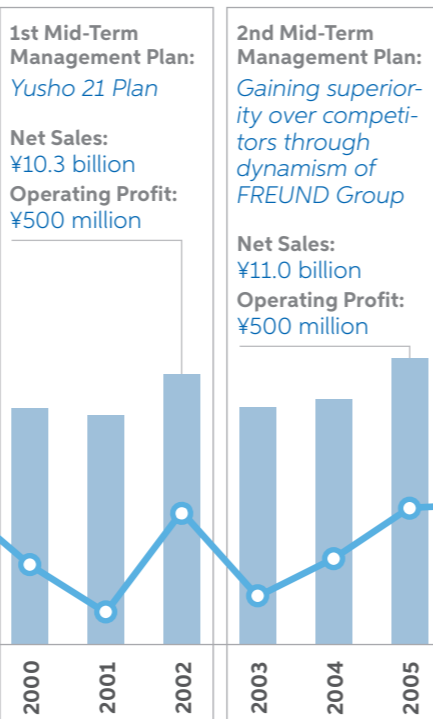
Net Sales and Operating Profit



**1ST GROWTH PERIOD:
1990-**

Promoting further fortification of product lineup and globalization

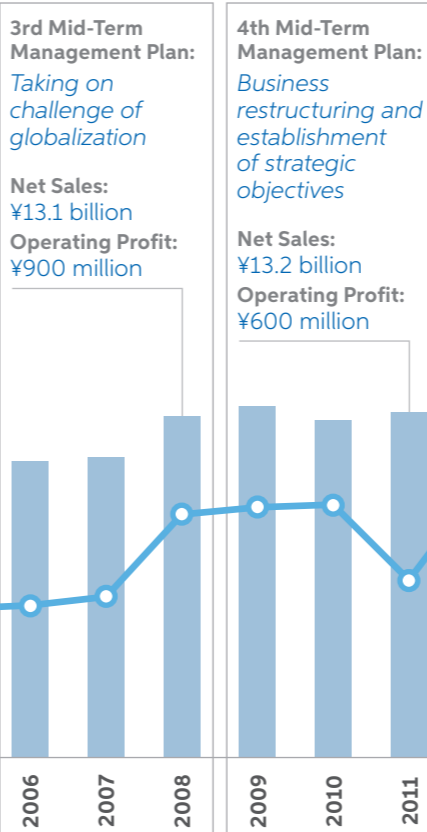
Development of "SPHEREX" seamless mini-capsule production machine, "NONPAREIL-105" spherical granules pharmaceutical excipients, and "GRANUREX" multi-functional rotor processor for granulating, coating and drying machine was conducted. With regard to expansion of facilities, FREUND established the "Hamamatsu Technology Development Research Center" in Hamamatsu City, Shizuoka Prefecture in 1992. In 1996, FREUND listed its shares on the Over The Counter Market (currently known as JASDAQ Section of the Tokyo Stock Exchange). In 1997, Vector Corporation became a member of the FREUND Group.

**2ND GROWTH PERIOD:
2004-**

Promoting new technology development and entering industrial realms

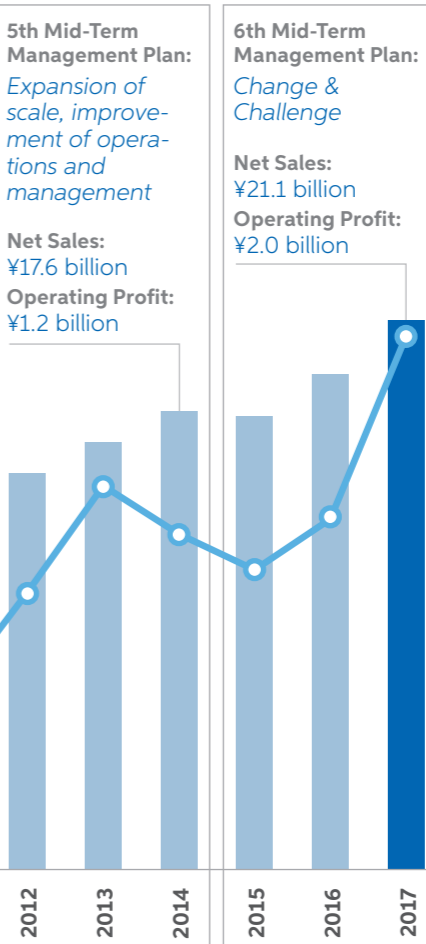
"HICOATER FZ" new tablet coating machine, "FLOW COATER Universal" fluid bed granulation, coating and drying machine, "GRANUMEIST" high shear mixing granulating machine, "millmeist" wet/dry process milling machine were developed. In 2010, Turbo Corporation (currently called FREUND-TURBO), a manufacturer of machinery equipment for powders, joined the FREUND Group.

**LOOKING TO THE FUTURE:
2012-**

Creating unique technologies that improve peoples' lives worldwide

Products including the "Negamold" food preservative series and the "FLOW COATER (12 bar)" pressure-resistant type fluid bed granulation, coating and drying machine were developed. The lineup of direct compression agents for ODT has been fortified to cultivate new markets, and "TABREX Rev." new generation tablet imprinting machine, "Granuformer" continuous granulation and drying system, lithium ion battery market products and other new products have been developed as next-generation products for marketing on a global basis.

FREUND has established the group value of "ONE FREUND" to help promote its pharmaceutical and non-pharmaceutical product field businesses globally.

7th Mid-Term Management Plan:

ONE FREUND

(For details, please refer to page 9.)

FY02/2022 TARGETS:

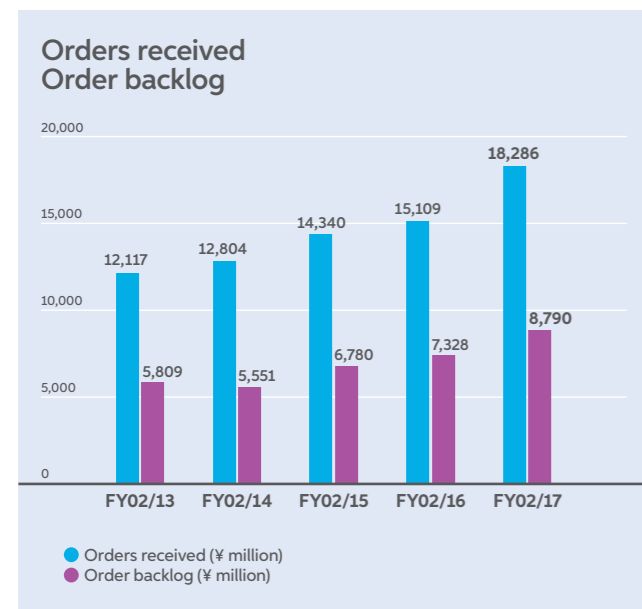
Net Sales: **¥30.0 billion**

Operating Profit: **¥3.0 billion**

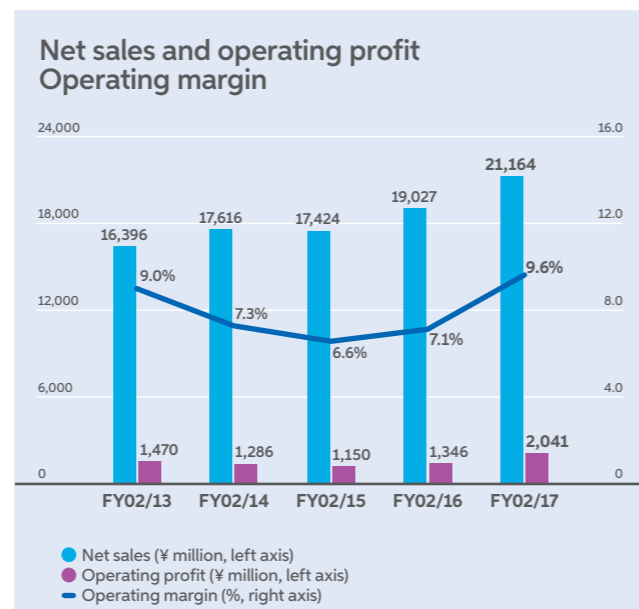
ABOUT FREUND:
Financial Highlights

FREUND CORPORATION and Consolidated Subsidiaries
 Fiscal Years ended February 2013 to February 2017

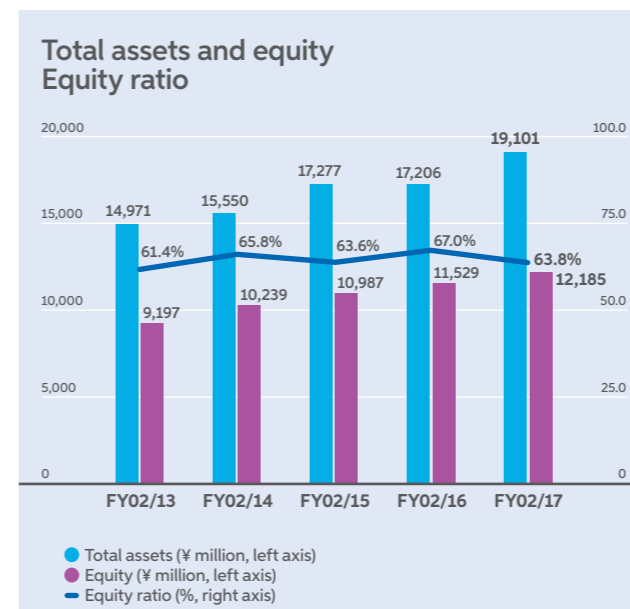
Achievements in Creating Corporate Value (For financial data for 10 years, please refer to pages 22 and 23.)



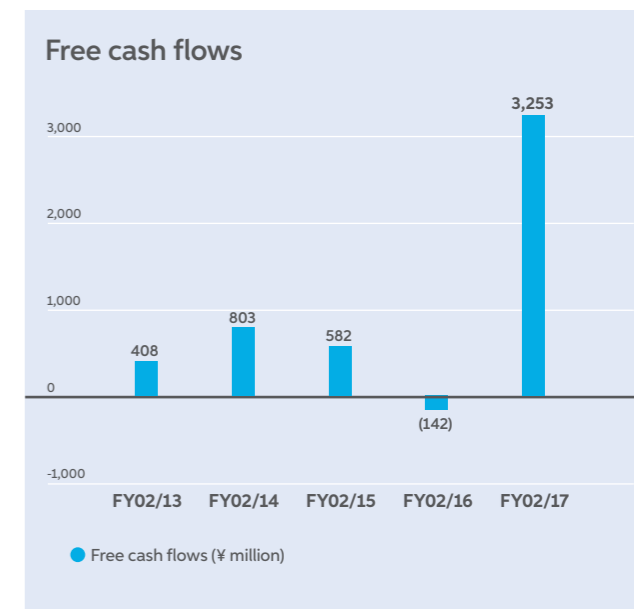
Based upon the Japanese government's policy of boosting the share of generic drugs used to 80% of total drugs "at the earliest possible stage between fiscal 2018 and 2020," generic drug manufacturers are promoting accelerated capital investments to expand their manufacturing capacity. Therefore, the Machinery Business Segment is seeing favorable order trends, and both orders received and order backlog reached record high levels in FY02/17.



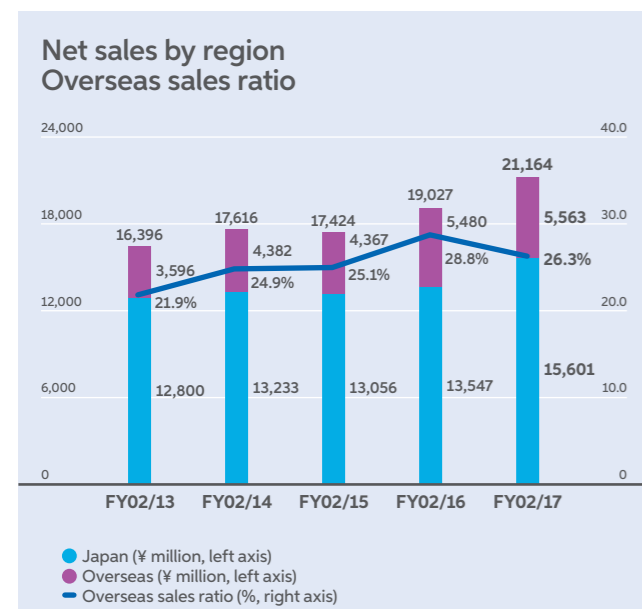
In FY02/17, favorable demand from the generic drug manufacturers allowed both net sales and profits of the Machinery and Chemicals Business Segments to grow. Consequently, net sales and operating profit rose to new record highs. Furthermore, operating margin rose to 9.6% in FY02/17 and took another step closer to the Company's goal of 10% consolidated operating margin.



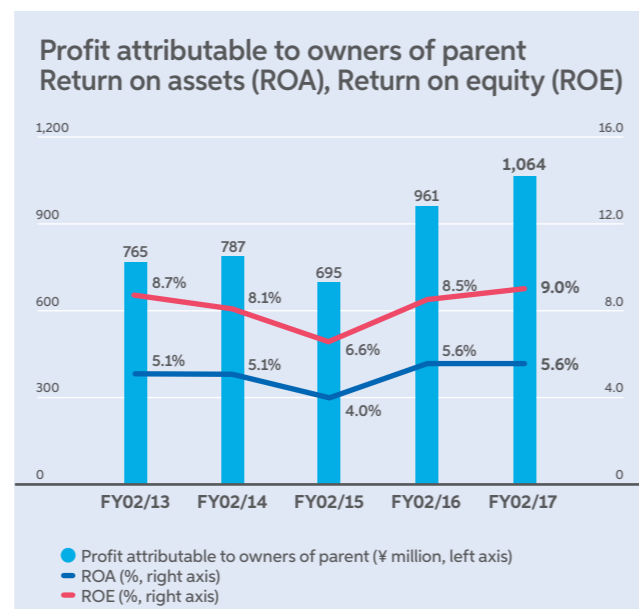
Both the Company's total assets and equity continue to steadily increase. Therefore, its equity ratio has trended stably without any large fluctuations.



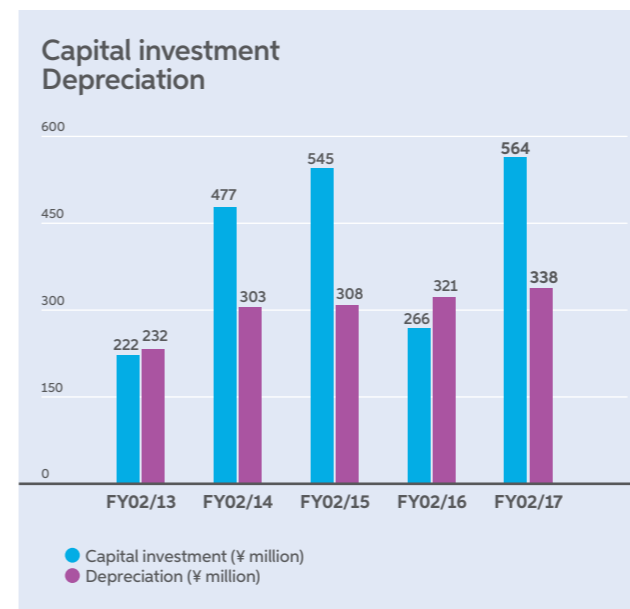
In FY02/16, free cash flows turned to a net outflow due primarily to increases in work in process at the year-end arising from an increase in orders. In FY02/17, declines in notes and accounts receivables - trade, and increases in both advances received and notes and accounts payables - trade contributed to a large improvement in free cash flows.



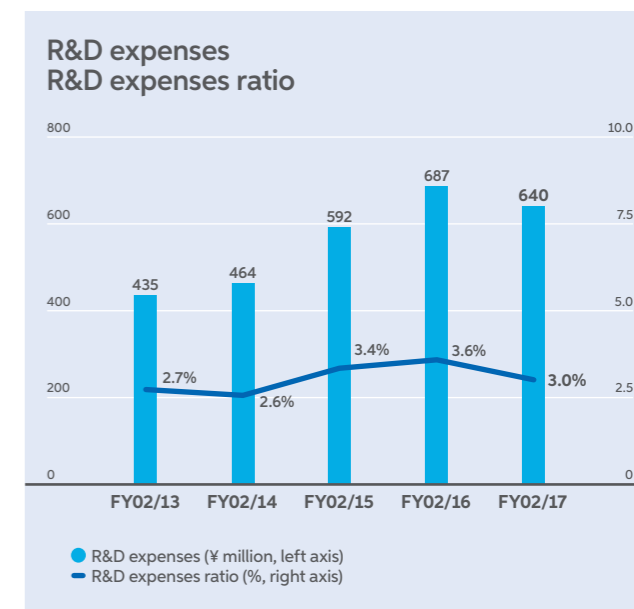
Overseas sales continue to steadily grow every fiscal year. In FY02/17, net sales in North America rose by ¥1.1 billion year-on-year (yoy), allowing declines in overseas sales in other regions to be offset and boosting total overseas sales yoy. The Company is implementing measures to expand sales channels in global markets to increase its overseas sales a step further.



The Company was able to achieve record high net profit attributable to owners of parent in FY02/17. Consequently, it also achieved ROA of 5.6% and ROE of 9.0%, exceeding the Company's management target of 8.0% for ROE. The Company will continue to implement measures to maintain a ROE ratio in excess of 8.0%.



Capital investment for non-current assets rose in response to expansion of research facilities and spending on interior furnishings associated with the move of the Company's head office in FY02/17. Along with the capital investment, depreciation also rose. Going forward, capital investment will be conducted with a focus upon improving the effectiveness of spending on both research facilities and manufacturing facilities for the Chemicals Business Segment.



R&D expenses rose on the back of full scale development of "TABREX Rev." new generation tablet imprinting/inspection machine and other new products during FY02/16 to FY02/17. The Company will conduct investments for anticipatory research and development including those for new product development as a R&D based company.

FREUND Group's Business Foundation and Scope

FREUND is a manufacturer of granulation and coating equipment (machinery equipment) and pharmaceutical excipients (chemical products) used in the process of manufacturing solid dosage forms (tablets, granules, and others). In the pharmaceutical business field, FREUND applies a unique business model as the only company in the world that deals in research and development of both machinery equipment and chemical products—the raw materials from which pharmaceutical products are made.

Recently, FREUND has been promoting a growth strategy with an eye toward the next half century through applying its fundamental particle processing technologies to the non-pharmaceutical business fields, e.g., foods and other industrials. Through such businesses, the FREUND Group aims to contribute to the improvement in health and quality of life of individuals worldwide.

