

FREUND CORPORATION

FREUND Report 2018

Fiscal Year Ended February 28, 2018
(From March 1, 2017 to February 28, 2018)

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Disclaimer Statement

Notes Regarding the Company's Estimates

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

Note: The details of this Report are based on the results of the fiscal year ended February 28, 2018 (from March 1, 2017 to February 28, 2018). However, new information available after March 2018 has also been included in this Report.

Profile

● Corporate Philosophy ●

“Develop the Future through Creativity®”

● Management Vision ●

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

Our Businesses

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

Machinery Business Segment

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

Characteristics

- Granulating/coating equipment boasting roughly 70% share of the Japanese market
- Accelerated deployment of businesses in Asia, as well as Europe and North America via a U.S. subsidiary
- Development of equipment based on drug formulation technologies
- Integration of granulating/coating and pulverizing/classifying technologies to expand equipment sales for other industrial business fields

Chemicals Business Segment

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

Characteristics

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

*GMP: Good Manufacturing Practice

FREUND Group Business Portfolio

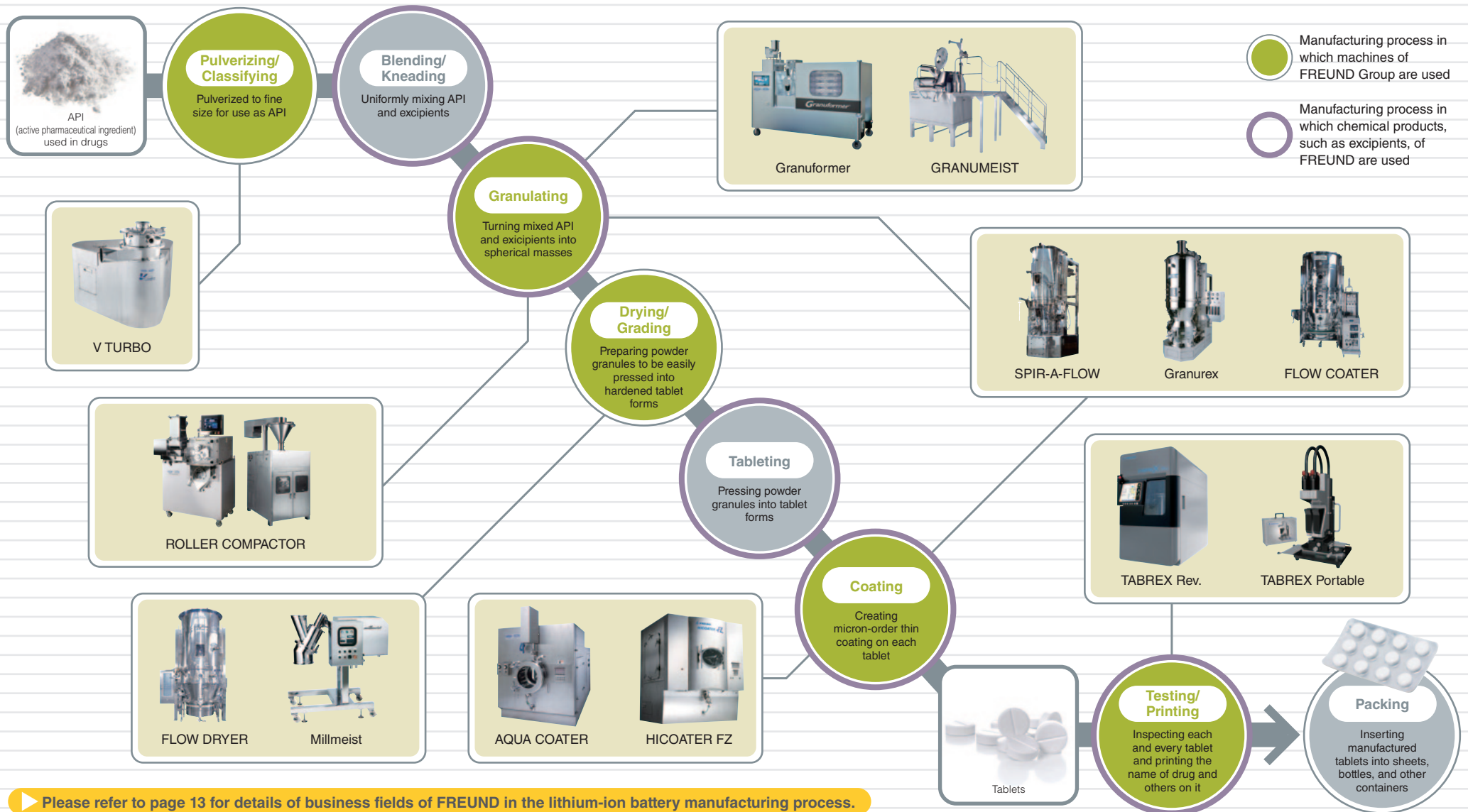
Business Segment	Machinery Business			Chemicals Business
	FREUND	FREUND-VECTOR	FREUND-TURBO	FREUND
Business Field ¹	Pharmaceutical Products	○	○	△ (Pharmaceutical Excipients)
	Non-Pharmaceutical Products	○	△	○ (Functional Food Materials) (Food Preservatives)
Internal Manufacturing Process ²	Developing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