Unique Business Model and Foundation for Creating Added Value



Establish a business model for "Pen (machinery equipment)" and "Ink (chemical products)"

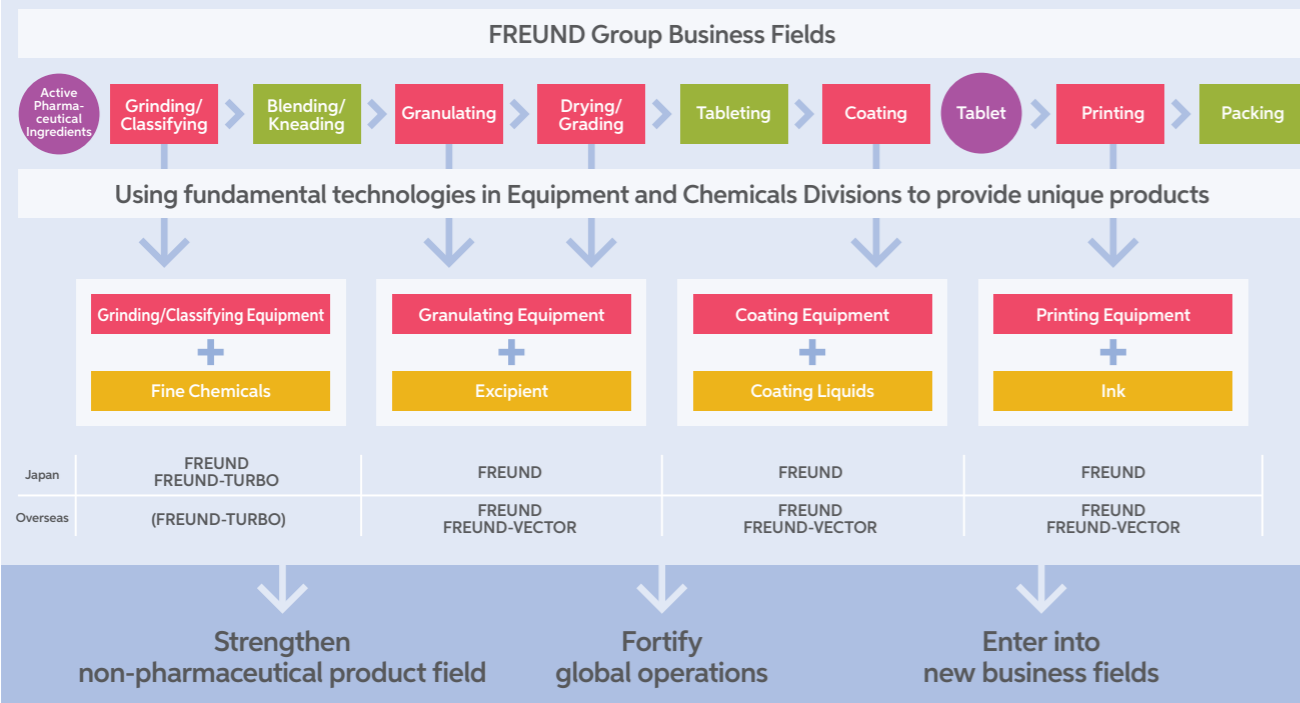
Ever since its founding, FREUND has differentiated itself from its competitors with a business model having both "Pen (machinery equipment)" and "Ink (chemical products)" in the pharmaceutical business field. It has established its position as an industry leader in the pharmaceutical product manufacturing equipment industry.



Create unique added values by integrating "Hardware" and "Software"

FREUND not only conducts research and development of such "Hardware" as machinery equipment and chemical products, but also develops "Software" of drug formulation technologies including the particle processing technologies which enhance the performance of such "Hardware." FREUND integrates these "Hardware" and "Software," and provides highly unique proprietary product lineup, contracted processing and technical services, thereby driving the creation of unique added values.

FREUND Group's Business Scope based upon Pharmaceutical Products Manufacturing Processes



Overview of the New Mid-Term Management Plan

The 7th Mid-Term Management Plan (FY02/18–FY02/22)



Values which the FREUND Group holds precious

Number **ONE**

Creating special value
Become "Number One" in each of FREUND's businesses

Only **ONE**

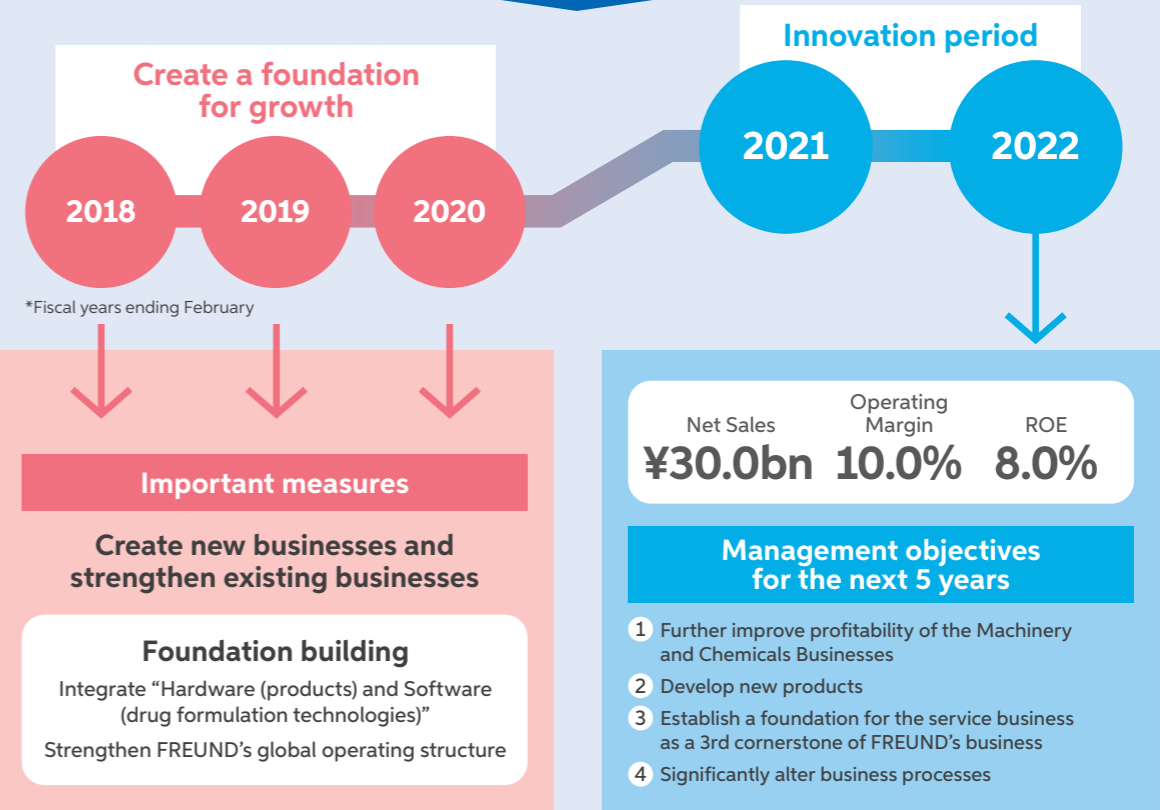
Putting clients' views first
Become "Only One" serving both clients and society

Be **ONE**

Networking
Unite to a "Be One" group

Basic Strategy

Respond to clients' needs with technological expertise and create a management structure to realize sustained growth in profits



Message from President and CEO

Implementing our "ONE FREUND" value to create new values

Promoting borderless businesses, and creating management foundations for the next generation

Based upon the corporate motto "Change & Challenge," our 6th Mid-Term Management Plan has promoted "One for All, All for One (management unity)." During the period of the Plan, our business environment changed dramatically due to the sudden and unexpected rise in demand for pharmaceutical product related machinery and equipment by generic drug manufacturers.

Reviewing the 6th Mid-Term Management Plan

At the start of the current plan in FY02/15, we created a goal of eliminating our high reliance upon growth in the Japanese pharmaceutical market and called for the full-scale launch of efforts to cultivate opportunities in overseas markets. At the same time, we included the goal of fortifying our product lineup by effectively leveraging the Group's resources.

In June 2015, the Japanese government made a cabinet-level decision to adopt the "2015 Economy and Public Finance Management and Reform Basic Policy" with a goal of raising the share of generic drugs to 80% of the total Japanese pharmaceutical product market by 2020. Along with this goal of "generic drug 80% market share," demand for machinery and equipment rose and inquiries from Japanese pharmaceutical product manufacturers to our machinery business grew strongly.

According to the Japan Generic Medicines Association (JGA) report on "Conditions of Generic Drugs" for pharmaceutical product manufacturing trends in the Japanese market, the market is expected to grow from 114.4 billion tablets in 2015 to 125.0 billion in 2020 (growth of 9.26%). Amongst this total, generic drugs are expected to grow from 61.3 billion tablets to 95.0 billion from March 2015 to 2021 (growth of 55.0%), and their share is expected to rise from 56.0% to 80.0%.

In order to capture this extraordinary demand exceeding the initial expectations in the Mid-Term Management Plan, we had to shift our resources of people, goods and capital. Consequently, we encountered delays in implementing efforts to create a new growth structure.



Iwao Fusejima

President and CEO

However, FREUND was able to cultivate new vendors in developing markets within Asia, and start cooperation between FREUND-VECTOR of the United States, responsible for machinery business for pharmaceutical products, and FREUND-TURBO, responsible for non-pharmaceutical applications of pulverizing equipment within Japan, while the issues of "accelerating new product development" and "fortifying product lineup" were left outstanding. In addition, the first order for "TABREX Rev." new tablet imprinting/inspection machine was booked at the end of FY02/17.

Overview of FY02/17 Consolidated Financial Results

Against this backdrop, demand for pharmaceutical product field machinery within Japan trended strongly. Also, the domestic chemicals business saw strong sales of pharmaceutical excipients to generic drug manufacturers. Moreover, favorable sales of machinery in North America allowed FREUND-VECTOR to achieve record-high earnings in local currency terms during the course of the 6th Mid-Term Management Plan. At the same time, FREUND-TURBO was able to expand sales of new products fortifying its marketing function in the non-pharmaceutical product field.

Consequently, both consolidated net sales and operating profit rose. However, due to delays in the overseas business deployment and new product introductions, net sales and operating profit did not reach their respective goals of ¥23.0 billion and ¥2.3 billion.

With a view to the disappearance of the extraordinary demand created by the efforts to raise generic drug market share to 80%, the Group is now confronted with the issue of creating the foundations for the next phase of growth. During the coming FY02/18, the 7th Mid-Term Management Plan will start based upon the group value "ONE FREUND" and with a goal of implementing reforms of our management structure.

Roadmap for the Creation of Our Management Vision

With regard to the Japanese pharmaceutical product field, demand is expected to remain strong over the course of the next one to two years. However, various structural issues such as the aging population and declining birthrates, reductions in new pharmaceutical products will cause competition to intensify as the maturity of the market advances a step further. At the same time, consumption of pharmaceutical products is expanding not only in the largest drug consuming markets of the United

States and European countries, but also in the emerging markets of China, Brazil, India and Russia. Therefore, the Group can cultivate these markets by establishing strong footholds there.

Based upon this operating environment, we will establish a management vision clarifying our role as an entity serving the public interests with a unique business model that combines both our "Hardware (products) and Software (drug formulation technologies)." Our goal is to contribute to the future of medicine and the health of people worldwide.

Our Group Value "ONE FREUND"

FREUND will implement its group value "ONE FREUND" during the course of the 7th Mid-Term Management Plan from FY02/18 to FY02/22 and endeavor to achieve the goals to (1) become "Number One" by creating special value, (2) become "Only One" by putting clients' views first, and (3) unite to a "Be One" group through networking.

Based upon these values, we will endeavor to "create a management structure to realize sustained growth in profits" in global markets. In order to accomplish this, we will "create a foundation for growth" over the three year period to FY02/20. We have also identified the two year period from FY02/21 to FY02/22 as an "innovation period," in which we will create new businesses based upon the Group's technologies and strengthen our existing businesses.

In addition to promoting strategic business creation that integrates both our "Hardware and Software" in the process of the three year growth foundation creation, we will strengthen our business execution structure on a borderless and global basis. Through these efforts, we expect to achieve net sales of ¥30.0 billion, operating margin of over 10% and ROE of over 8% during the final fiscal year of the Plan.

→ For further details on the 7th Mid-Term Management Plan, please refer to pages 9, and 24 to 26.

FY02/18 Consolidated Financial Forecasts

	FY02/17	FY02/18	yoy changes	
		(¥ million)		%
Net sales	21,164	21,000	-164	-0.8
Operating profit	2,041	2,100	+59	+2.9
Ordinary profit	2,097	2,100	+3	+0.1
Profit attributable to owners of parent	1,064	1,400	+336	+31.5
EPS (¥)	61.72	81.19	+19.47	+31.5
Capital investment	564	650	+86	+15.2
Depreciation	338	360	+22	+6.5
R&D expenses	640	550	-90	-14.1

The creation of our next-generation management structure will begin on a full-scale basis from FY02/18 and continue for three years. New businesses will be cultivated in each of our business and technological fields, with additional efforts in strengthening our existing businesses. To achieve these goals, we will aim to create a new foundation for growth.

Create New Businesses (1) Expand Overseas Based on "ONE FREUND"

With regard to our global business deployment, FREUND will be responsible for the Japanese market, while creating a management structure for the Group companies to act in unity to cultivate markets outside of Japan.

From FY02/18 forward in our pharmaceutical product field, FREUND and FREUND-VECTOR will launch cooperative activities in marketing for machinery in India and other Asian countries. Also from FY02/18 forward, the "ONE FREUND" value will be implemented in our supply chain that covers the marketing, design and development, manufacturing, sales and service functions to create a borderless business.

Furthermore, we will strengthen our new product development structure to respond to the needs of markets in various countries and to expand the field of pharmaceutical excipients to global markets similar to our machinery business.

➔ For further details on our global business deployment, please refer to pages 18 to 19.

Create New Businesses (2) Integrate "Hardware and Software"

We support our pharmaceutical company clients' efforts in new product development through our integration of "Hardware and Software" in our pharmaceutical excipients business. In addition, we are strengthening our new business model of contract manufacturing for some of our clients' manufacturing processes.

In order to accelerate the deployment of our unique businesses, the sales force in Japan for the pharmaceutical product field, which had been previously divided between the equipment and excipients divisions, was unified. Through this structural change, we will cultivate staff who have a deep understanding for both "Hardware and Software" as members of our worldwide sales foundation.

➔ For further details on the new business model for pharmaceutical excipients, please refer to pages 14 to 15.

Create New Businesses (3) Develop New Products and Cultivate New Markets

With regard to the pharmaceutical product field, FREUND has expanded sales of "TABREX Rev." Demand for this product within Japan has been strong, and we have already booked orders for several units since the start of the coming fiscal year. FREUND and FREUND-VECTOR have begun collaboration for global marketing after participating in an international exhibition held

in Germany in May. In addition, we displayed a new application of our "TABREX Rev." machine at the "Interphex Japan" International Pharmaceutical R&D and Manufacturing Expo/Conference held at the end of June with a positive response.

➔ For further details on "TABREX Rev.," please refer to pages 16 to 17.

With regard to our non-pharmaceutical product field, we aim to strengthen the output capacity of our food preservatives and FREUND-TURBO will continue to endeavor to cultivate business opportunities in industrial market applications.

With regard to research and development, FREUND and FREUND-VECTOR are collaborating to expand global sales of the global model "Granuformer" continuous granulating and drying system. Moreover, FREUND and FREUND-TURBO are promoting efforts to create a series of products that leverage the FREUND Group's core technologies in new fields including lithium ion battery use electrode materials.

Important Measures: Strengthen Existing Businesses

We remain aware of the potential for severe market conditions to arise in the wake of the strong demand created by the Japanese government's goal of raising the share of generic drugs to 80% by 2020. With regard to the direction of existing businesses within maturing markets, we need to adopt a fables manufacturing structure with a view to overseas business deployment and conduct fundamental reviews of our product development structure to increase our competitive strength. We will accelerate our efforts to establish this structure during the coming fiscal year, and thereafter promote development of future generations of existing equipment based upon our new product development and manufacturing structure.

The 7th Mid-Term Management Plan calls for promoting new efforts while fortifying our business foundation mainly for our machinery business in the Japanese pharmaceutical product field. We will achieve this by promoting companywide strategies for our human resources, organization structure and finances.

Strengthening Our Human Resources Function in Response to Business Expansion

In order to realize our growth strategies listed above, we need to focus upon strengthening our human resources foundations. To achieve this, we need to review our system designs including human resources evaluations and systems.

Moreover, we will adopt more strategic human resources methods for hirings with a view to our mid- to long-term development, and implement on the job training, organizational training and education programs.

Specifically, we will create a database for the hiring flow for both new graduates and mid-career hires, adopt a strategic career hiring approach in accordance with the Mid-Term Management Plan, conduct reviews of our new graduate hiree

training programs to encourage them into becoming contributing assets at an early stage, and implement other new measures which are not merely an extension of our existing strategy.

In addition to clearly identifying the characteristics of our ideal human resources, we will also implement human resources development programs in line with these characteristics to raise the capabilities of our employees. Furthermore, our management will take an active role in strengthening our human resources development program structures, and actively promote projects to bring about reforms of our corporate culture and workstyles.

Strengthening Our Corporate Foundations

With regard to our organization, we will implement reforms of our business processes to establish the foundations to bring about changes to the Company. First, we will strive to increase the visibility and reform all of our internal business process. Furthermore, we will promote drastic improvements of our fundamental business process systems.

With regard to our finances, we will prioritize strengthening our management accounting to create a structure that can quickly assess our consolidated financial conditions. As part of this, we have changed the accounting year ends of both FREUND-VECTOR and FREUND-TURBO from December to February to align them with our accounting year.

Furthermore, we are implementing a corporate social responsibility program as outlined by the 10 principles of the United Nation's Global Compact in March 2016 with the goal of creating a steadfast ESG (Environmental, Social, Governance) foundation.

In addition, we will conduct ongoing reviews of our internal control function to strengthen this function for the entire Group.

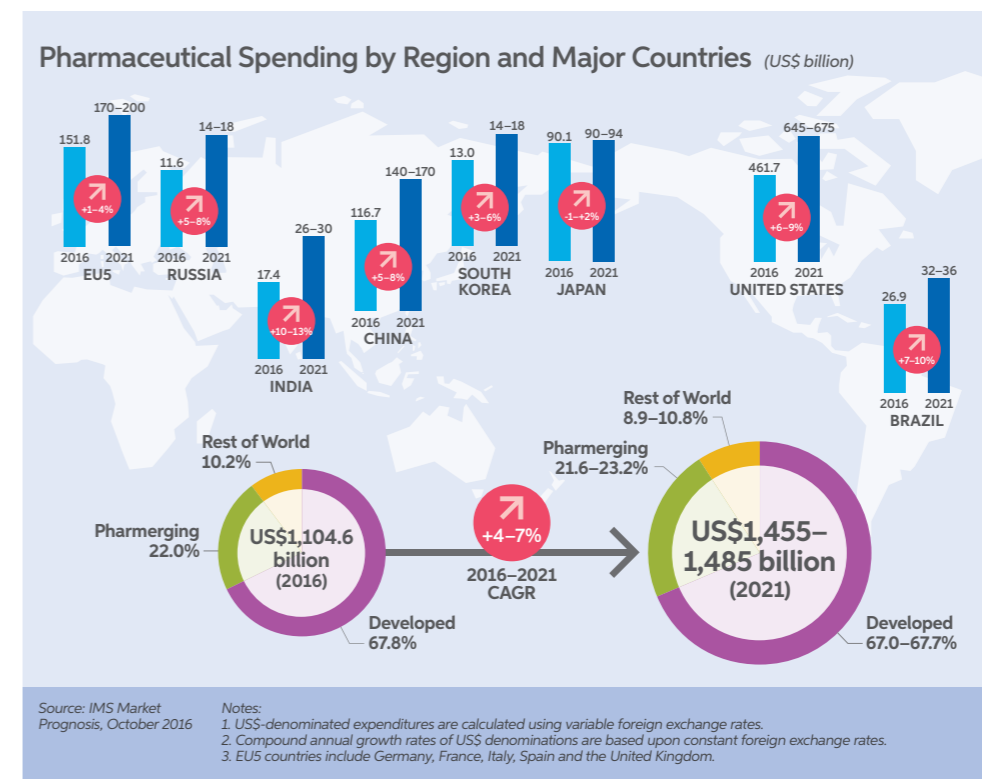
To All of Our Stakeholders

The Group is implementing structural reforms with a view to the business environment after the wave of capital investments within the Japanese pharmaceutical product field. The 7th Mid-Term Management Plan seeks to capture large business opportunities by promoting efforts to establish foundations that will enable us to achieve the next generation of growth.

The Group possesses a business network that covers a business base that includes "Hardware and Software" and "Pen and Ink" that have been accumulated since FREUND's foundation, and its highly unique technology base that includes powder control and processing, coating, pulverizing, mechatronics, sensing, and software, and a wide range of geographic territories.

The Group's "ONE FREUND" value will be reflected in our promotion of cooperation between our different business divisions and the Group companies, and from the perspective of the aggressive global expansion of our businesses. This will serve as a key step in pursuing the goal of "contributing to better medical care and health for people worldwide to support rich lifestyles" by promoting our philosophy to "Develop the Future through Creativity."

We look forward to the continued support and encouragement of our stakeholders in our efforts to take on new challenges and to sustain growth.



Global Market Environment Surrounding the Group

According to the United States major medical information services company Quintiles IMS, expenditures for pharmaceutical products are expected to expand from US\$1,104.6 billion in 2016 to some US\$1,500.0 billion in 2021, but growth is expected to slow to between 4% and 7% during the period from 2016 to 2021. During this period, the main drivers of growth are expected to be original brand drugs in developed countries, and generic drugs in pharmerging countries.

Feature Topic: **1**

New efforts in the pharmaceutical product use excipients business

→ Page 14-

Feature Topic: **2**

Contribute to the prevention of dispensing errors around the world

→ Page 16-

Feature Topic: **3**

Start of new global strategies based upon the group value "ONE FREUND"

→ Page 18-

Feature Topic 1: Contract Manufacturing Business of Pharmaceutical Excipients

1



Narimichi Takei, Ph.D
Director, Chemicals Division

New efforts for the pharmaceutical product use excipients business

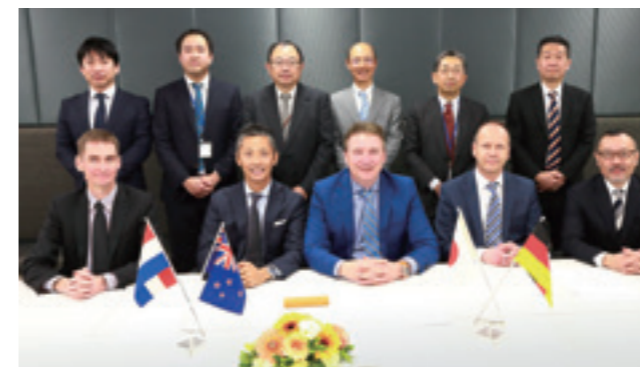
FREUND leverages its drug formulation technologies ("Software") developed in its own machinery equipment ("Hardware") business for its own manufacturing and is striving to launch new business models and strengthen its overseas business deployment through integrating both its "Hardware and Software" within the pharmaceutical product use excipient business.

The market recognition of our ODT-related products and our related drug formulation technologies has increased greatly due to our efforts to conduct ongoing training sessions to cultivate market opportunities. In recent years, demand for "NONPAREIL" series of spherical granules and "Granulot" direct tableting diluting agent and other ODT-related products has grown favorably due to the adoption of ODTs as a means of differentiation amongst generic drug manufacturers.

Cultivating Market Opportunities for ODTs through a New Business Model
Amidst these trends, FREUND will establish and strengthen business models that effectively leverage the resources of our Hamamatsu Plant which is a key facility of excipient manufacturing and technology development.

We jointly developed the pharmaceutical excipient for direct compression process used in ODTs "SmartEx" together with Shin Etsu Chemical Co., Ltd. in 2013 based upon our industry insight. This product is a composite excipient that is made from special processes using multiple compounds to achieve high levels of storage stability. In this project, FREUND was responsible for manufacture and Shin Etsu for sales in a new cooperative business model.

In order for our integration of "Hardware and Software" to contribute to high value-added product creation, we have conducted joint new product development projects like "SmartEx," and plan to initiate and strengthen our contract manufacturing business for some processes with pharmaceutical manufacturers.



In March 2017, we signed a contract for long-term procurement of granulated lactose from DFE Pharma headquartered in Germany. DFE Pharma is a global raw materials and excipient manufacturer that maintains two facilities in Holland, one in Germany and one in New Zealand for the manufacturing of lactose. FREUND contracts out OEM manufacture of granulated lactose in Germany to DFE Pharma.

Strengthening GMP Management Structure for Our Hamamatsu Plant

We support our clients' development of differentiated products through the provision of our drug formulation technologies, and contribute to the increase in their competitive standing through provision of our unique manufacturing technologies. And in order to conduct a made-to-order contract manufacturing business, it is even more important to implement GMP* management. We began accepting some manufacturing processes on a contract basis from autumn 2015, but ahead of this we acquired GMP compliance certification from Shizuoka Prefecture for our manufacturing lines. We have also facilitated and strengthened our business structure to accommodate this new contract manufacturing business model.

Globally Deploying of Our Chemicals Business

Inquiries regarding our pharmaceutical excipients for direct compression process from overseas pharmaceutical manufacturers and specialist trading firms increased during the course of the 6th Mid-Term Management Plan. In particular, the start of large projects in India, which is considered to be a growth market for pharmaceutical product manufacturing, has been a factor leading to changes in the overall market.

During the 7th Mid-Term Management Plan, we will implement efforts to establish and strengthen our global supply chain for pharmaceutical excipients based upon our Group's "ONE FREUND" value. And from FY02/18, cooperation with our Overseas Sales Division will be strengthened, along with establishment of new overseas facilities and new collaboration with FREUND-VECTOR being considered.

In the future, we are considering taking on the challenge of conducting joint research with overseas raw material manufacturers.

*GMP (Good Manufacturing Practice):

GMP means a "pharmaceutical product manufacturing and product quality management standard" used to define manufacturing facilities and product quality management necessary for the manufacture of high quality products. GMP is used in various countries throughout the world and varies from country to country. Consequently, the PIC/S (acronym for "Pharmaceutical Inspection Convention and Pharmaceutical Inspection Cooperation Scheme") is a jointly implemented inspection designed to create a globally accepted common standard for GMP.

STRENGTHENING GMP RESPONSES IN THE WORKPLACE:

Implementing efforts to strengthen GMP responses from a global perspective

Our excipients which use lactose as raw materials do not have any medicinal effect, therefore not mandatorily subject to GMP standards. However, we have strengthened our GMP responses along with the start of contract manufacturing of excipients for drug formulations and joint development of new excipients not contained within official document for listed drugs. We have also begun providing simulated audits to validate our GMP level for pharmaceutical manufacturing clients outsourcing their manufacturing function to FREUND and have begun preparations to start GMP compliance monitoring.

Since Japan joined the PIC/S, the awareness of global standards has been widely accepted. FREUND began proactively accepting audits by clients with high levels of specialized knowhow in GMP operations with the goal of improving our own practices based upon their advice and directions. This

allowed us to quickly achieve compliance with GMP standards and we are thankful for all of the helpful advice we received.

It is important to get everyone in the workplace to adhere to the rules defined by GMP. With regard to the direction and advice received during audits, repeated training in the workplace and other diligent efforts will allow us to strengthen GMP responses from a global perspective and to establish quality assurance systems that ensure the safety and security of pharmaceutical excipients is achieved.



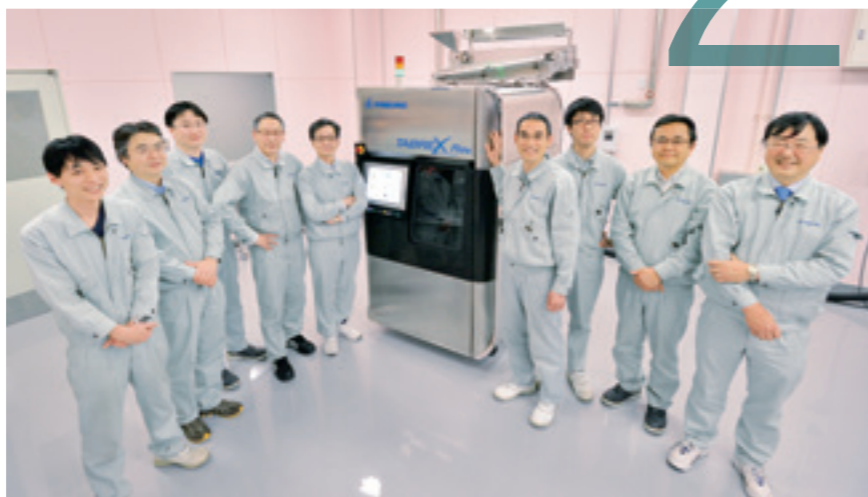
Chikako Ishigai
RPh (Pharmacist)
Senior Manager,
Quality Assurance Office,
Production Department,
Chemicals Division

Feature Topic 2: New Generation Tablet Imprinting/ Inspection Machine “TABREX Rev.”

2

Contribute to
the prevention of
dispensing errors
around the world

Mechatronics technologies that combine system design, sensing, control technologies, software, recognition technologies and other technical elements enabled the creation of “TABREX Rev.” which is a unique tablet imprinting machine with an external inspection function. The ability to print on various types of tablets helped to make the development of “TABREX Rev.” possible, and is based upon the strong desire of our engineers to contribute to the prevention of dispensing errors globally.



“TABREX Rev.” Development
TeamMechatronics Development
Section, New Development
Department, Equipment Division

Until “TABREX Rev.” Was Born

FREUND produced the industry’s leading tablet printing machine in 2013. Thereafter, demand for tablet surface printing technologies has grown, and other printing- and inspection-related companies have introduced inkjet type tablet printing machines into the market. While the trend has been for manufacturers to increase the printing processing output capacity of their machines, the needs of clients are varied with some calling for “machines that can respond to small-lot productions or tablets with low profitability.”

At the same time, the widely used drum transport format requires that drums be changed to match shapes of each tablet. In Japan there are said to be some 15,000 varieties of tablets of differing shape. Therefore the cost of preparing drums for each is prohibitive and unrealistic. We found that this format cannot satisfy clients’ needs.

Fundamental Review of Basic Concept and Basic Structure

In order to respond to the voices of our clients, we needed to come up with an imprinting machine that responded to their calls for “low cost,” “stability” and “diverse range of tablets.” Thus, we created the second generation “TABREX Rev.” machine with flexible output capacity as its basic concept and used the industry’s first modular format. It boasts the capability of responding to the lowest output capacity of 100,000 tablets per hour.

We thoroughly reviewed the basic structure of the tablet transport mechanism. We adopted a generally used belt format for tablet inspection equipment used in the first generation machine, since they accurately reflected images. With the addition of the inkjet printing technology, however, we had to deal with the difficult task of improving the printing accuracy. We came up with a solution to this issue that introduces a disk on which tablets are placed with vacuum absorption that allows for printing on both sides to be conducted. In addition, processes including external inspection, lettering, and lettering inspection of tablets stabilized by vacuum absorption were also developed for this new machine.

There were no conventional printing machines that offered internalized inspection functions. Therefore, inspections needed to be conducted on the day before printing was performed. However, “TABREX Rev.” enabled both inspections and printing to be conducted on the same day. Furthermore, the lack of the need for delivery allowed for better printing accuracy, and for printing on various shapes of tablets.

In this manner, “TABREX Rev.” was born from our ability to accurately assess the needs of our clients. This type of development approach has resulted in over 10 patent application filings and is the source of our intellectual property.

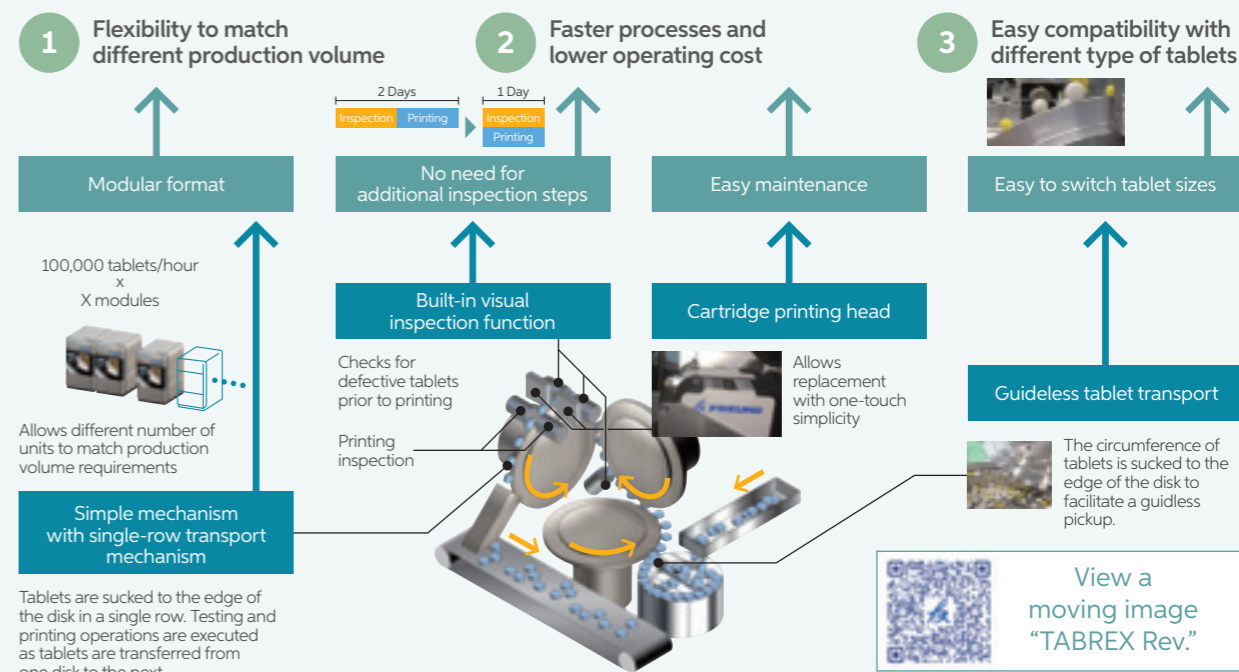
Leveraging Our “Pen and Ink” and “Hardware and Software” Business Models to Create New Values

FREUND is the only tablet printing machine manufacturer that has the facility to provide a “Pen (machinery equipment) and Ink” business model. Development of ink is conducted by our chemicals business development staff in cooperation with specialized manufacturers of ink. “TABREX Rev.” uses an easy-to-replace ink cartridge that eliminates the need for cleaning at the time of ink replenishment, and allows for easy change of color to be used. Strengthening of tablet printing technologies is conducted through the “Hardware (products) and Software (processing technology)” model that allows for printing within the secant and belt areas, polychromatic printing, and QR code* printing.

Consequently, FREUND continues to pursue yet-to-be realized high levels of flexibility, low cost, high functionality, and high quality. This will enable us to realize our goal of high-quality printing for every tablet around the world contributing to the prevention of dispensing errors.

*QR code is a registered trademark of DENSO WAVE INCORPORATED.

Requests for testing of printing capabilities on a wide range of shapes and sizes of tablets are increasing.



Tomomi Harazaki
Functional Excipients
Development Section,
Chemicals Development
Department, Chemicals Division

VOICES FROM THE FRONTLINE OF INK DEVELOPMENT:

Developing ink for “TABREX Rev.” and fortifying the lineup of products with a view to overseas markets

I am responsible for the development of particulate coating within the Functional Excipients Development Section. We create the main ODT-related product “NONPAREIL” using particles and mask them with polymer base granules, then measure and evaluate the powder properties.

From 2016, I have been responsible for “TABREX Rev.” use ink development, which is a completely new field. Unlike pharmaceutical excipient development, the prescription and development functions are conducted by partners specializing in ink development, and we have proposed improvements of the ink based upon experiment results.

Our current focus is upon fortifying the product lineup. We now sell only black colored ink, but are in the process of developing other colors. These include pigment-based inks that use pigments that do not dissolve but disperse into solvents. These are colorful and well suited for printing letters, and do not fade under light. At the same time, the pigment tends to settle and change in varying degrees of shade and color, so collaborative development is being conducted with manufacturers that have dispersion technology to make the pigment ink more effective.