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

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

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

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



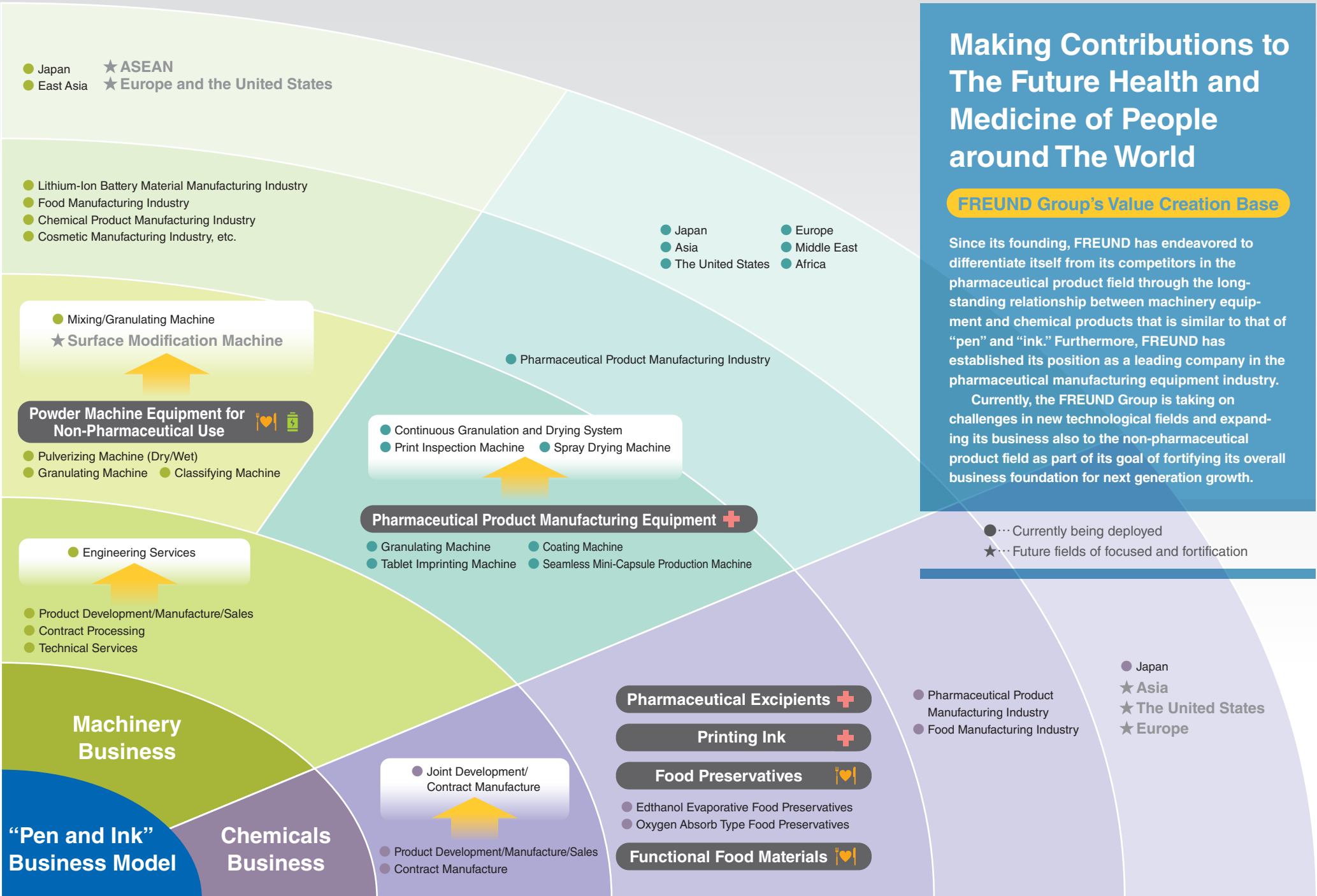
▶ Please refer to page 13 for details of business fields of FREUND in the lithium-ion battery manufacturing process.

Making Contributions to The Future Health and Medicine of People around The World

FREUND Group's Value Creation Base

Since its founding, FREUND has endeavored to differentiate itself from its competitors in the pharmaceutical product field through the long-standing relationship between machinery equipment and chemical products that is similar to that of "pen" and "ink." Furthermore, FREUND has established its position as a leading company in the pharmaceutical manufacturing equipment industry. Currently, the FREUND Group is taking on challenges in new technological fields and expanding its business also to the non-pharmaceutical product field as part of its goal of fortifying its overall business foundation for next generation growth.

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



Business Segments

Business Models

Major Products

Client Markets

Evolving Regions



EXAMPLE:

Frontline of Medicine

Provision of Value to Society

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

Improving drug efficacy through granulating and coating technologies

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



Tablet Coating Machine "HICOATER FZ"

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

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



Pharmaceutical Excipients "Granulot F (Fine)"

Preventing medical mistakes caused by dispensing errors

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



Tablet Imprinting Machine "TABREX Rev."

*Source: The Japan Council for Quality Health Care



EXAMPLE:

Food and Health

Provision of Value to Society

Better taste and health; supporting enriched lives of people

Pursuing fresh taste, safety and security

Food preservatives are small pouches placed inside of packaging to protect the flavor and ensure the safety and security of freshly cooked pastries and breads, Japanese confectionaries and other products. FREUND develops food quality prolonging agents based on its "ethanol evaporation" technology which preserves bacteriostatic effects 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, 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 lives together with health support manufacturers.