Five different colors of dye-based type color inks that use pigments that dissolve in solvents have been developed. However, we are fortifying the color lineup because of the diversified needs of our clients. Furthermore, we are conducting research into the different types of inks allowed for use in various countries around the world with a view to the global markets and are sharing this information with our partners to be used in our development efforts.

Feature Topic 3: FREUND Group's Overseas Expansion

Start of new global strategy based upon the Group value of "ONE FREUND"

The 7th Mid-Term Management Plan calls for the FREUND Group to leverage its group companies to cultivate business opportunities in Asia, North, South and Central America, Europe, the Middle East region, and FREUND in the Japanese market. Efforts will also be made to realize the Group value of "ONE FREUND."

Overseas Business Conditions

The FREUND Group uses local sales agents in the markets of India and neighboring regions, Korea, China, Taiwan and other Southeast Asian markets. In particular, there is a national strategy of strengthening pharmaceutical product exports to developed nations from India, where numerous pharmaceutical product related manufacturers are concentrated. The Group is strengthening its marketing activities in the India market for its special version of "GRANUREX" granulating coating machine developed for Asia.

In China, the biggest pharmerging market, pharmaceutical manufacturers, which had been kept busy responding to strong demand from the local market, are now turning their attention to business opportunities in Europe and North America. While the Group is conducting efforts to cultivate future business opportunities, pricing demands remain severe and the Group is aware of the need to strengthen its pricing competitive positioning.

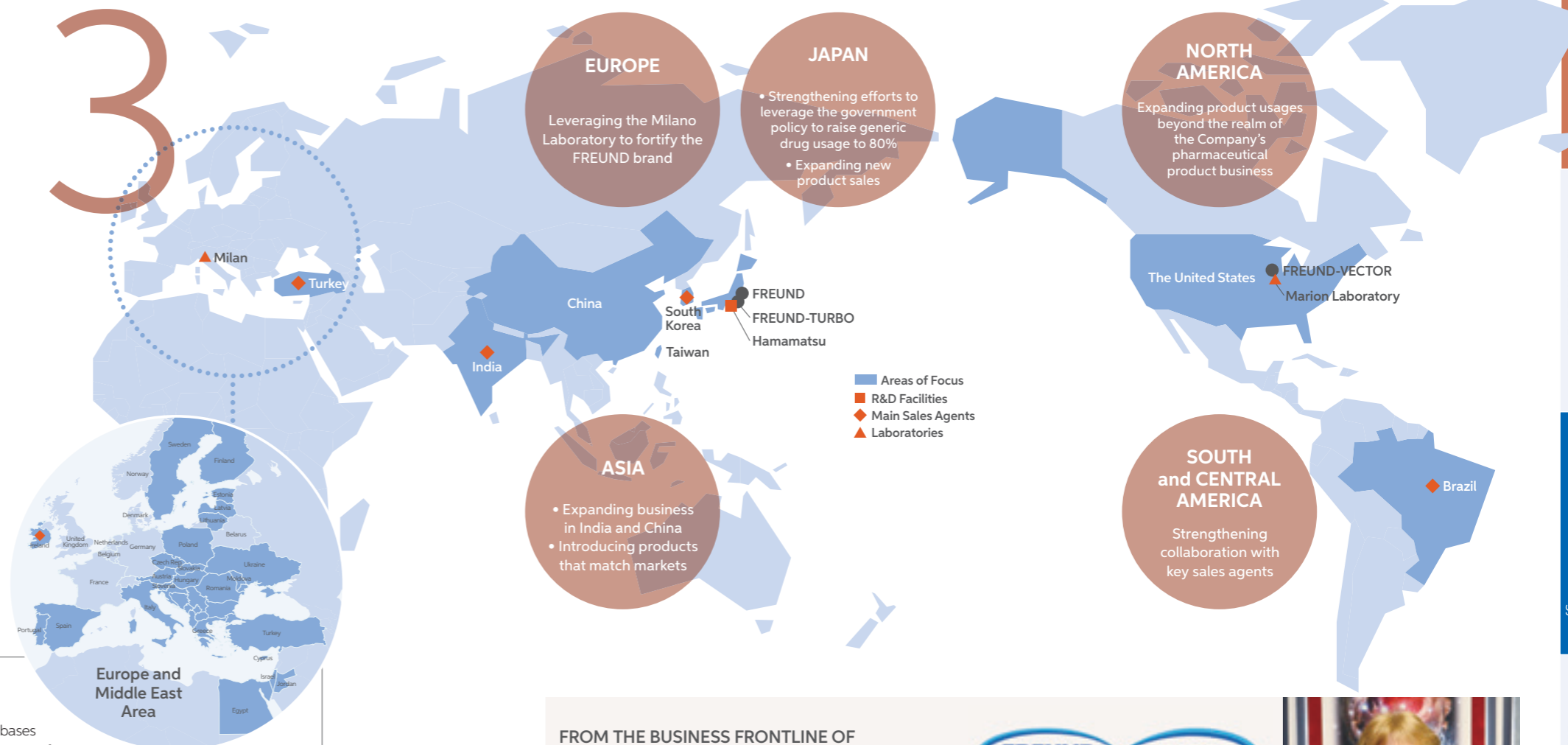
Both orders and sales, including those of non-pharmaceutical products, are strong in the United States. The recovery in the Brazilian market is acting as a driver of growth in the South and Central American markets. In Europe, the main market of Turkey remains weak. FREUND-VECTOR has increased its staff at the Milano Laboratory to strengthen its presence in Europe.

The 7th Mid-Term Management Plan Direction

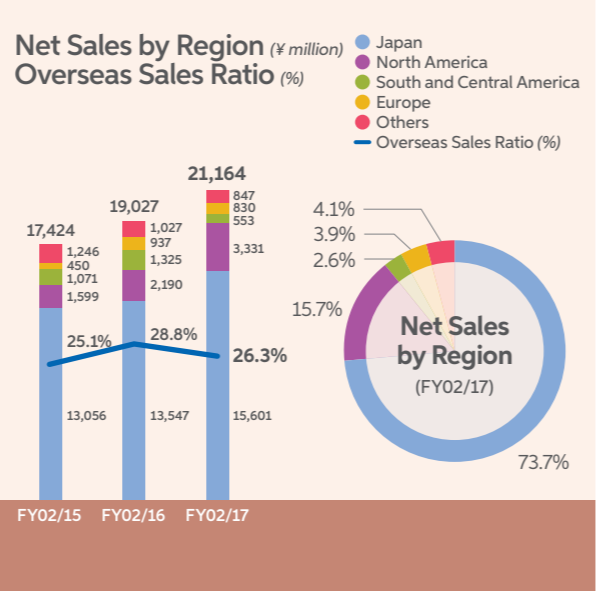
In the Chinese and Korean markets, we endeavor to steadily expand sales of machinery for pharmaceutical product applications. At the same time, we are strengthening collaboration with local sales agents and establishing a laboratory in the growth market of India with a view to local manufacturing of products to accelerate growth in our businesses there. In the United States, which is the world's largest consumer of pharmaceutical products, FREUND-VECTOR is strengthening its laboratory facilities as part of its aggressive business expansion strategy.

The introduction of global models with highly competitive pricing is an important theme in the Group's product development function. FREUND is promoting globalization of its Group in response to similar globalization trends for pharmaceutical manufacturers, regardless of business scale. Therefore, FREUND-VECTOR is strengthening its business foundations, to create a structure that can respond quickly to changing needs of various markets.

FREUND is promoting globalization of the pharmaceutical excipients business on a full scale. First, it started with the integration of the machinery equipment and technologies at its laboratories for the development of unique products. In addition, the Group is also strengthening the capabilities of its sales agent functions in the United States, Europe and India.



The FREUND Group is fortifying its marketing bases through the facilitation of its dealership network and enhancing its demonstration centers and laboratories as part of its efforts to better assess the needs of both the market and its clients in order to expand its businesses. FREUND has focused its efforts in the Asian region on India, China, Taiwan and South Korea, and is promoting a strategy of strengthening its sales agent network and developing its markets. At the same time, FREUND-VECTOR, which operates in North America, South and Central America, Europe and the Middle East, is also strengthening its marketing capabilities in Europe and the Middle East where there are numerous generic drug manufacturers. Consequently, the company added a laboratory in its demonstration center in Milan, Italy.



FROM THE BUSINESS FRONTLINE OF OUR UNITED STATES SUBSIDIARY: Leading European market cultivation and strengthening global pricing competitiveness



Greg Smith
Vice President & Sales Division
General Manager
FREUND-VECTOR CORPORATION

Vector (currently known as FREUND-VECTOR) was established in 1972 and conducted licensed manufacture and sales of machinery developed by FREUND in the United States. In 1997, Vector joined the FREUND Group and thereafter aggressively cultivated the European and North American markets.

In 2016, the pharmaceutical product field, and the non-pharmaceutical product field including agricultural products, trended favorably while sales of machinery in the United States reached a record high. In addition to the main product of fluid bed granulation drying equipment, the series of wet and dry granulating equipment based upon stirring granulation and coating technologies has become one of our strengths.

Aside from the United States, Brazil continued to trend at low levels but a recovery has been noted since the start of 2017. Also, we have been cultivating the various markets including Turkey, Israel, Ireland and Southern Europe since strengthening the functionality of our laboratory in Milano, Italy.

We believe that strengthening our global competitive positioning based upon our "ONE FREUND" group value and as part of our 7th Mid-Term Management Plan is extremely important. One of our strengths is our ability to provide technological services such as monitoring of operating conditions of equipment and our ability to respond to clients' tests. In the future, we will aggressively invest in our businesses to establish

a similar capability to service clients in South Europe.

We will strengthen our technological support and sales agent network a step further and conduct product development with a keen eye to market trends including an emphasis upon pricing competitiveness for emerging markets including India, where many of the world's pharmaceutical product-related manufacturers are concentrated.

We also play a key role in overseas development of new strategic products including the "TABREX Rev." tablet imprinting machine and the "Granuformer" continuous granulation and drying system. In the future, we will create products that match the needs of various regions and promote the diffusion of our global brand.

As part of the FREUND Group, we will conduct various measures to cultivate new technologies and business fields that lie beyond the scope of our current businesses and create businesses that improve the quality of health and lifestyles of people worldwide. At the same time, these efforts are also designed to capture sustained growth over the mid- and long-term.

Research and Development

R&D EXPENSES: **¥640** million
(6.8% down yoy)

R&D EXPENSES RATIO: **3.0%**

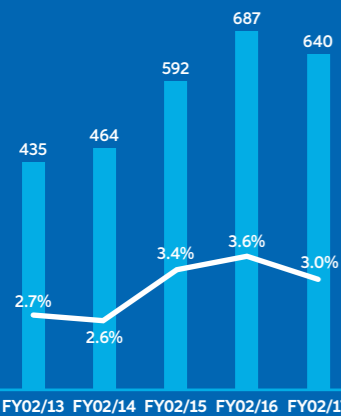
EFFECTIVE PATENT IMPLEMENTATION RATIO: **97%**
Machinery Equipment
(Pharmaceutical Products)
(As of February 28, 2017)

79%
Excipients

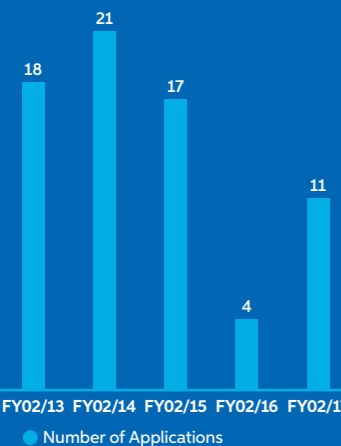
67%
Food Preservatives

*Effective Patent Implementation Ratio (%) = No. of Implementations/No. of Effective Patents x 100

R&D EXPENSES, R&D EXPENSES RATIO:



NUMBER OF PATENT APPLICATIONS:



FREUND Group's research and development activities to realize the group value "ONE FREUND"

The Group boasts of the fundamental technologies of granulating, coating and pulverizing. Based upon these core technologies, we are accelerating product development in new fields including tablet imprinting machine and specialized inks, in addition to continuous manufacturing equipment in our traditional pharmaceutical product field of granulating and coating equipment. In the field of non-pharmaceutical products, we have begun strengthening development capabilities to realize the "ONE FREUND" group value by applying our technologies to lithium ion battery and other new growth markets.

Continuous Granulation and Drying System "Granuformer"

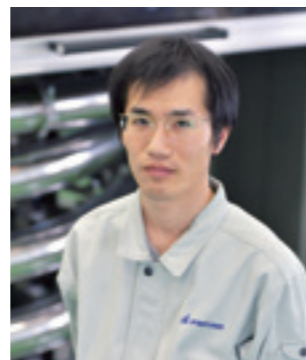
I have been involved with the development of our "Granuformer" system. European manufacturers had adopted the simple approach of attaching granulating equipment to fluid bed drying equipment for batch manufacturing. However, FREUND created the world's only manufacturing system connecting granulating equipment and drying equipment serially. In particular, our efforts to develop technologies for continuous drying of wet powder differentiate us from our competitors.

We have developed equipment that can handle small production volumes between 2 and 15 kilograms per hour and larger volumes of up to 50 kilograms per hour with a view to our clients' needs. Because this is a machine based upon a new concept, we have accumulated data regarding the characteristics and quality of the granules and tablets manufactured using this equipment in FY02/17. We have also been gathering practical data based upon the opinions of academics obtained through academic symposiums.

Moreover, our United States subsidiary FREUND-VECTOR has begun strategic sales of "Granuformer" based upon the basic design specifications created within Japan. In March 2017, we displayed a global model at an international exhibition held in New York and have begun overseas sales.

Going forward, we will further accelerate product development using open innovation and collaboration with specialized manufacturers of raw materials mixing equipment, post granulation mixing equipment, and tableting equipment to create automated production that includes the coordinated processes of raw powder material introduction for the manufacturing of tablets.

This is not simply connecting various machines for use in the continuous manufacturing of solid preparations, but managing and raising the efficiency of the entire system. In order to achieve this optimization, I myself am striving to advance technologies on a daily basis that respond to various equipment and raw materials and meet the requirements from authorities and clients.



Takashi Terada
Technology Promoting Section,
Powder Technology Department,
Equipment Division



"Granuformer" Global Model

Machine Development for the Lithium Ion Battery Industry

The value of the global lithium ion battery market is estimated to be worth some ¥2.2 trillion in 2016, and is expected to expand to some ¥3.2 trillion in 2020 (CAGR: 9.25%)*.

While the FREUND Group already has a track record of sales to the lithium battery industry, in recent years it has seen an increase in inquiries and requests for testing for fine pulverizer with built-in classifier of FREUND-TURBO and surface modification equipment used for pharmaceutical product applications of FREUND. Based upon these inquiries and the growth potential of the lithium ion battery market, the Group believes this business has the potential to become a future cornerstone of its overall business. Therefore, FREUND and FREUND-TURBO launched the "Battery Project" in October 2016 to realize this potential.

Lithium ion batteries are comprised of four components of cathode materials, negative electrode materials, separators and electrolytes. The Group has product applications for cathode and negative electrode materials, which see the largest demand in volume terms. Chinese and South Korean manufacturers are pursuing mass production of these products on a global basis, while Japanese materials manufacturers drive technological development. The Group is targeting both segments of the market.

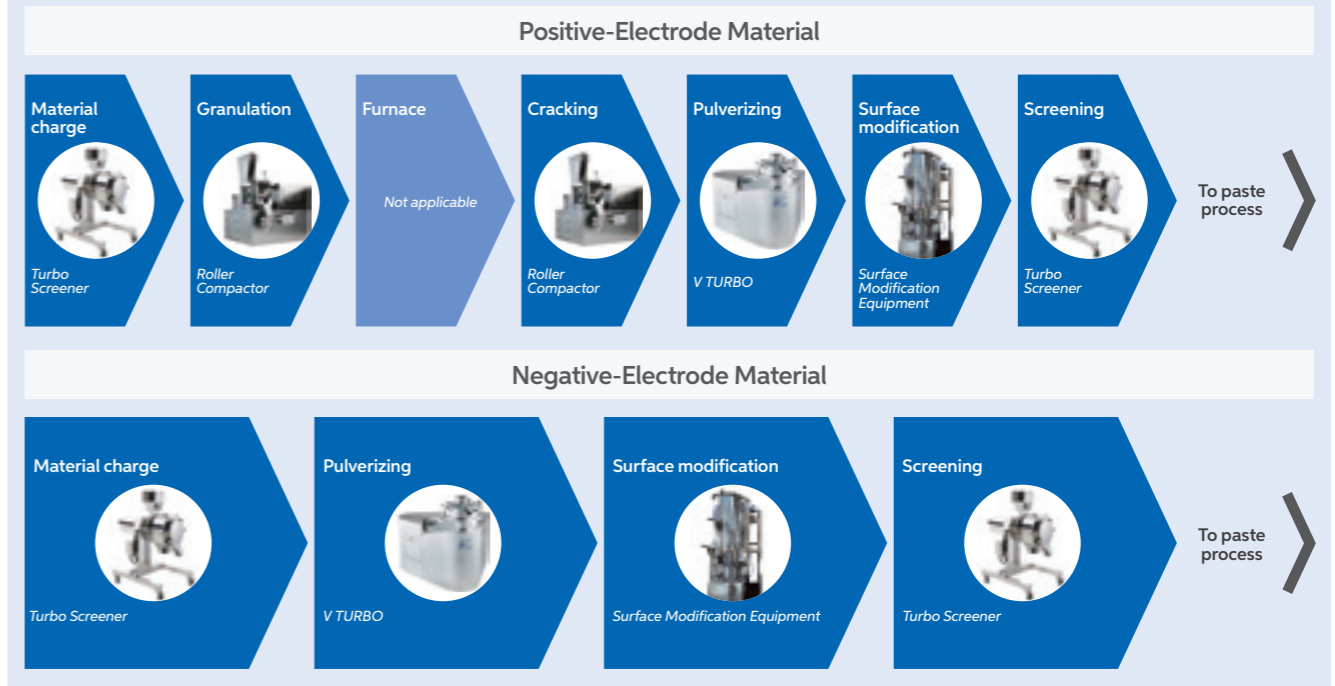
With regard to technology development, batteries have traditionally used electrolytes but now use an all solid state battery structure. The abandonment of electrolytes allows for batteries to become more compact in size and eliminate the organic materials that pose a fire risk. These changes have made it possible to manufacture lithium ion batteries with high output capacity that are safe.