Food Coating Agent "AQ shelax"



EXAMPLE:

Leading-Edge Industry

Provision of Value to Society

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

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

For the lithium-ion battery industry, sales of manufacturing equipment for cathode and anode materials are expanding. In particular, next generation battery development is being accelerated by the major battery manufacturers. Particulate manufacturing equipment and surface modification equipment are particularly important for next generation lithium-ion batteries. Consequently, FREUND's fine powder coating technologies cultivated in the pharmaceutical product field are being leveraged to establish manufacturing equipment in this new field.



High-Speed Mixing/Granulating Machine "BALANCE GRAN"

Taking on New Challenges for the Future

Striving to Solve Social Issues

The FREUND Group boasts of core competencies in granulating, coating, pulverizing, classifying and other technologies that range from industrial applications in pharmaceutical, food and other product fields. At the same time, the Group endeavors to expand its non-pharmaceutical product business and take on new challenges that enable it to contribute to improving the quality of health and life of people around the world.

Financial Data for the Ten Years

FREUND CORPORATION and Consolidated Subsidiaries
Ended February 2009 to February 2018

(¥ million)

	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18
For the year										
Net sales	13,478	12,943	13,257	15,236	16,396	17,616	17,424	19,027	21,164	19,801
Cost of sales	9,330	8,675	9,318	10,624	11,313	12,377	11,978	12,921	14,343	12,985
Selling, general and administrative expenses	3,189	3,297	3,259	3,546	3,612	3,952	4,295	4,759	4,779	4,845
Operating profit	958	970	680	1,065	1,470	1,286	1,150	1,346	2,041	1,971
Profit attributable to owners of parent	619	563	516	608	765	787	695	961	1,064	1,477
EBITDA ¹	1,215	1,207	960	1,351	1,717	1,610	1,478	1,687	2,396	2,157
Orders received	9,444	8,049	11,005	12,200	12,117	12,804	14,340	15,109	18,286	12,129
Order backlog at end of period	4,306	3,238	5,282	6,148	5,809	5,551	6,780	7,328	8,790	5,906
Capital investment	190	175	469	218	222	477	545	266	564	524
Depreciation	222	212	257	264	232	303	308	321	338	344
R&D expenses	265	312	355	390	435	464	592	687	640	862
Cash flows from operating activities	618	457	65	1,219	740	1,227	822	290	3,605	594
Cash flows from investing activities	(65)	(198)	(623)	(154)	(332)	(423)	(240)	(432)	(351)	(493)
Cash flows from financing activities	(146)	(154)	(196)	(134)	(164)	(226)	(284)	(331)	(277)	(499)
At end of period										
Total assets	12,495	12,049	12,196	14,342	14,971	15,550	17,277	17,206	19,101	19,125
Net assets	7,481	7,939	8,071	8,489	9,315	10,392	11,180	11,529	12,185	13,242
(Equity)	7,364	7,814	7,952	8,356	9,197	10,239	10,987	11,529	12,185	13,242
Per share data²										
Earnings per share (EPS, ¥)	35.91	32.71	29.98	35.30	44.38	45.69	40.36	55.74	61.72	85.69
Book value per share (BPS, ¥)	427.05	453.15	461.16	484.56	533.37	593.76	637.19	668.57	706.62	767.91
Dividend per share (DPS, ¥)	7.50	7.50	7.50	7.50	10.00	12.50	15.00	25.00	20.00	20.00
Major indicators										
Operating margin (%)	7.1	7.5	5.1	7.0	9.0	7.3	6.6	7.1	9.6	10.0
Return on assets (ROA, %)	5.0	4.7	4.3	4.2	5.1	5.1	4.0	5.6	5.6	7.7
Return on equity (ROE, %)	8.5	7.4	6.6	7.5	8.7	8.1	6.6	8.5	9.0	11.6
Dividend payout ratio (%)	20.9	22.9	25.0	21.2	22.5	27.4	37.2	22.4	32.4	23.3
Equity ratio (%)	58.9	64.9	65.2	58.3	61.4	65.8	63.6	67.0	63.8	69.2

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

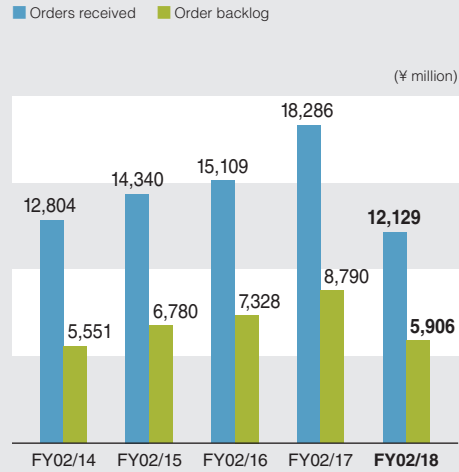
2. The Company carried out a 2-for-1 split of common shares on June 1, 2009 and March 1, 2016. The "per share" calculations are based on the assumption that the stock splits were conducted at the beginning of FY02/09.