Major automobile manufacturers in particular are rapidly promoting development of next generation batteries. Particle creating equipment and surface processing modification equipment are important for the creation of next-generation lithium ion batteries. Fine powder coating technologies cultivated in our pharmaceutical product field are used to realize such processes.

The 7th Mid-Term Management Plan calls for aggressive initiatives to be conducted for the lithium ion battery business. Based upon the Group's target in its group value "ONE FREUND," we are strengthening cooperation among our group companies and promoting open innovation to swiftly create unique technologies, supporting safe and high output capacity lithium ion batteries.

*The Company's survey based on various data

The Group's Products Leveraged in the Manufacturing Processes of Cathode and Negative Electrode Materials for Lithium Ion Batteries



Financial Data for the Past Decade

FREUND CORPORATION AND CONSOLIDATED SUBSIDIARIES
Ended February 2008 to February 2017

	¥ million					¥ million						yoy change (%)
	FY02/08	FY02/09	FY02/10	FY02/11		FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	2017/2016
For the year:												
Net sales	13,104	13,478	12,943	13,257		15,236	16,396	17,616	17,424	19,027	21,164	11.2
(Overseas sales)	4,167	3,753	3,874	3,236		3,422	3,596	4,382	4,367	5,480	5,563	1.5
Cost of sales	8,855	9,330	8,675	9,318		10,624	11,313	12,377	11,978	12,921	14,343	11.0
Selling, general and administrative expenses	3,317	3,189	3,297	3,259		3,546	3,612	3,952	4,295	4,759	4,779	0.4
Operating profit	931	958	970	680		1,065	1,470	1,286	1,150	1,346	2,041	51.6
Profit attributable to owners of parent	943	619	563	516		608	765	787	695	961	1,064	10.7
EBITDA ¹	1,217	1,215	1,207	960		1,351	1,717	1,610	1,478	1,687	2,396	42.0
Orders received	9,981	9,444	8,049	11,005		12,200	12,117	12,804	14,340	15,109	18,286	21.0
Order backlog at end of period	4,990	4,306	3,238	5,282		6,148	5,809	5,551	6,780	7,328	8,790	20.0
Capital investment	192	190	175	469		218	222	477	545	266	564	111.9
Depreciation	248	222	212	257		264	232	303	308	321	338	5.1
R&D expenses	270	265	312	355		390	435	464	592	687	640	(6.8)
Cash flows from operating activities	1,641	618	457	65		1,219	740	1,227	822	290	3,605	1,142.5
Cash flows from investing activities	(76)	(65)	(198)	(623)		(154)	(332)	(423)	(240)	(432)	(351)	(18.7)
Cash flows from financing activities	(220)	(146)	(154)	(196)		(134)	(164)	(226)	(284)	(331)	(277)	(16.3)
Free cash flows	1,565	552	259	(558)		1,064	408	803	582	(142)	3,253	2,382.4
At year-end:												
Total assets	12,700	12,495	12,049	12,196		14,342	14,971	15,550	17,277	17,206	19,101	11.0
Net assets	7,390	7,481	7,939	8,071		8,489	9,315	10,392	11,180	11,529	12,185	5.7
(Equity)	7,258	7,364	7,814	7,952		8,356	9,197	10,239	10,987	11,529	12,185	5.7
Per share data ² :												
Earnings per share (EPS, ¥)	54.71	35.91	32.71	29.98		35.30	44.38	45.69	40.36	55.74	61.72	10.7
Book value per share (BPS, ¥)	420.89	427.05	453.15	461.16		484.56	533.37	593.76	637.19	668.57	706.62	5.7
Dividend per share ³ (DPS, ¥)	7.50	7.50	7.50	7.50		7.50	10.00	12.50	15.00	25.00	20.00	(20.0)
Main indicators:												
Operating margin (%)	7.1	7.1	7.5	5.1		7.0	9.0	7.3	6.6	7.1	9.6	—
Return on assets (ROA, %)	7.4	5.0	4.7	4.2		4.2	5.1	5.1	4.0	5.6	5.6	—
Return on equity (ROE, %)	13.0	8.4	7.4	6.6		7.5	8.7	8.1	6.6	8.5	9.0	—
Dividend to net asset ratio (DOE, %)	1.9	1.8	1.7	1.6		1.6	2.0	2.2	2.4	1.9	2.9	—
Dividend payout ratio (%)	13.7	20.9	22.9	25.0		21.2	22.5	27.4	37.2	22.4	32.4	—
Equity ratio (%)	57.2	58.9	64.9	65.2		58.3	61.4	65.8	63.6	67.0	63.8	—
R&D expenses ratio (%)	2.1	2.0	2.4	2.7		2.6	2.7	2.6	3.4	3.6	3.0	—
Price earnings ratio (PER, %)	4.43	4.39	7.41	7.35		7.10	16.67	12.95	15.36	18.16	24.24	—
Price book-value ratio (PBR, %)	0.58	0.37	0.54	0.48		0.52	1.39	1.00	0.97	1.51	2.12	—
Average foreign exchange rate: US\$ (¥)	104.89	103.48	93.65	87.79		79.80	79.80	97.73	105.79	121.10	109.48	—
Euro (¥)	—	—	—	116.27		111.12	102.55	129.78	140.35	134.31	—	—

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

2. The Company carried out 2-for-1 splits 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 FY02/08.

3. Dividend per share includes commemorative dividends of ¥2.50 (for FY02/08, FY02/09 and FY02/15) and ¥5.00 (for FYFY02/17).

Management Discussion and Analysis

FREUND endeavors to create a next generation management foundation by financially supporting the implementation of its group value “ONE FREUND.”

With regard to the 6th Mid-Term Management Plan, the priority placed upon effective business investments amongst the group companies and diligent efforts to facilitate a strong management foundation contributed to a strengthening of the Group’s overall structure. During the 7th Mid-Term Management Plan, FREUND will further strengthen its management structure while conducting various business activities with a view to its future growth.



Norio Shiratori
Managing Director

Overview of FY02/17 Financial Conditions Analysis

Business Performance Analysis

With regard to the world economy in FY2/17, a subdued recovery in the United States economy and favorable economic trends in Europe led by Germany were observed. At the same time, uncertainties arising from the departure of the United Kingdom from the European Union and the instability in Syria were growing concerns. Slowing in the Chinese economy continued, with difficult conditions seen in Russia, Brazil and other emerging economies. Within Japan, corporate earnings and capital investments remained strong.

With regard to foreign exchange, the yen weakened from November following a rise since the start of the fiscal year; however, as a whole, the yen strengthened significantly against the US Dollar and Euro compared with the previous fiscal year.

The Group’s clients operating in the pharmaceutical industry saw an increasingly stringent new drug approval process and encountered government efforts to restrain medical expenditures in both developed and emerging markets.

With regard to Japan, the market changed dramatically against the backdrop of the government’s policy of promoting increased use of generic drugs as a means of restraining medical expenditures.

In response to these market trends, the Group conducted marketing activities with a view to increases in demand and promoted unique new product development that responds to market needs. At the same time, the Group aggressively pursued the application of granulating/coating and pulverizing/classifying technologies in fields outside of its traditional pharmaceutical product field. As a result, the consolidated net sales, operating profit, ordinary profit and profit attributable to owners of parent rose by 11.2%, 51.6%, 50.4% and 10.7% yoy to ¥21,164, ¥2,041, ¥2,097 and ¥1,064 million respectively in FY02/17.

Moreover, the increase in operating profit is attributed to the effect of the higher sales, lower R&D activities for tablet imprinting machine, and reductions in SG&A expenses arising from the sale of a European R&D subsidiary.

Assets, Liabilities, and Net Assets Conditions

1. Assets

Notes and accounts receivable - trade declined by ¥1,260 million, but cash and deposits and work in process rose by ¥2,940 and ¥201 million, respectively, causing total assets to rise by ¥1,894 million from the end of FY02/16 to ¥19,101 million at the end of FY02/17.

2. Liabilities

Notes and accounts payable - trade, income taxes payable and advances received rose by ¥338, ¥412 and ¥543 million respectively, and contributed to a ¥1,238 million increase in total liabilities from the end of FY02/16 to ¥6,916 million at the end of FY02/17.

3. Net Assets

While foreign currency translation adjustment declined by ¥132 million, retained earnings rose by ¥771 million and contributed to a ¥656 million increase in net assets to ¥12,185 million.

Cash Flows Conditions

1. Cash flows from operating activities
Inventories grew by ¥382 million, while income taxes paid declined by ¥245 million. At the same time, profit before income taxes of ¥1,783 million, a ¥1,243 million decline in accounts receivables, a ¥571 million increase

in advances received, and a ¥409 million rise in notes and accounts payable - trade contributed to a 1,142.5% yoy increase in this cash flows to ¥3.605 billion.

2. Cash flows from investing activities

Acquisition of property, plant and equipment amounting to ¥474 million offset ¥38 million in income from cancellation of insurance funds, ¥37 million from sale of property, plant and equipment, ¥32 million in collection of guarantee deposits, and ¥19 million from sale of investment securities and caused cash flows to decline by ¥351 million, or by 18.7% yoy.

3. Cash flows from financing activities

Cash flows declined by 16.3% yoy to ¥277 million due to ¥215 million in cash dividends paid and ¥61 million in repayments of lease obligations.

As a result, free cash flows (the sum of cash flows from operating activities and cash flows from investing activities), which are the source of investing activities, rose by ¥3,396 from FY02/16 to ¥3,253 million. At the same time, cash and equivalents, which declined by ¥505 million in FY02/16, rose by ¥2,940 million to ¥6,982 million.

Basic Policy on Distribution of Income and Conditions of Dividends

The Company identifies the maximization of shareholder value as its most important management issue. It will fortify its corporate structure with a view to being able to respond flexibly and accurately to changes in its business environment, while at the same time returning profits to shareholders.

The Company maintains a policy of paying dividends in line with its business performance, with a goal of achieving a consolidated dividend payout ratio of 30%. The Company takes a comprehensive approach to increase its retained earnings with a view to its management structure fortification and future business expansion, and aims to pay a sustained and stable level of dividends.

In addition to the common dividend payment of ¥15 per share (¥30 per share before adjusting for a stock split*), the Company pays an additional ¥5 per share to commemorate its 20th anniversary of operations for a total dividend payment of ¥20 per share (¥40 per share before adjusting for a stock split*) at the end of FY02/17, while the Company plans to pay a common dividend payment of ¥20 per share (¥40 per share before adjusting for a stock split*) for FY02/18.

With regard to the retained earnings in FY02/17, funds will be effectively used to strengthen the Company’s management structure for future business growth, and for investments to expand the breadth of its business in the future.

*The Company conducted a 2-for-1 common stock split on March 1, 2016.

Progress in Mid-Term Management Plans

Main Management Activities of the 6th Mid-Term Management Plan

I believe that there are two main elements necessary to sustain our corporate growth. In other words, “(1) sound cultivation of loss making divisions and courage to withdraw” are necessary to make accurate management decisions and to conduct “(2) never ending strengthening of management foundations and corporate structure.” By making these key points of our management strategy, the Group places a high priority on the securing and training of human resources.

I will introduce some of the successes of our management activities achieved through the implementation of these two main elements during the 6th Mid-Term Management Plan.

1. March 2014: Freund Kasei Corporation absorbed

Freund Kasei sought to internalize production of some special products and manage contract manufacturing of food preservatives. The transfer of this internalized manufacturing function allowed us to absorb manufacturing knowhow, fortify our product development structure with a view to satisfying clients’ needs, and strengthen our collaboration with partners to which we consign product manufacturing. This merger contributed to some ¥100 million reduction in expenses.

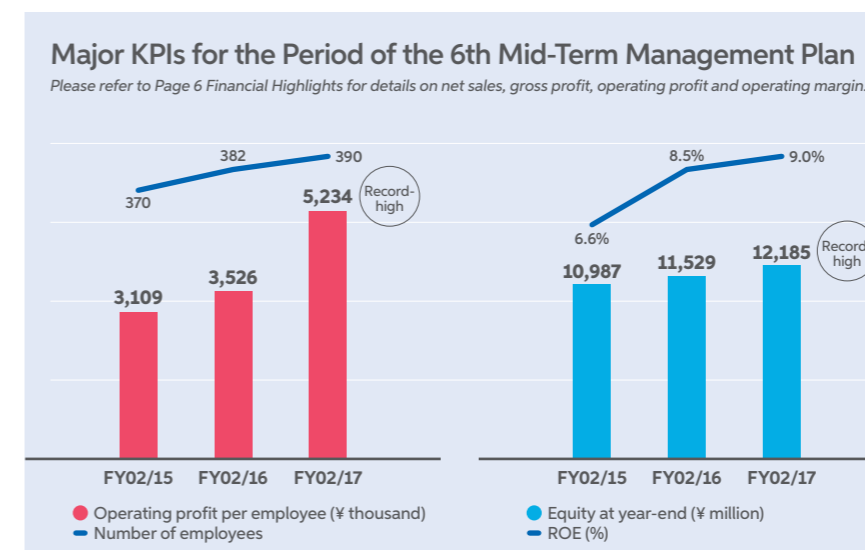
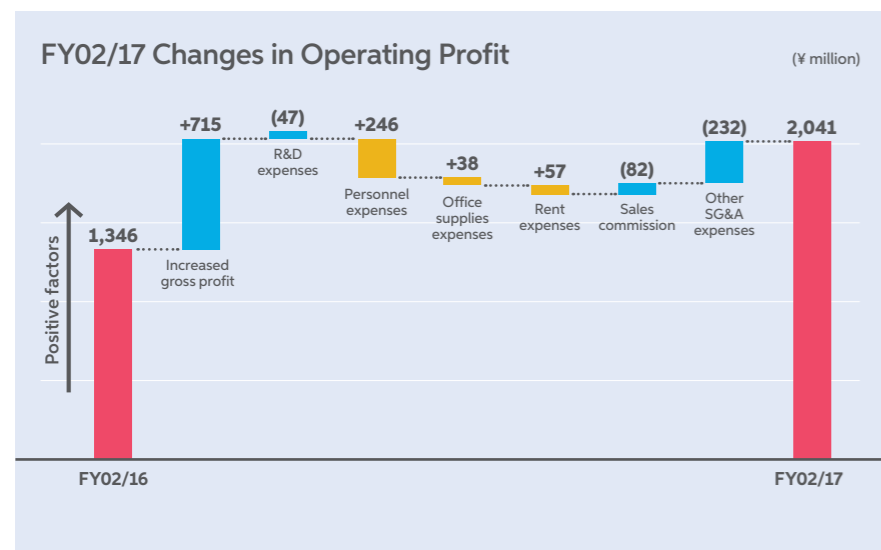
2. June 2015: FREUND-VECTOR becomes a fully owned subsidiary

In order to fortify the management structure of our United States operations, FREUND-VECTOR absorbed the holding company FREUND INTERNATIONAL LTD. in January 2015, and FREUND-VECTOR was turned into a fully owned subsidiary in June 2015. Consequently, a new cooperative structure for machinery equipment development and global sales began full-scale operation.

3. February 2016: FREUND PHARMATEC LTD. (FPL) sold

In January 2010, FPL was established in Ireland for research and development and with the goal of commercialization of small mini-capsules using our drug formulation technologies. FPL was established with the goal of achieving commercialization within five years. The sale of FPL to the pharmaceutical product development company Sigmoid Pharma Ltd. with facilities in Ireland in February 2016 allowed us to reduce expenses by about ¥200 million per year.

Sigmoid is in the clinical trial stages of new drug development using our “SPHEREX” seamless mini-capsule production machine and the ability to secure staff and GMP (Good Manufacturing Practice) facilities of FPL was one of the mutually beneficial reasons behind the sale. We have been



able to form a support relationship with Sigmoid that allows us to maintain the patent for our mini-capsule manufacturing technology. Also, FREUND can look forward to fee-based business and demand for its equipment should Sigmoid achieve success in its new drug development.

4. FY02/16: FREUND-TURBO achieved profitability

In the non-pharmaceutical product field, the positive impact from the acquisition of FREUND-TURBO in 2010 became evident during the period of the 6th Mid-Term Management Plan. In April 2014, we appointed a new president with strong network of industry connections, a wealth of experience in marketing and bountiful knowhow regarding industrial machinery. Also, we created an independent marketing structure and implemented efforts to conduct product development with the clients' perspective in mind. Consequently, FREUND-TURBO turned profitable for the first time in three years in FY02/16, with further increases in revenue anticipated.

Review of Key Performance Indicators (KPIs) of the 6th Mid-Term Management Plan

In review of important consolidated based KPIs of the 6th Mid-Term Management Plan, net sales (growth), operating profit (profit generation capability), operating profit per employee (productivity) operating margin (profitability), and ROE (efficiency) all improved and rose to record high levels, with the exception of ROE. And while we were able to achieve our ROE target of 8.0%, we will endeavor to raise it to over 10% to be in line with global standards for efficiency. Now that this target is within reach, we are setting our sights on an even higher target.

Overview of the 7th Mid-Term Management Plan

The successes achieved in the 6th Mid-Term Management Plan have allowed us to facilitate the capability to respond from both the perspective of our management and finances in a timely fashion with an adequate amount of capital. A key point for our future business deployment is our ability to expand the breadth of our business outside of our traditional fields of orally ingested pharmaceuticals and pharmaceutical formulation design.