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

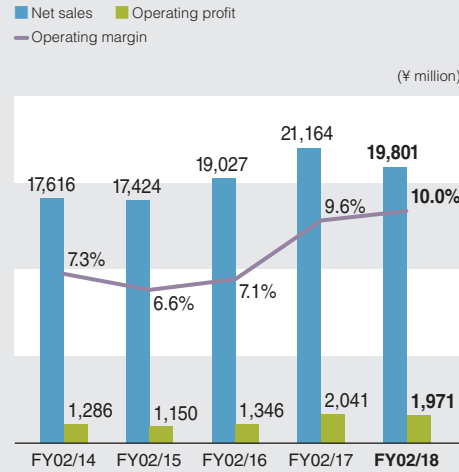
Financial Highlights for the Past Five Years

FREUND CORPORATION and Consolidated Subsidiaries
 Ended February 2009 to February 2018

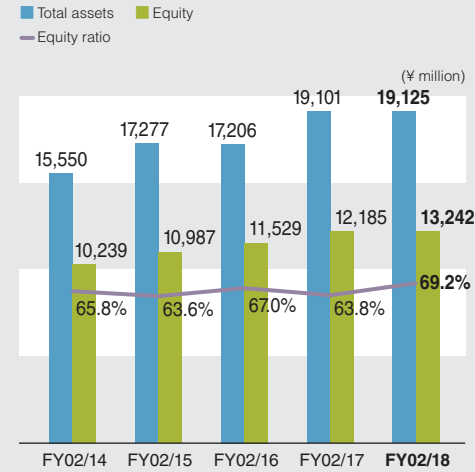
Orders received Order backlog



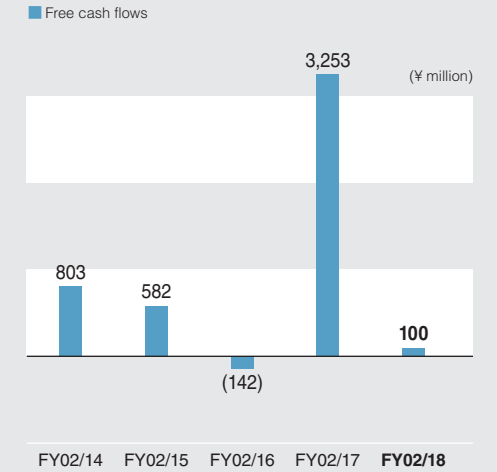
Net sales and operating profit Operating margin



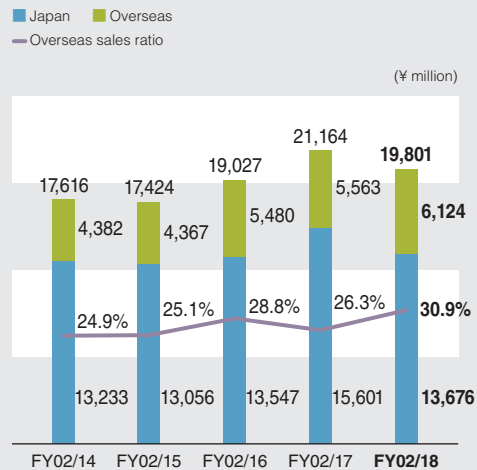
Total assets and equity Equity ratio



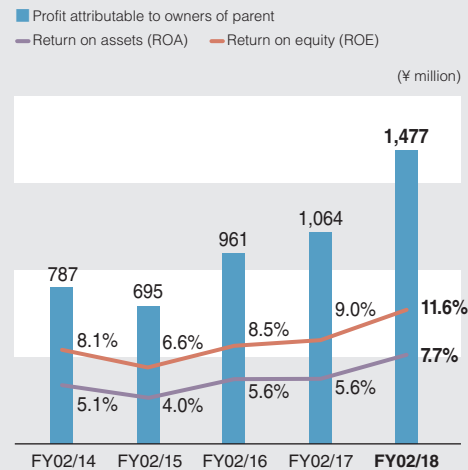
Free cash flows



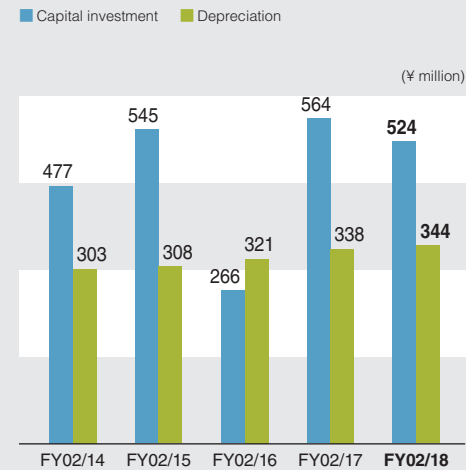
Net sales by region Overseas sales ratio



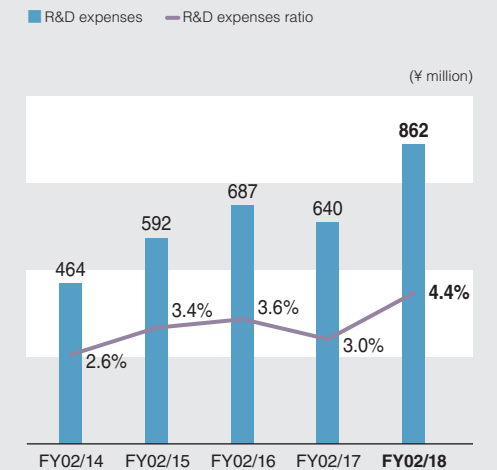
Profit attributable to owners of parent Return on assets (ROA), Return on equity (ROE)



Capital investment Depreciation



R&D expenses R&D expenses ratio



“Develop the Future through Creativity®”

We will accelerate our efforts to realize our group vision based on the value concept of “ONE FREUND.”