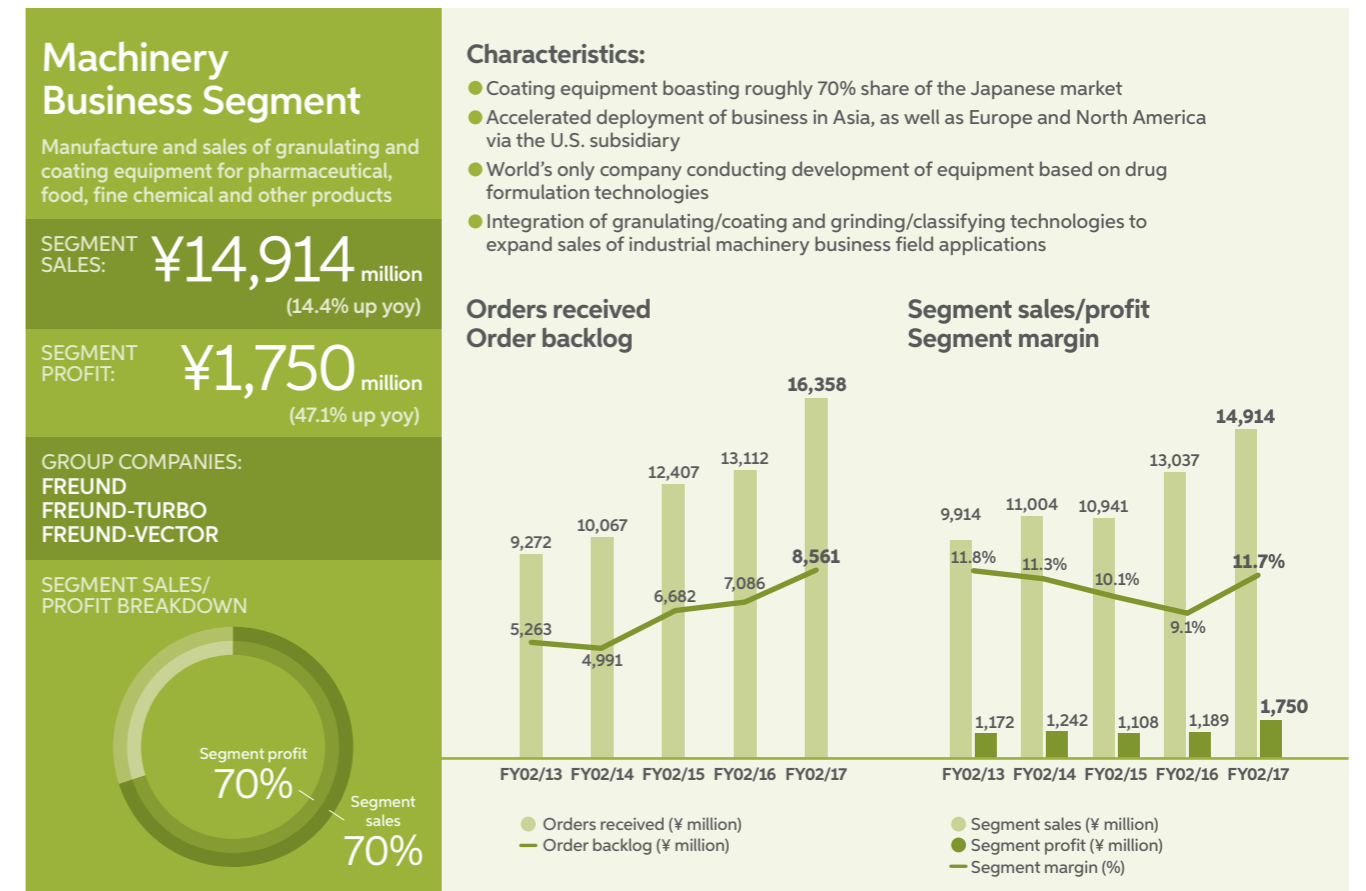
In that regard, "TABREX Rev." tablet imprinting machine may be considered a large challenge. Engineers with high expertise were brought in from outside of the Company to join the team to help put this business, based upon new technology that did not exist within FREUND on course. This was the first time that FREUND utilized this approach, and we will provide financial support to create other new business opportunities.

We believe that the most important issue to be tackled during the 7th Mid-Term Management Plan (from FY02/18 to FY02/22) is to strengthen the frontline of our workplace. We will aggressively promote the businesses of each of our group companies and business segments based upon quantitative targets and self-established direction that encompass the group value "ONE FREUND."

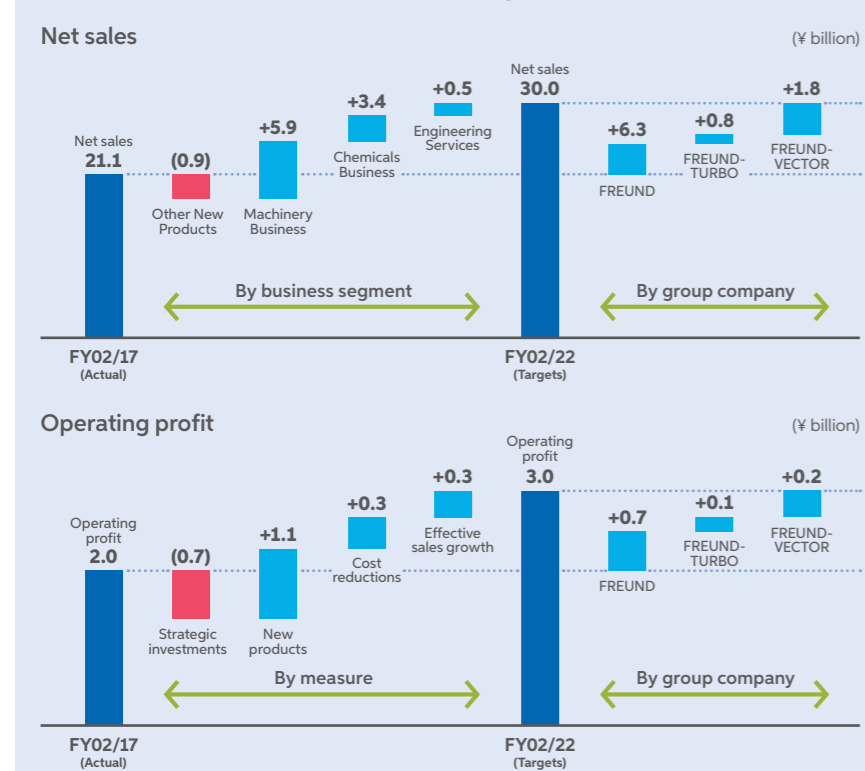
In addition, we view the current period to be highly critical for the Group to secure and train human resources. In particular, securing and training of R&D staff with new points of views for the "creation and fostering of new technologies" as called for by management vision is an important management issue.

→ For the summary of the 7th Mid-Term Management Plan, please refer to page 9.

Segment Information: At a Glance



The 7th Mid-Term Management Plan: Breakdown of FY02/22 Financial Targets (vs. FY02/17) *Tentative



Investment Plan for the Period of 7th Mid-Term Management Plan (5-year cumulative)

*Assumptions for entirely new initiatives are not discounted.

	Capital Investment (¥ million)	R&D Expenses (¥ million)
Machinery Business Segment	1,200	1,200
Chemicals Business Segment	1,200	700
Company-wide	400	—
TOTAL:	2,800	1,900

Chemicals Business Segment

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

SEGMENT SALES: **¥6,249 million** (4.3% up yoy)

SEGMENT PROFIT: **¥748 million** (44.0% up yoy)

GROUP COMPANIES: FREUND

SEGMENT SALES/PROFIT BREAKDOWN

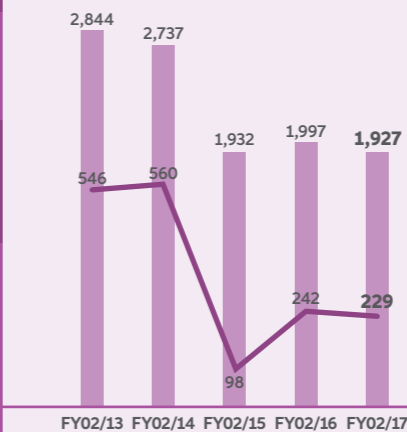


Characteristics:

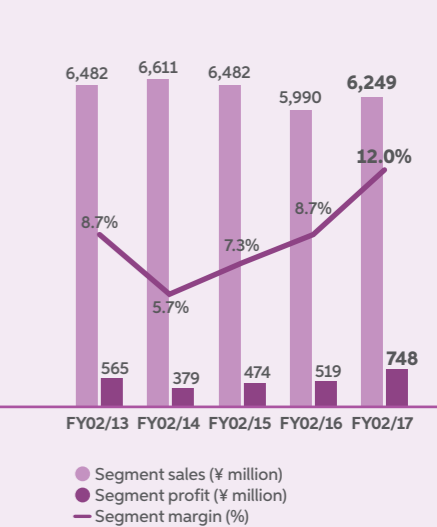
- Pharmaceutical excipients manufactured at GMP* certified facilities
- Food preservatives used to preserve the quality of various foods contributing to food safety
- Commercialization of dietary supplements and seamless mini-capsules jointly developed with client companies using granule manufacturing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

* GMP: Good Manufacturing Practice

Orders received Order backlog*



Segment sales/profit Segment margin



*Pharmaceutical excipients and food preservatives are excluded since orders are projections based on sales plans.

BUSINESS RESULTS: Machinery Business Segment



Machinery Business Segment: Overview of the 7th Mid-Term Management Plan:

- (1) Offset weaker demand for existing products with new products and the industrial machinery field entry
- (2) Deploy full-scale business in overseas markets

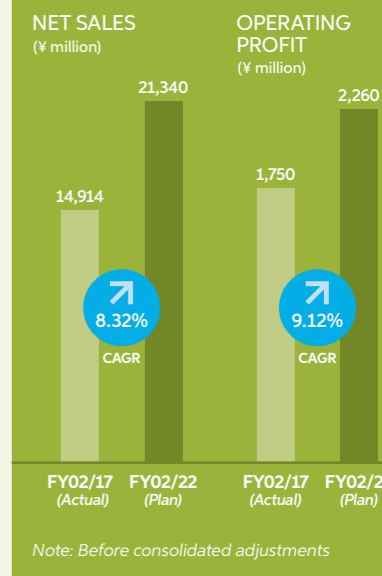
Pharmaceutical Product Field:

- Expand sales of tablet imprinting machine "TABREX Rev."
- Expand business in India and China
- Realize commercialization of continuous granulation and drying system "Granuformer"
- Consider proposal of operating and other businesses
- Create and establish business model for PLM* Business

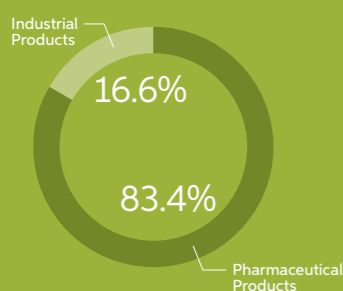
*Product Lifecycle Management

Non-Pharmaceutical Product Field:

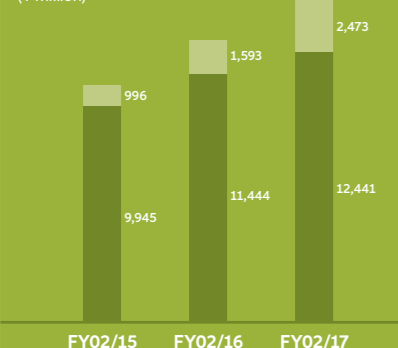
- Enter lithium ion battery equipment field
- Develop equipment for new material development
- Expand sales of high-speed fluid bed granulation machine in food industry



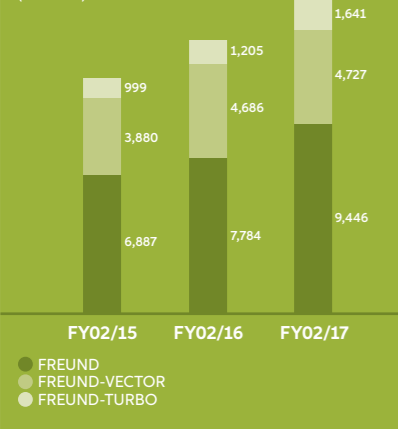
SALES BREAKDOWN



SALES BY PRODUCT FIELD (¥ million)



SALES BY GROUP COMPANY (¥ million)



Operating Environment (Opportunities and Risks)

Pharmaceutical Product Field:

- Opportunities** Capital investment demand toward the age of generic drug market share of 80%, Cultivating new business fields through integration of "Hardware and Software," Globalization
- Risks** Intensification of competition within Japan, Pricing competition intensifying in the global market, Expansion of risks including politics of various countries, Changes in financial markets

Non-Pharmaceutical Product Field:

- Opportunities** Cultivating new business fields through integration of group technologies, globalization
- Risks** Accelerate product development cycle, technological advances

FY02/17 Overview

Segment Sales: ¥14,914 million (14.4 up yoy),
Segment Profit: ¥1,750 million (47.1% up yoy)

FREUND (non-consolidated) : Net Sales ¥9,446 million (21.4% up yoy)

- Favorable order trends on the back of strong capital investments caused by the Japanese government's policy to raise usage of generic drugs to 80%
- Begin taking orders for new generation tablet imprinting machine "TABREX Rev."

FREUND-VECTOR (U.S.):

Net Sales ¥4,727 million (0.9% up yoy), Operating Profit ¥388 million (32.4% up yoy)

- Sales to North America trending favorably

FREUND-TURBO (Japan):

Net Sales ¥1,641 million (36.2% up yoy), Operating Profit ¥79 million (15.5% down yoy)

- Success of efforts to strengthen new product sales and marketing structure
- Profit impacted by increase in labor, development expenses

FY02/18 Outlook

Segment sales expected to rise by 3.3% yoy to ¥15,410 million. With regard to the Japanese market, FREUND expects to capture demand from the pharmaceutical product industry created by the government's strategy of increasing the diffusion of generic drugs, but order backlog in FY02/18 is expected to see some slowing. However, any slowing is expected to be overcome by introduction of new products including "TABREX Rev."

During the first fiscal year of the 7th Mid-Term Management Plan, the Machinery and Chemicals Business segments will conduct coordinated marketing efforts within Japan, with FREUND and FREUND-VECTOR cooperating for marketing in overseas markets. Also, the group companies will cooperate to cultivate new business fields and conduct global branding efforts as part of its accelerated strategy of creating a next-generation growth structure.

Note 1: The foreign exchange rate for US Dollar at the end of FY02/17 used for FREUND-VECTOR's financial results rose by ¥11.6 to ¥109.5/USD.

Note 2: FREUND uses a full-year average foreign exchange rate assumption for the financial estimates of its overseas subsidiary of ¥110.00/USD, a ¥0.50 yen decline yoy.

Close-Up:

Initiatives for Implementation of the Group Value "ONE FREUND"

Success in achieving overwhelming differentiation through new concepts allowed sales volumes of the new tablet coating machine "HICOATER FZ (HC-FZ)" to grow since its launch in 2008. With regard to the TS (Technical Service) Section that is responsible for conducting certification tests after introduction of machines and performance evaluations at the sales inquiry stage, we asked Hayato Misono, responsible for the tablet coating field, about the background to this business.

"HICOATER FZ" Uses FREUND's Unique Structure

With the goal of raising the level of safety and creating drug formulations that protect the environment, the main products have been film coatings using water as solvents. However, the long amount of time required to manufacture these products was a big issue for clients in their workplace. "HC-FZ" uses a unique and revolutionary machine structure to achieve the contradicting goals of improving product quality and reducing the manufacture time by large margins. Thankfully, we have received large numbers of inquiries after the launch of this product, and we have been able to convey the excellence of this machine to our users.

FREUND has been able to greatly improve productivity compared with conventional equipment by using fundamental technological advancements and integration of technology that enables rapid stirring/mixing of tablets to be coated, fully perforated coating pan¹ that efficiently dries coated tablets, and a large air supply chamber that effectively raises product quality. In addition, we have newly developed a large capacity spray gun that can spray a large area evenly using fluids within the machine. By loading this function into the machine, we are also able to promote large reductions in time required to manufacture water film coated tablets.

TS Section Performance Evaluation Tests Support Sales Expansion

At the time of the market launch of this machine, machines specializing in film coating were most common in the markets of Europe

and North America. At the same time, film and sugar coating machines were commonly used in Japan. These machines used what is called a jacket format rotating drum². "HC-FZ" eliminates this structure and uses the drum format used in Europe and North America, but with improved functions and processes to overcome existing shortcomings and to allow for highly efficient and clean sugar coating. Because this marked the first time that these new technologies have been used, some clients expressed their concerns over this new machine structure. So in order to eliminate these concerns, risk assessment and validation tests were performed repeatedly at the time of its development to create ample data by the time sales were started. Videos and reports prepared using this data were provided along with explanations to clients, contributing to acceptance of the overwhelming strength of "HC-FZ" by clients and subsequent strong sales.

In particular, our machine matched the need of clients to reduce their costs amidst the Japanese government's policy designed to raise the share of generic drug usage to 80% of total drugs and it became widely accepted.

- 1: A rotating circumferential drum with vents used to roll tablets to be sprayed with coating fluids to form coatings.
- 2: Rotating circumferential drum with vents along the outer perimeter is a unique design created by FREUND.



Hayato Misono

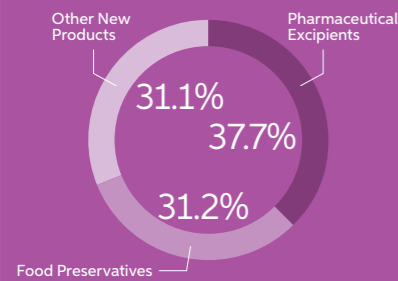
TS Section, Powder Technology Department, Equipment Division



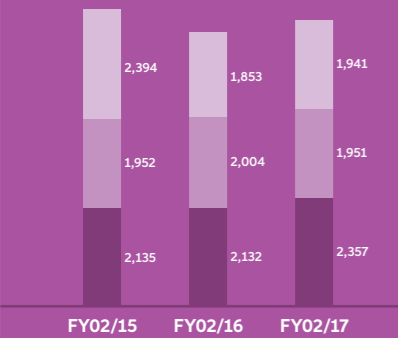
Tablet Coating Machine "HICOATER FZ"

BUSINESS RESULTS:
Chemicals
Business
Segment

SALES BREAKDOWN



SALES BY PRODUCT FIELD
(¥ million)



● Pharmaceutical Excipients
● Food Preservatives
● Other New Products

Operating Environment (Opportunities and Risks)

Pharmaceutical Excipients:

Opportunities ODTs, generic drug market expansion, overseas deployment
Risks Intensified competition in Japan, fierce pricing competition in overseas markets

Food Preservatives:

Opportunities Brand strength (deoxidant market development), Southeast Asia business deployment, enter markets other than confectionary products
Risks Japanese market contraction, manufacturing technology tradition

Other New Products:

Opportunities Health awareness of people
Risks Product lifespan reliant upon fads

FY02/17 Overview

Segment Sales: ¥6,249 million (4.3 up yoy),
Segment Profit: ¥748 million (44.1% up yoy)

Pharmaceutical Excipients: Net Sales ¥2,357 million (10.6% up yoy)

● Continued favorable trends in Japan's generic drug product manufacturing industry allows sales and profit to grow

Food Preservatives: Net Sales ¥1,951 million (2.7% down yoy)

● Sales and profit decline, fall shy of targets despite aggressive marketing due to environment of intensifying competition

Other New Products: Net Sales ¥1,941 million (4.7% up yoy)

● Sales rise, profit falls on higher sales of low profitability dietary supplement food products business leveraging FREUND's technologies

FY02/18 Outlook

Segment sales are estimated to decline by 10.5% yoy to ¥5,590 million, but an increase in profit is expected to be derived from an improvement in sales mix of Other New Products Business.