Under the “ONE FREUND” value, the FREUND Group established a new management vision, which is to “contribute to better medical care and health for people worldwide, and create and foster technologies for fulfilling lives and food safety,” and initiated its 7th Mid-Term Management Plan (the Plan) in March 2017. In the three-year period to FY02/20 covered by the Plan, the Group seeks to create a growth foundation through creating new businesses and strengthening its existing businesses. In addition to ongoing efforts in the main pharmaceutical product field, the Group is focusing on establishing a foundation for next generation growth which will support the innovation period from FY02/21 and beyond. We interviewed President Iwao Fusejima on current status of the key initiatives being implemented and the future direction in both the pharmaceutical and non-pharmaceutical product fields.



Iwao Fusejima
President and CEO

FY02/18: Overview of Business Activities

■ Business Activities in Pharmaceutical Product Field

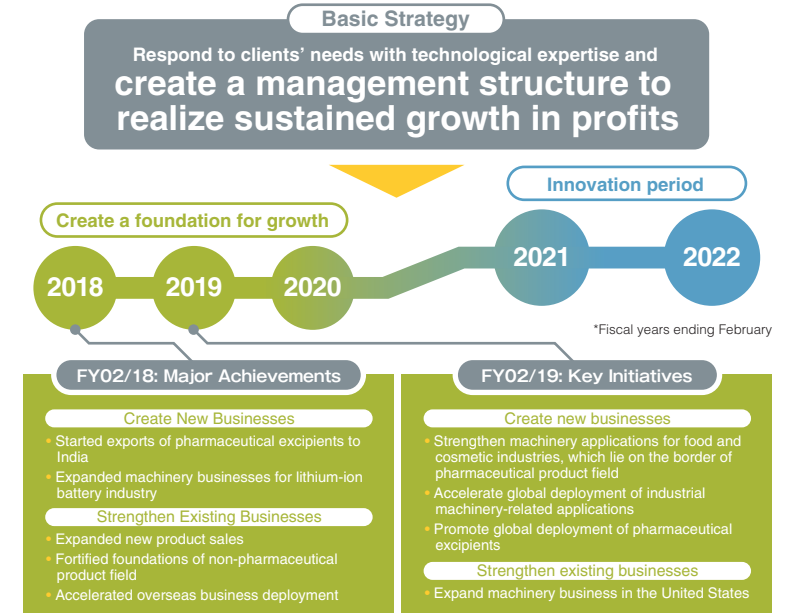
One of the changes witnessed in FY02/18, the 1st year of the Plan, was the faster than expected slowing in capital investment trends by generic drug manufacturers. This slowing had been anticipated due to the abating of demand created by the special capital investments sparked by the Government-led goal of “raising generic drug usage to 80% of total drugs,” but the decline in orders received for granulating, coating and other products in the pharmaceutical product field of Machinery Business

Segment was larger than anticipated.

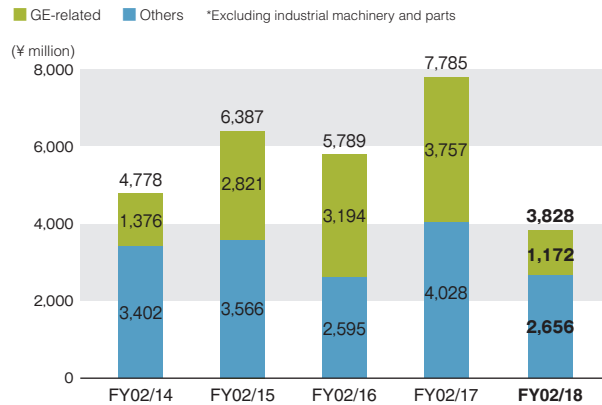
We had planned to offset this decline with fortified sales of Tablet Imprinting/Inspection Machine “TABREX Rev.” in a new pharmaceutical product category. However, the need to develop equipment that responds to the diverse range of tablets with various shapes and orally disintegrating tablets with quite delicate characteristics surfaced in the course of order cultivating activities. The need to improve the tablet transport mechanism in order to realize a product with improved functionality that can be differentiated absolutely required more time than expected at the start of its development. Consequently, the number of orders fell below expectations.

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

Major Achievements in FY02/18 and Key Initiatives in FY02/19



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



However, FREUND's unique tablet transport technology is a strength of "TABREX Rev." that can be utilized in inspection equipment for non-pharmaceutical product applications. Therefore, it is a very important challenge for us to further improve this tablet transport technology in the initial phases of development. Equipment using this improved technology is expected to contribute to expansion of this product's sales from the second year of the Plan.

In the overseas deployment of the Machinery Business, the U.S. subsidiary FREUND-VECTOR saw a year-on-year increase in the number of orders received, but delays in some large orders were recorded due to issues of clients. At the same time, downward pricing pressures resulting from competition, and expansion in commission fee based sales through sales agencies in regions outside of the United States contributed to a large deterioration in profits.

At the same time, pharmaceutical excipients in the Chemicals Business underwent a large change with growth in sales derived from the start of exports to India, which accounts for a large portion of the global market for generic drugs, helped to offset weaker sales in Japan due to industry-wide inventory adjustments.

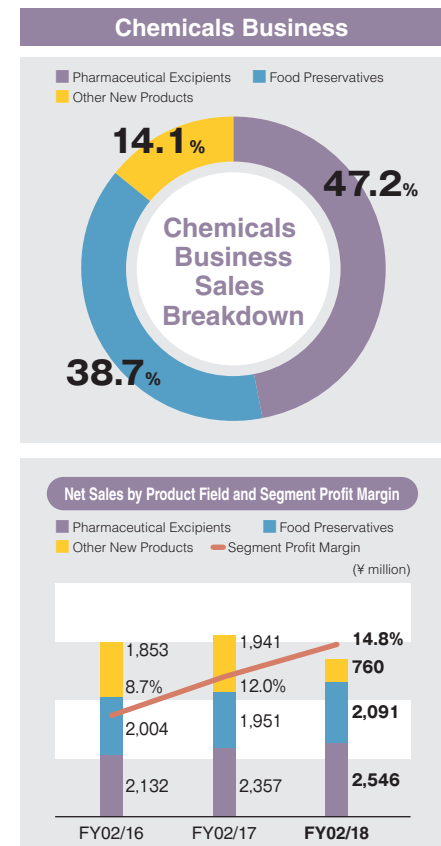
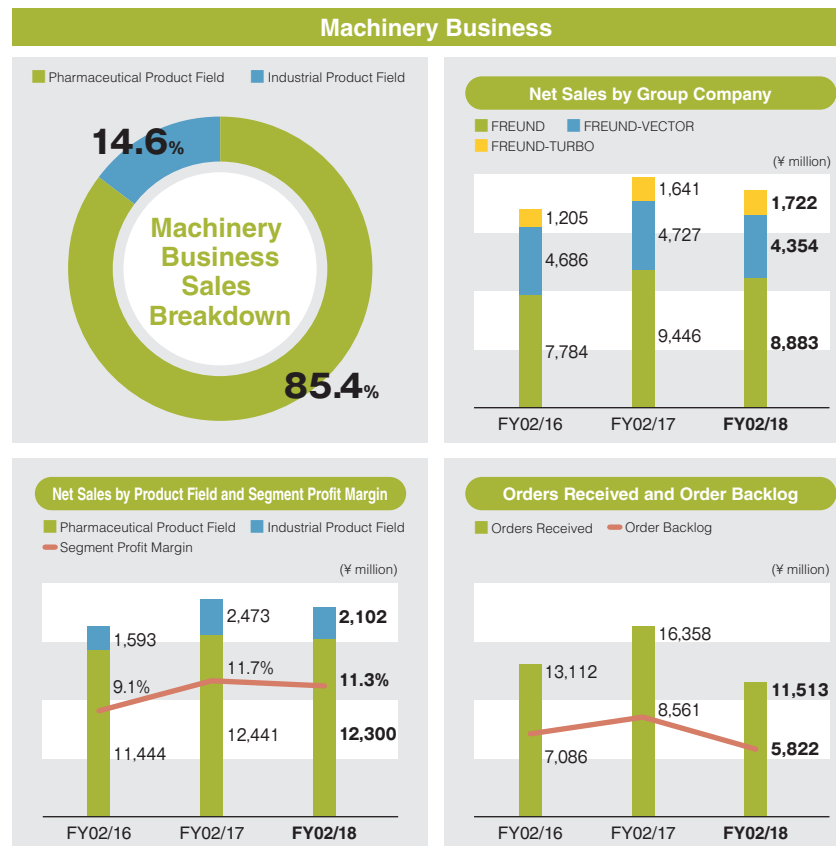
Business Activities in Non-Pharmaceutical Product Field

Regarding the non-pharmaceutical product field, the group subsidiary FREUND-TURBO is accelerating its order taking activities in the highly active field of lithium-ion battery (LiB) applications. The introduction of new products including Dry Grinding Mill "V TURBO" with high levels of classifying function, Wet Grinding Mill "AQUA TURBO TZ" for high viscosity slurry, and High-Speed Mixing/Granulating Machine "BALANCE GRAN" that we acquired through M&A has enabled us to respond to a wide range of manufacturing processes for electrode materials used in LiB applications. Consequently, our business is expanding not only in Japan but in China and South Korea where numerous global mass

production centers for LiB products are located.

Regarding food preservatives, our entry to the oxygen absorb type products, which boasts of a large portion of the food preservative market, and its traditional ethanol evaporative food preservatives have allowed net sales to exceed JPY2.0 billion. Also, enhanced internal manufacturing capacity increased potential output capacity. Furthermore, we are collaborating with our manufacturing partners to expand output capacity in addition to facilitation of our internal infrastructure at the Hamamatsu Plant to establish a stable production function. Currently, we are conducting research for overseas deployment of this business targeting the Southeast Asia region.

Operating Performances by Business Segment



Visible Issues, Initiatives from the 2nd Year of the 7th Mid-Term Management Plan

After completing the 1st year of the Plan, we have identified a goal of establishing a business structure that is not influenced by changes in the market environment. We have traditionally promoted a strategy with this objective, but we have come to realize the need to accelerate the speed with which this strategy is promoted. Fortunately, this strategy has allowed the Group to identify new opportunities amidst market changes, and we will endeavor to cultivate new business opportunities resulting from market changes during the 2nd year of the Plan and beyond.