Pharmaceutical Excipients: With regard to functional excipients used in orally administered pharmaceutical products, demand for ODTs and direct tableting use products is growing both within and outside of Japan. With regard to the 7th Mid-Term Management Plan (five years) and through the implementation of the group value "ONE FREUND", FREUND will collaborate with FREUND-VECTOR to create an overseas sales channel and manufacturing structures as part of the Group's global business deployment strategy. With regard to joint development of products with clients in the Japanese market, we will strengthen our new business models including contract manufacturing for some processes.

Food Preservatives: FREUND will enter the deoxidant market and strengthen its in-house manufacturing capacity.

Other New Products: FREUND expects to reduce the number of low profitability projects.

Chemicals Business Segment:
Overview of the 7th Mid-Term Management Plan:

Strengthen new products and enter the overseas pharmaceutical product market

Pharmaceutical Excipients:

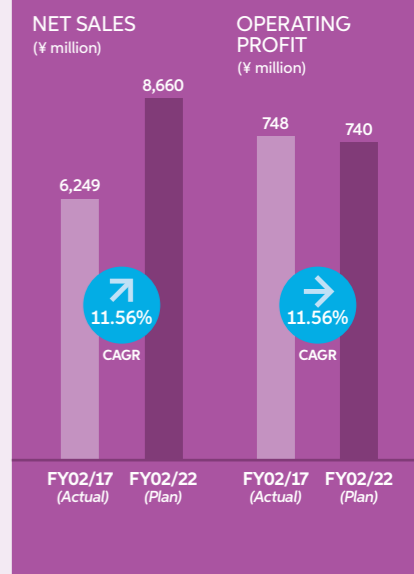
- Create a structure for sharing of client information for marketing in both Machinery and Chemicals Businesses
- Fortify drug formulation technologies by fully leveraging FREUND core technologies
- Expand manufacturing facilities within Hamamatsu Plant
- Strengthen GMP for excipients

Food Preservatives:

- Deploy overseas business through collaboration with FREUND Overseas Sales Division
- Cultivate food market areas other than confectionaries
- Introduce a quality management system
- Enter the deoxidant market
- Reduce costs

Other New Products:

- Leverage synergies with Equipment Division for new product development



Close-Up:

Efforts to Implement the Group Value "ONE FREUND"

FREUND sold the industry's first alcohol food preservative in 1978. Since then, we have expanded the usages of our powdered alcohol as a fundamental technology for food preservatives that ensure the "safety and fresh taste" of foods. Regarding the manufacturing conditions of one of our main business of the non-pharmaceutical product field of Chemicals Business, we spoke with Hiroki Ito of the Production Department, Chemicals Division.

The Process of Full-Scale In-House Production at Hamamatsu Plant

In our food preservatives business, we were asked by clients to consider making a mold preventative agent for "mochi" Japanese rice cakes. Therefore we focused our attention on the antibacterial function of alcohol, thus developed the industry's first ethanol evaporative food preservatives.

FREUND has been able to expand sales channels for food quality preserving agents used by partially-cooked confectionary makers to keep the moistness and freshness of baumkuchen cakes and other products by leveraging powdered alcohol, which has a high bacteriostatic function (for the prevention of mold growth). In 1980, Freund Kasei Corporation was established as a manufacturing function specializing in the production of food preservatives.

In 1987 multiple function type food preservatives using a combination of alcohol transpiration and oxygen scavenging agents were developed. Thereafter, we fortified our product lineup to respond to the need for safe flavor food preservatives.

Current Conditions of Full-Scale In-House Production and Our Future Direction

In 2014, we began manufacturing at our Hamamatsu Plant after Freund Kasei was absorbed to integrate the manufacture and sales functions for our food preservatives and strengthen our competitive edge. With regard to manufacturing at our Hamamatsu Plant, the business assets of Freund Kasei were taken over, and unique

Hiroki Ito
Production Department,
Chemicals Division



technologies characteristic of FREUND were created as a means of establishing a new foundation for our manufacturing capability.

The handling and storage of the powdered alcohol raw materials used as food preservatives is difficult. Therefore, we conduct daily efforts to improve product quality management, manufacturing technologies, raw materials manufacture, and maintenance of our facilities because of the importance of the ability to produce products reliably.

Currently, FREUND is endeavoring to supply products with high value addition by expanding the scale of our manufacturing capabilities based upon a manufacturing structure that maximizes our unique technologies and our relatively small number of staff to satisfy our clients' needs.



Ethanol Evaporation Type:
"Antimold-Mild"



Oxygen Absorb Type:
"Negamold Z"

Directors and Audit & Supervisory Board Members, Honorary Chairman

DIRECTORS AND HONORARY CHAIRMAN



Ryuji Nakatake External Director	Norio Shiratori Managing Director	Yasutoyo Fusejima Honorary Chairman	Iwao Fusejima President and CEO	Narimichi Takei Director	Tomohiko Manabe External Director
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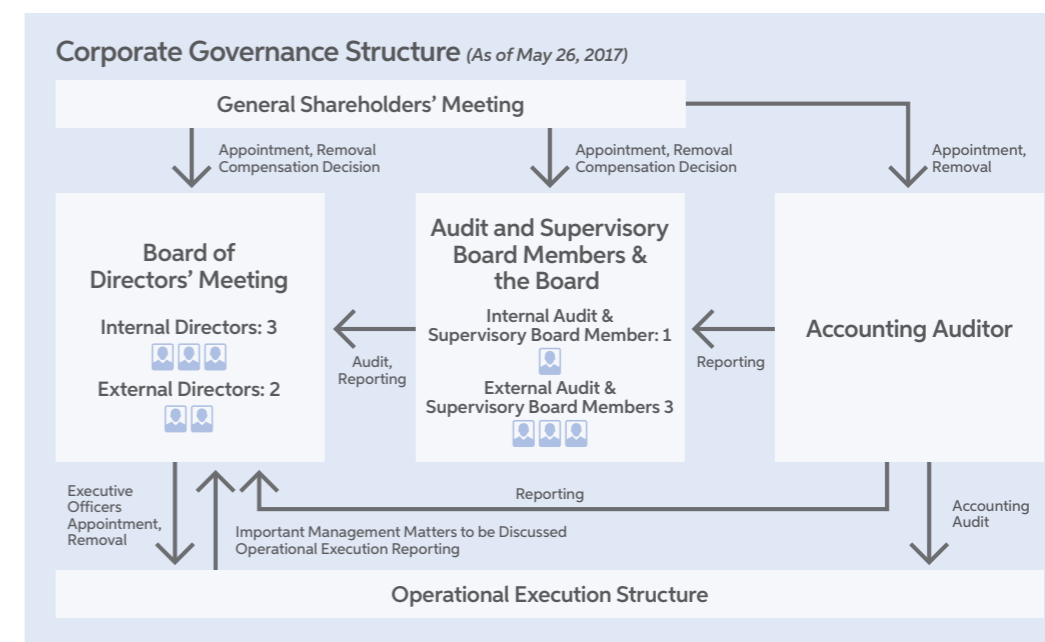
AUDIT & SUPERVISORY BOARD MEMBERS



Mitsuaki Sato External Audit & Supervisory Board Member	Sayoko Izumoto External Audit & Supervisory Board Member	Tadashi Kobayashi Full-time Audit & Supervisory Board Member	Masanori Sugawara External Audit & Supervisory Board Member
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Corporate Governance to Support Sustained Growth

In 2017, the FREUND Group created its New Mid-Term Management Plan entitled “ONE FREUND” based upon its corporate philosophy of “Develop the Future through Creativity.” Along with the implementation of this Plan, the Group will fulfill 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 will fulfill its obligation to society to act as a responsible group of companies.



Basic Policy on Corporate Governance

The Group conducts business activities based upon 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 upon 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 upon 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 two 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.

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 nominated four audit & supervisory board members (including three external members) with high levels of specialized experience needed for audits. Audits are conducted based upon the structure with highly independent audit & supervisory board members at the center of a full-time member who is well informed of internal operations. 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 employs Ernst and Young (Shin-Nihon) 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 conducting audits for execution of operations, they provide advices and audits that are designed to realize sustained growth of the Company and improve-

ments in its corporate value over the mid- 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, internal control system reviews and other issues, and audit 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.

The Company's external audit and 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 and supervisory board members who also play a vital role objectively in monitoring the management from an external point of view. With regard to the appointment of external audit and supervisory board members, the Company nominates persons with vast experience and knowledge in corporate monitoring and auditing tasks.

The Company currently maintains two external directors and three external audit and supervisory board members, for whom it has submitted documents regarding the independence of external directors and audit and 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 transparency and healthy management, the Company maintains objective and fair judgments as criteria for independence.

Key Activities in FY02/17 and Reasons for Appointments

Tomohiko Manabe (External Director)
Tomohiko attended 15 out of 16 Board of Directors' meetings held in FY02/17 and voiced his opinion mainly based on his experience and knowledge gained from his long career at an accounting firm.

Ryuji Nakatake (External Director)
Ryuji attended 12 out of 16 Board of Directors' meetings held in FY02/17 and offered his perspective mainly based on his rich experience and specialist knowledge regarding human resource development.

Sayoko Izumoto (External Audit & Supervisory Board Member) <Newly Appointed>
Sayoko has years of experience as a certified public accountant with a depth of knowledge regarding finance and accounting that will enable her to properly conduct her duties as an external auditor.

Masanori Sugawara (External Audit & Supervisory Board Member) <Newly Appointed>
Masanori has years of work experience in finance divisions and audit tasks. The Company is confident that his vast experiences in finance and accounting will enable him to objectively and fairly conduct his duties as an external audit & supervisory board member.

Mitsuaki Sato (External Audit & Supervisory Board Member) <Newly Appointed>
Mitsuaki has worked for years in finance divisions and has a vast knowledge of finance, accounting and management in general. Therefore the Company is confident in his abilities to satisfy his role as an external audit & supervisory board member.

Internal Audit Office
The Office has been separated from the operational execution divisions to perform evaluations and validations of the appropriateness of their operations based upon the rules and regulations of the Company and its subsidiaries. Moreover, it will collaborate 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 upon 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 upon 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. With regards to 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 its 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 execu-

tion 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 FY02/17					
Classification of Directors/Members	Total Remuneration (¥ million)	Remuneration by Category (¥ million)			Number of Directors / Members
		Basic Salary	Bonus	Special Reward for Service	
Directors (excl. external)	387	58	79	250	5
Audit & Supervisory Board Members (excl. external)	10	9	1	—	1
External Directors and Members	14	10	3	—	5

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. While the Group maintains a policy designed to prevent the occurrence of these risks, it will respond accurately and quickly to the occurrence of any of these risks. While the Group has made every effort possible to identify all potential risks to its businesses, there may be other unforeseen risks not cited here.

Furthermore, the future risk factors mentioned here represent all factors recognized as of the end of FY02/17.

Business Risks

Industry Trend Risk

The Group's net sales derive largely from transactions with companies within the pharmaceutical manufacturing industry. The industries within 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

With regards to the Machinery Business Segment, 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 Relationship Risk

With regards to the Machinery Business Segment within Japan, its business is highly dependent upon various services and products provided by partner manufacturers. In the Chemicals Business Segment, its dependency upon major business partners for trading of nutritional supplements is on the rise. 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 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, the Group's financial results may be impacted in the event that unforeseen legal disputes over intellectual property arise or infringement of third party 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, exports and imports, commerce, fair trade, patents, consumer protection, taxation, foreign currency management and environmental issues. These laws and regulations may also be revised as necessary and the possibility exists that the Group's activities will be limited and monetary penalties will be levied exist 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 it endeavors to train staff after they are hired. 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 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 upon their values.

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 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.



Ryuji Nakatake
External Director

MESSAGE FROM EXTERNAL DIRECTOR:

We seek to create a strong organization by linking various individuals to instill the sense of "reward and progress."

Based upon my experience in "teaming" gathered through my experience as a rugby coach, I have conducted efforts to provide information in the fields of human resources training and organizational structuring during FREUND's Board of Directors' meetings. By gaining an understanding of the fundamentals of "teaming," I have focused upon creating an environment where active discussions are conducted regarding human resources and organizational structuring.

According to the most recent organizational diagnosis, we have discovered that our organization maintains strengths in discipline, continuity, character and morality. However, we also discovered weaknesses in our view of things, and our ability to establish, implement and review objectives. In FY02/17, we have conducted training in objective setting for managers working on the frontline of the workplace. At the same time, this training has acted as an opportunity for them to reflect upon the needs of the workplace and implementation of objective setting.

Also, I believe that it is important to implement change in the workplace by encouraging each and every employee to find rewarding experiences in their daily work, which in turn will result in promoting the advancement of their own careers. As the first step in this process, creating an environment where open communication can be conducted regardless of position is crucial.

FREUND maintains a corporate culture that values each and every individual employee and assumes a highly open organization. By fostering the value of "reward and progress" on these foundations, I would contribute to promoting diversity of employees with the goal of creating a strong organization.

MESSAGE FROM FULL-TIME AUDIT & SUPERVISORY BOARD MEMBER:

Through open communication, I seek to contribute to improvement in our corporate strengths.

Tadashi Kobayashi

Full-Time Audit & Supervisory Board Member
(Small and Medium Enterprise Management Consultant)



I first had contact with FREUND as an external consultant implementing reforms in the Company's personnel system in the late 1990s. Through that connection, I became a full-time audit & supervisory board member in FY02/16.

I have focused upon promoting communication as a central point of Audit & Supervisory Board Members and the Board meetings. As part of my efforts, I have also written up reports on my findings in dealing with the Company to provide feedback to be used by others. Initially, my reports were only circulated amongst the other audit & supervisory board members, but I have been asked to "share them with external directors" and now with all directors and members. I wrote up over 30 reports in two years. Going forward, I will continue to share information to be topics of frank discussions with external directors and members and to have my various findings reflected in FREUND's management.

During the 6th Mid-Term Management Plan entitled "Change and Challenge," internal responses for machinery demand surfaced from the middle of the Plan period, and some initiatives of the Plan have yet to be completed. While sticking to financial figures is important, we may lose track of our real path to growth if our employees are too busy to overly focus upon figures. It can just be an expansion of business. According to the organizational diagnosis conducted by our external director Nakatake, who is a specialist in team building, creativity in establishing objectives and reviews them as our key issues.

The bulk of a company's profits are derived from its everyday operations. Regardless of how busy we may be, we need to study and reflect upon our activities by thinking "how did we do?" on a daily basis. Because it is important to maintain perseverance also in our internal control activities, I support the frontline of our workplace in cooperation with the Internal Audit Office, so as not for our staff to miss the objectives.

During the 7th Mid-Term Management Plan, we will take on the challenge of even larger targets and encourage proactive activities of our staff. We also need to learn from issues observed during the 6th Mid-Term Management Plan, have our staff establish their own activity targets, and ensure that they review progress achieved in their pursuit of their targets.

During the promotion of the 6th Mid-Term Management Plan, the Group developed technologies in various fields and hired numerous new staff as a means of strengthening the collaboration among the group companies. Consequently, we were able to obtain numerous new opinions and identify new topics for discussion by increasing the communication within the Group.

Based upon the 7th Mid-Term Management Plan entitled "ONE FREUND," I will endeavor to secure the next generation of growth and improve our corporate strengths by maintaining open communication and sharing a diverse range of expertise.



Based upon the 7th Mid-Term Management Plan entitled "ONE FREUND," we will endeavor to secure the next generation of growth and improve our corporate strengths by maintaining open communications and sharing a diverse range of expertise.

Responsible Communications with Stakeholders

FREUND created its new Mid-Term Management Plan entitled “ONE FREUND” based upon its corporate philosophy of “Develop the Future through Creativity.” The new plan maintains the concepts of “becoming ‘Number One’ by creating special values” “being ‘Only One’ by putting clients’ views first” and “Unite to a ‘Be One’ group through networking.” Based upon the Mid-Term Management Plan, we will also endeavor to “contribute to better medical care and health for people worldwide, and create and foster technologies for fulfilling lives and food safety.”

Our management and department in charge seek to conduct constructive dialogue with our various stakeholders to deepen our mutual understanding. In addition, we listen to the opinions and requests of our stakeholders to improve transparency and certainty of management.

In the future, we will continue to implement responsible communications with our stakeholders to realize sustained and prolonged improvements in our corporate value.

Together with Our Shareholders and Investors:

Promoting Engagement through Our IR Activities

Regarding information disclosure based on our fundamental policy of “timely and fair,” we developed the “FREUND Group’s Disclosure Policy” and “IR Activity Policy” in March 2017. With information from the entire group the Corporate Communications Department headed by the President responds to investors and analysts.

To Our Institutional Investors

Our President and management team holds financial results presentations (at the interim and full-year ends) and small meetings (1st and 3rd quarters) targeting institutional investors. In addition, the department in charge visits and/or interviews both domestic and overseas institutional investors. In FY02/17, a total of 192* such individual meetings took place. We also invited investors for a tour to the Institute for Technology Development in Hamamatsu and visited overseas investors (based in Hong Kong) for the first time.

*Including telephone conferences

To Our Individual Investors

Our President, management team and department in charge participated in seminars for individual investors, and held presentations and Q&A sessions. In FY02/17, a total of 20 presentations were held in 18 cities nationwide.

In addition, we introduced a shareholder special benefit plan in FY02/15 and have since been offering special benefits at the end of every 2nd quarter.

IR Tools

Under the “What’s new” section on FREUND’s homepage, we provide IR related information including news releases, summaries of consolidated financial results (TANSHIN), integrated reports, financial results announcement presentation materials, factbooks, factsheets and others.



English Homepage

Information for Shareholders and Investors

To view the archive of past information, please click “More” and look under “Topics.”