■ New Growth Markets in the Machinery Business Segment

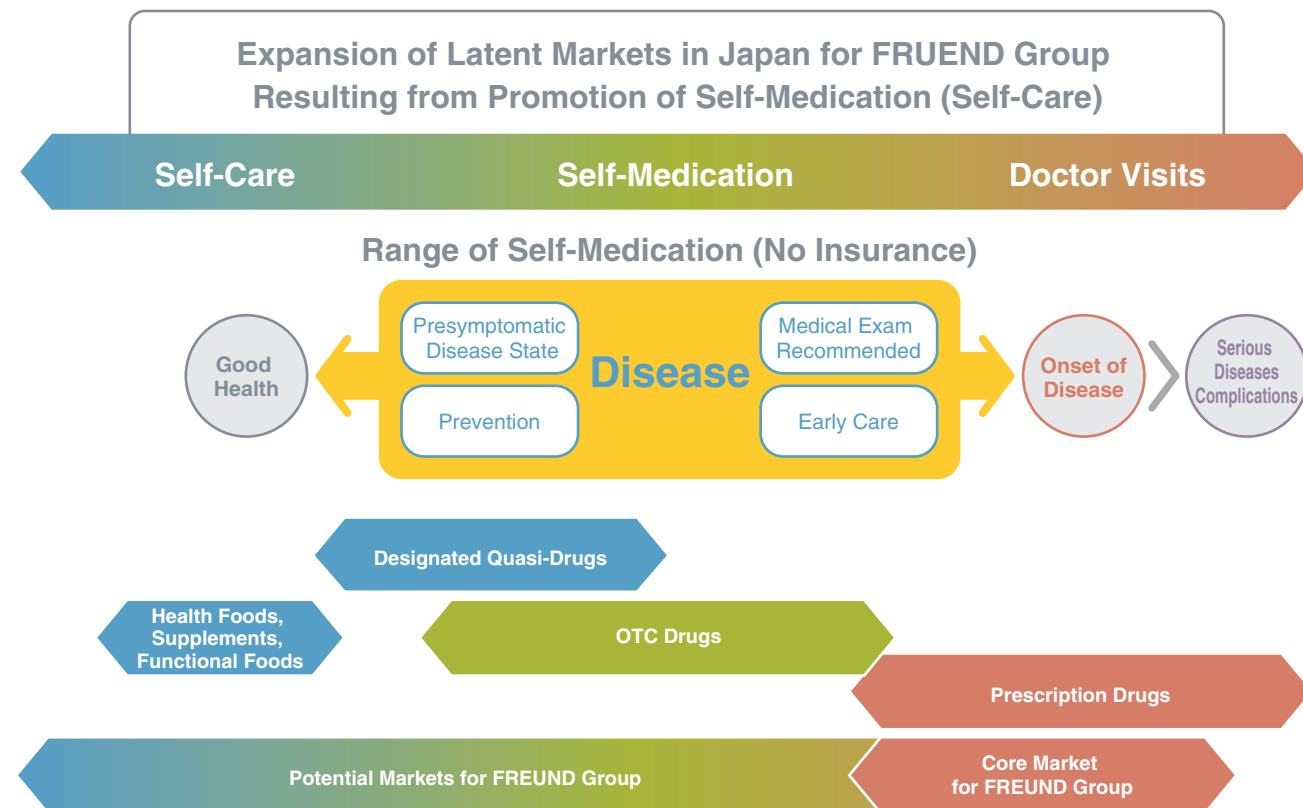
Regarding the Machinery Business Segment in FY02/19, the continued slowing in capital investments in the Japanese pharmaceutical industry is expected due to the lingering influence of the drug price revision for fiscal 2018. At the same time, the fundamental technology platform cultivated in the pharmaceutical product field allows us to cultivate a product lineup for the food industry including that for supplements including dietary ones, which is adjacent to the pharmaceutical product field. In addition, demand from over-the-counter (OTC) pharmaceutical product applications is expanding.

Against the backdrop of an expansion in the dietary supplement market, output capacity is being strengthened in response to growing inbound demand and direct sales overseas. Furthermore, the System of “Foods with Function Claims” started from April 2015 is also acting as a tailwind. Consequently, the lineup of products which were approved recently is expanding.

While capital investments of the supplement industry were growing one year earlier, FREUND was unable to conduct adequate marketing activities due to the need to respond to extraordinary demand created by the Government initiatives to expand generic drug use to 80% in Japan. In addition to the moves by the supplement industry to implement GMP (Good Manufacturing Practice)*1 used by pharmaceutical companies, efforts are also being

OTC Pharmaceutical Industry Grand Design: Becoming a Key Player in the Healthy Aging Society by 2025

Changing activities of Japanese as part of the promotion of self-medication (self-care) resulting in prolonged healthy lives



Source: FREUND CORP. based on documents at the Grand Design Press Conference of the Japan Self-Medication Industry

made to reduce manpower and increase efficiency in the manufacturing processes. Moreover, replacement demand for equipment introduced early on is expected to begin appearing along with the need to implement fluid bed granulation technologies developed in pharmaceutical product applications as effective solutions to respond to the needs of the supplement manufacturers.

In the OTC drug industry, the medical expenses reduction for switch OTC drugs*3 (a special provision for medical expenses reduction) to promote self-medication*2 has been implemented from January 2017. Consequently,

Japanese consumers have been given access to a wider selection of products they can use and the latent market for switch OTC drugs is expanding.

Furthermore, the report entitled “OTC Pharmaceutical Industry Grand Design: Becoming a Key Player in the Healthy Aging Society by 2025” issued by the Japan Self-Medication Industry calls for the establishment of a “JAPAN Model” for the lengthening of life expectancies of healthy people in Japan to be expanded to overseas markets and identifies the potential for it to be adopted in Southeast Asia and other regions around the world. According to forecasts



in this Grand Design, the Japanese and overseas markets (on a retail sales basis) are expected to expand from JPY1.3050 trillion in 2015 to JPY2.1500 trillion in 2025 for an average compounded growth rate of 5.1% (CAGR for Japan and overseas of 5.0% and 5.5%).