PDF Format Documents (examples)



Financial Results Announcement Materials (Japanese and English)

FREUND Report (Japanese)

Integrated Report (Japanese and English)

Together with Employees:

Strengthening Communications with Employees

Based upon our 7th Mid-Term Management Plan, we have entered a new phase in the implementation of a new human resources strategy. As part of this strategy, the new employee cultivating system entitled “FREUND Human Resources Development Program” has been created. This program divides the training into various classes and covers various business skills. To achieve further growth we will continue to cultivate human resources that have the confidence to take on “Change & Challenge” as a means of strengthening our overall human resources function.

At the beginning of FY02/17, our President has called for meetings of all of our employees to seek deeper understanding of the 7th Mid-Term Management Plan. By promoting direct and active dialogue with employees of our group companies, we will promote proactive activities of employees in keeping with the concept of unity and efforts to capture growth called for in the “ONE FREUND” Management Plan.



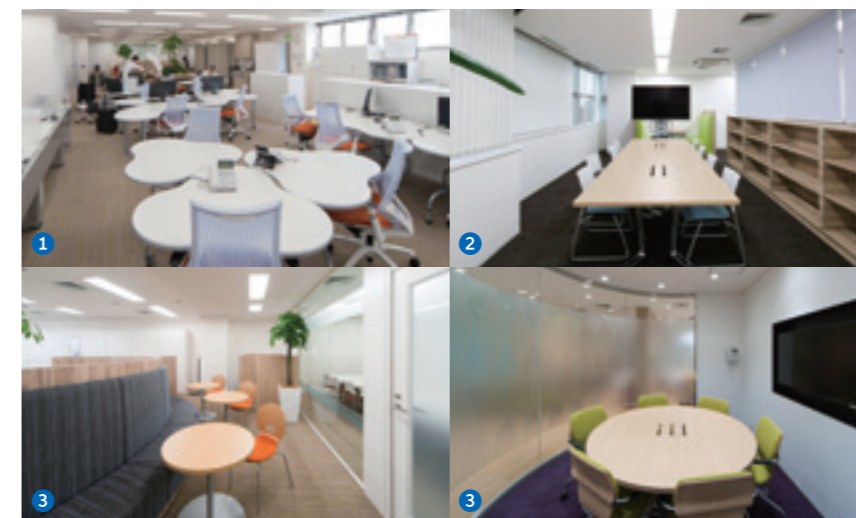
Our President is actively promoting open, aggressive and direct communication with employees of FREUND and its group companies.

Promoting Work Style Reforms

In June 2016 FREUND moved its Head Office to Nishishinjuku in Tokyo to expand office space and improve its office environment so that we can respond to future growth of our business. A ‘sit-where-you-like’ seating arrangement has been introduced primarily for our sales staff at our new office and as part of our work style reforms.

The more open environment of our new office is designed to accommodate new work styles of the future and to strengthen our “One for All, All for One” management by promoting active and wide-ranging communications within the Company.

- 1 Introduce a ‘sit-where-you-like’ system for sales staff office space
- 2 Space with telephone conferencing facilities for communications with external parties
- 3 Space for various types of meetings



Consolidated Financial Statements

Consolidated Balance Sheet

FREUND CORPORATION and Consolidated Subsidiaries

As of End of February 2015, 2016 and 2017

Assets

	(¥ thousand)		
	FY02/15	FY02/16	FY02/17
Assets	17,277,448	17,206,653	19,101,540
Current assets	12,782,160	13,053,591	14,938,653
Cash and deposits	4,870,566	4,042,296	6,982,822
Notes and accounts receivable - trade	5,266,889	5,542,999	4,282,766
Electronically recorded monetary claims - operating	5,578	151,350	120,616
Merchandise and finished goods	296,478	330,747	404,081
Work in process	931,971	1,511,095	1,712,294
Raw materials and supplies	543,437	590,674	649,160
Prepaid expenses	120,830	114,910	148,338
Deferred tax assets	256,424	369,466	251,999
Other	527,353	424,172	400,079
Allowance for doubtful accounts	(37,370)	(24,122)	(13,507)
Non-current assets	4,495,288	4,153,061	4,162,887
Total Property, plant and equipment	3,403,736	3,135,122	3,234,934
Buildings and structures, net	1,084,608	1,153,744	1,160,332
Machinery and equipment, net	358,366	278,205	395,178
Land	1,330,712	1,318,399	1,239,987
Construction in progress	304,404	100,983	132,956
Other, net	325,644	283,788	306,479
Intangible assets	146,911	182,760	55,836
Goodwill	—	77,159	—
Software	144,494	103,183	55,399
Other	2,417	2,417	436
Investments and other assets	944,640	835,179	872,116
Investment securities	348,501	322,133	341,733
Business insurance funds	314,785	290,326	273,383
Deferred tax assets	137,768	29,420	15,073
Net defined benefit asset	—	2,812	2,257
Other	148,984	195,885	245,068
Allowance for doubtful accounts	(5,400)	(5,400)	(5,400)

Liabilities and net assets

	(¥ thousand)		
	FY02/15	FY02/16	FY02/17
Liabilities and net assets	17,277,448	17,206,653	19,101,540
Liabilities	6,097,209	5,677,469	6,916,182
Current liabilities	5,427,236	5,315,576	6,592,473
Notes and accounts payable - trade	1,833,333	1,680,871	2,019,656
Electronically recorded obligations - operating	953,608	899,494	1,038,971
Lease obligations	64,753	64,642	50,213
Income taxes payable	332,544	65,043	477,303
Accrued consumption taxes	87,921	12,585	92,968
Accrued expenses	386,453	409,464	490,502
Advances received	1,242,586	1,288,049	1,831,994
Provision for bonuses	233,683	259,898	260,416
Provision for directors' bonuses	59,000	61,000	85,400
Asset retirement obligations	—	19,199	—
Other	233,351	555,327	245,045
Non-current liabilities	669,973	361,893	323,709
Long-term accounts payable - other	309,143	52,563	47,165
Lease obligations	113,498	54,193	9,011
Net defined benefit liability	187,425	194,094	201,812
Negative goodwill	18,862	11,067	—
Asset retirement obligations	15,555	4,213	34,824
Other	25,488	45,762	30,895
Net assets	11,180,239	11,529,183	12,185,358
Shareholders' equity	10,930,810	11,630,488	12,410,463
Capital stock	1,035,600	1,035,600	1,035,600
Capital surplus	1,280,522	1,280,522	1,289,513
Retained earnings	8,816,001	9,515,679	10,286,711
Treasury shares	(201,313)	(201,313)	(201,361)
Accumulated other comprehensive income	57,162	(101,304)	(225,105)
Valuation difference on available-for-sale securities	34,183	16,600	33,141
Foreign currency translation adjustment	34,187	(100,775)	(233,036)
Remeasurements of defined benefit plans	(11,208)	(17,129)	(25,210)
Non-controlling interests	192,266	—	—

Consolidated Statement of Income and Statement of Comprehensive Income

FREUND CORPORATION and Consolidated Subsidiaries

Fiscal Years ended February 2015, 2016 and 2017

	¥ thousand		
	FY02/15	FY02/16	FY02/17
Net sales	17,424,279	19,027,633	21,164,542
Cost of sales	11,978,398	12,921,519	14,343,391
Gross profit	5,445,881	6,106,114	6,821,151
Selling, general and administrative expenses	4,295,538	4,759,173	4,779,616
Operating profit	1,150,342	1,346,941	2,041,534
Non-operating income	106,696	64,877	65,498
Interest income	2,202	1,554	2,910
Dividend income	4,853	5,187	5,085
Technical support fee	15,285	14,796	13,914
Rent income	2,472	1,991	2,224
Insurance premiums refunded cancellation	13,570	17,238	18,424
Foreign exchange gains	44,839	—	1,337
Amortization of negative goodwill	7,794	7,794	—
Other	15,677	16,313	21,601
Non-operating expenses	7,496	17,165	9,233
Interest expenses	4,578	3,756	2,650
Provision of allowance for doubtful accounts	1,750	—	—
Foreign exchange losses	—	12,973	—
Other	1,168	436	6,582
Ordinary profit	1,249,542	1,394,653	2,097,799
Extraordinary income	10,030	3,830	28,681
Extraordinary losses	6,507	256,845	342,519
Profit before income taxes	1,253,065	1,141,638	1,783,960
Income taxes - current	561,983	153,716	616,679
Income taxes - deferred	(25,214)	33,575	103,014
Total income taxes	536,768	187,292	719,693
Profit	716,297	954,345	1,064,266
Profit (loss) attributable to non-controlling interests	20,330	(6,783)	—
Profit attributable to owners of parent	695,966	961,129	1,064,266
(Consolidated statement of comprehensive income)			
Profit	716,297	954,345	1,064,266
Other comprehensive income	303,851	(155,512)	(126,395)
Comprehensive income	1,020,148	798,833	937,871

Consolidated Statement of Change in Equity

FREUND CORPORATION and Consolidated Subsidiaries

Fiscal Year ended February 29, 2016

	¥ thousand										
	Shareholders' equity					Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	1,035,600	1,280,522	8,813,218*	(201,313)	10,928,027*	34,183	34,187	(11,208)	57,162	192,266	11,177,456*
Changes of items during period											
Dividends of surplus			(258,668)		(258,668)						(258,668)
Profit attributable to owners of parent			961,129		961,129						961,129
Purchase of treasury shares											
Net changes of items other than shareholders' equity						(17,582)	(134,962)	(5,921)	(158,467)	(192,266)	(350,733)
Total changes of items during period	—	—	702,460	—	702,460	(17,582)	(134,962)	(5,921)	(158,467)	(192,266)	351,727
Balance at end of current period	1,035,600	1,280,522	9,515,679	(201,313)	11,630,488	16,600	(100,775)	(17,129)	(101,304)	—	11,529,183

*Values reflect accumulated impacts from changes in accounting policies.

FREUND CORPORATION and Consolidated Subsidiaries

Fiscal Year ended February 28, 2017

	¥ thousand										
	Shareholders' equity					Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	1,035,600	1,289,513*	9,438,001*	(201,313)	11,561,801*	16,600	(98,180)*	(17,129)	(98,710)*	—	11,463,091*
Changes of items during period											
Dividends of surplus			(215,556)		(215,556)						(215,556)
Profit attributable to owners of parent			1,064,266		1,064,266						1,064,266
Purchase of treasury shares				(47)	(47)						(47)
Net changes of items other than shareholders' equity						16,540	(134,855)	(8,080)	(126,395)	—	(126,395)
Total changes of items during period	—	—	848,709	(47)	848,662	16,540	(134,855)	(8,080)	(126,395)	—	722,266
Balance at end of current period	1,035,600	1,289,513	10,286,711	(201,361)	12,410,463	33,141	(233,036)	(25,210)	(225,105)	—	12,185,358

*Values reflect accumulated impacts from changes in accounting policies.

Consolidated Cash Flow Statement

FREUND CORPORATION and Consolidated Subsidiaries
Fiscal Years ended February 2015, 2016 and 2017

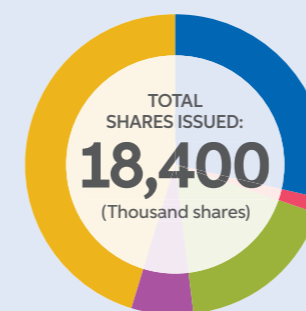
	¥ thousand		
	FY02/15	FY02/16	FY02/17
Cash flows from operating activities (Details)	822,746	290,190	3,605,533
Profit before income taxes	1,253,065	1,141,638	1,783,960
Depreciation	308,370	321,898	338,407
Impairment loss	—	35,264	91,315
Increase (decrease) in provision for bonuses	28,511	26,099	4,525
Increase (decrease) in provision for directors' bonuses	(6,000)	2,000	24,400
Increase (decrease) in allowance for doubtful accounts	(5,896)	(13,321)	(8,758)
Interest and dividend income	(7,056)	(6,742)	(7,996)
Interest expenses	4,578	3,756	2,650
Foreign exchange losses (gains)	(44,585)	14,213	5,628
Loss (gain) on sales of property, plant and equipment	(9,655)	(3,830)	(13,745)
Loss (gain) on sales of investment securities	—	—	(14,936)
Loss (gain) on sales of shares of subsidiaries	—	217,345	—
Loss (gain) on cancellation of insurance contract	(13,570)	(17,238)	(18,424)
Decrease (increase) in notes and accounts receivable - trade	(781,365)	(430,893)	1,243,975
Decrease (increase) in inventories	12,959	(620,626)	(382,518)
Decrease (increase) in other assets	(193,148)	229,088	(207,339)
Increase (decrease) in notes and accounts payable - trade	345,984	(170,336)	409,295
Increase (decrease) in advances received	252,409	45,053	571,295
Interest and dividend income received	7,056	6,742	7,996
Interest expenses paid	(4,578)	(3,756)	(2,650)
Income taxes refund	59,393	51,553	117,862
Income taxes paid	(417,810)	(550,877)	(245,977)
Cash flows from investing activities (Details)	(240,261)	(432,751)	(351,682)
Proceeds from withdrawal of time deposits	689,470	295,482	—
Purchase of property, plant and equipment	(453,659)	(304,065)	(474,089)
Proceeds from sales of property, plant and equipment	28,636	1,615	37,753
Purchase of intangible assets	(14,497)	(3,155)	—
Proceeds from sales of investment securities	—	—	19,256
Purchase of investment securities	(2,068)	(2,164)	(2,196)
Purchase of shares of subsidiaries from non-controlling shareholders	—	(264,189)	—
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(130,485)	—
Cash flows from financing activities (Details)	(284,565)	(331,618)	(277,678)
Purchase of treasury shares	(44)	—	(47)
Cash dividends paid	(215,217)	(258,228)	(215,832)
Effect of exchange rate change on cash and cash equivalents	142,859	(31,701)	(35,648)
Net increase (decrease) in cash and cash equivalents	440,779	(505,881)	2,940,525
Cash and cash equivalents at beginning of period	4,107,398	4,548,178	4,042,296
Cash and cash equivalents at end of period	4,548,178	4,042,296	6,982,822

Company and Stock Information (As of February 28, 2017)

COMPANY NAME:	FREUND CORPORATION	MAJOR SHAREHOLDERS (TOP TEN):	
ESTABLISHED:	April 22, 1964	Shares owned (1,000)	Ownership ratio (%)
CAPITAL STOCK:	¥1,035,600,000	Yasutoyo Fusejima	1,841 10.68
EMPLOYEES:	390 (Consolidated)	FIL K.K.	1,648 9.56
HEAD OFFICE LOCATION:	FREUND Bldg. 6-25-13 Nishishinjuku, Shinjuku-ku, Tokyo 160-0023, JAPAN	Japan Trustee Services Bank, Ltd. (Trust Account)	1,250 7.25
WEBSITE:	http://www.freund.co.jp/english/	The Master Trust Bank of Japan, Ltd. (Trust Account)	1,105 6.41
STOCK LISTING:	TSE JASDAQ Standard (Securities Code: 6312)	The Bank of Tokyo Mitsubishi UFJ, Ltd.	861 4.99
FISCAL YEAR:	From March 1 to the last day of February next year	Sumitomo Mitsui Banking Corporation	744 4.31
ANNUAL GENERAL SHAREHOLDERS' MEETING:	Held in May of every year	Okawara Mfg. Co., Ltd.	673 3.91
SHAREHOLDER REGISTRY ADMINISTRATOR:	Mitsubishi UFJ Trust and Banking Corporation	Freund Employee Shareholding Circle	426 2.47
TOTAL NUMBER OF SHARES ISSUED:	18,400,000	The Shizuoka Bank, Ltd.	368 2.13
TOTAL NUMBER OF SHAREHOLDERS:	6,570	Meiji Yasuda Life Insurance Company	360 2.09

The Company has 1,155,000 shares (6.28%) of treasury shares. Shareholding percentage stakes are calculated after excluding 1,155,000 shares of treasury shares.

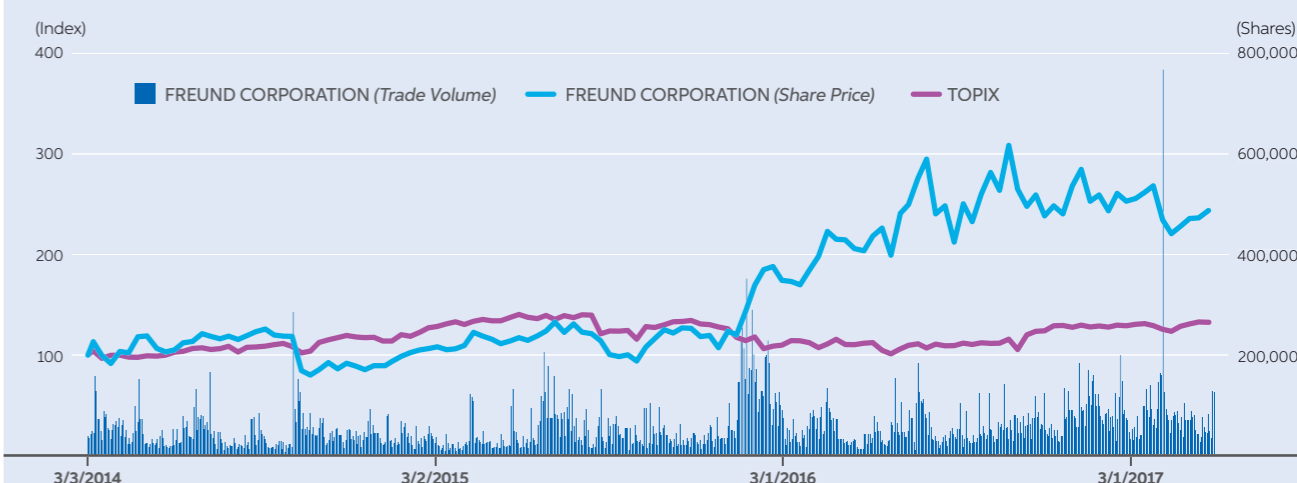
SHAREHOLDER DISTRIBUTION BY TYPE OF SHAREHOLDERS:



	Thousand shares	Percentage
FINANCIAL INSTITUTIONS	5,286	28.73
FINANCIAL INSTRUMENTS FIRMS	291	1.58
OTHER CORPORATIONS	3,291	17.89
FOREIGN CORPORATIONS	1,217	6.62
INDIVIDUALS, OTHERS	8,310	45.18

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

SHARE PRICE, TRADING VOLUME, TOPIX TRENDS (AS OF MAY 31, 2017):



Note: Share price 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 3, 2014 as 100



FREUND CORPORATION

FREUND Bldg. 6-25-13, Nishishinjuku,
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