Transaction values in the food industry do not differ much from that of the pharmaceutical industry, but the number of machines used in the food industry is greater despite pricing being more severe than that of the pharmaceutical industry. Based on these conditions, we are aggressively pursuing food industry machinery demand by making adjustments to the function and pricing of our machinery to match the needs of food industry clients.

*1 GMP (Good Manufacturing Practice) 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.

*2 Self-medication is defined by the World Health Organization (WHO) as "the endeavor of individuals to assess their own physical health conditions and to take responsibility for the maintenance of their own health."

*3 Switch OTC drugs are part of guidance pharmaceuticals and general pharmaceutical products, which are transferred from medical use applications (those are excluded if similar drugs are not subject to health insurance benefits).

■ ONE FREUND: Strengthen the Pharmaceutical, Food, and Cosmetic Product Fields

While large changes are being seen in the field of food products that lie on the border of the pharmaceutical product field, demand from inbound and high functionality applications is expanding. At the same time, cosmetic industry applications are continuing to grow with an emphasis on lips and other specific part makeup applications.

The market size of pharmaceutical, food and cosmetic products is huge, i.e., JPY6.8204 trillion ("Pharmacology Production Trend Survey" by the Ministry of Health, Labor and Welfare, 2015), JPY29.7297 trillion ("Japanese Processed Food Market Survey" by Yano Research, fiscal 2015) and JPY1.5237 trillion ("Cosmetic Product Production and Shipment Data" by the Ministry of Economy, Trade and Industry, 2016), respectively.

In the Machinery Business Segment, FREUND sells products based on its granulating and coating technologies to the pharmaceutical and food industries, while FREUND-TURBO sells products based on its pulverizing and classifying technologies to pharmaceutical, food and cosmetic industries. In particular, demand for fine pulverizing equipment used in lipstick and foundation production has been growing in the cosmetic industry.

Amidst these trends, the FREUND Group is endeavoring to apply its "ONE FREUND" value in the three fields of pharmaceutical, food and cosmetic product applications, and FREUND and FREUND-TURBO have initiated an enhancement of collaborative product development and marketing.

Furthermore, the need to be able to not only sell individual products, but also establish a sales function with the ability to provide engineering support for interfaces among machines with a view to the entire manufacturing line is called for by clients. And in spring 2018, a new unit providing engineering support was created to provide strengthened engineering services to clients at their manufacturing plants.

■ Promoting Global Deployment of Pharmaceutical Excipient Business

As for pharmaceutical excipients, exports were started along with direct sales to clients in India, but bottlenecks were seen due to manufacturing capacity constraints. Consequent to this expansion in overseas demand as well as to the demand in Japan, we are currently expanding our manufacturing facilities with a goal of doubling our manufacturing capacity from FY02/19 onward.

Regarding future overseas business deployment, an overseas sales agency network will have to be created to promote aggressive sales activities to cultivate demand, in addition to the already established direct sales channel available on our website. Furthermore, market research and marketing activities have been strengthened for both already developed markets with rich demand for pharmaceutical products like the United States, and emerging markets including India and China. Consequently, the information gathering function will be facilitated to enable full-scale launch of the pharmaceutical product excipient business on a global basis.

FY02/19: Overview of Consolidated Financial Forecasts

Taking a broad view of the outlook for the FREUND Group in FY02/19, net sales are expected to decline in the Machinery Business Segment despite efforts to offset declines in sales to pharmaceutical product applications with higher sales to health foods and other applications in the food industry. However, efforts to reduce cost of goods manufactured and review overall expenses are expected to allow profits to remain in line with FY02/18. In the Chemicals Business Segment, both net sales and profits are expected to grow in response to strengthened deployment of businesses overseas and through joint development conducted with clients as part of the contract manufacturing business model.

Regarding FREUND-VECTOR, which is the main subsidiary operating in the Machinery Business Segment for pharmaceutical product applications, revenue in FY02/18

fell by a large margin due in part to the prolonged weakness in the markets in South and Central America. However, a recovery in business is being seen as certain markets including Brazil and Argentina are now entering a period of replacement demand for existing equipment. Despite this recovery, the main issue remains to be how profitability can be improved in the United States as sales in the South and Central America are conducted on a commission basis through local sales agencies.

FREUND-TURBO seeks to capture medium-term growth in demand arising from the LiB industry in the non-pharmaceutical product applications of the Machinery Business. In addition to strengthening output capacity, efforts will also be made to expand the recognition of the FREUND Group brand in emerging markets.

To Our Stakeholders

The competitive nature of the market for pharmaceutical machinery in Japan is intensifying due to the

achievement of the Government's goal of expanding generic drug usage to 80%, and the implementation of drug price revision on an annual basis from fiscal 2018. Therefore, it is ever more important to be able to help client manufacturers strengthen their competitive standing through efforts to conduct joint development of products. Furthermore, this joint development capability will become a determining factor in the future ability to capture opportunities in existing businesses.

In parallel, we continue to pursue next generation growth opportunities in both the pharmaceutical and non-pharmaceutical product fields through the promotion of collaboration within the Group. In order to strengthen existing business fields and create new business opportunities, however, each group company need to cultivate human resources, promote efficiencies in business by increasing the visibility of operations, establish a solid management foundation based on strong financials, and other efforts over the medium- to long-term. We will continue to strengthen our business foundation from the entire Group point of view.

Based on our "ONE FREUND" value, the entire FREUND Group will jointly implement efforts to realize our group vision. Therefore, we ask for the continued support of all our various stakeholders in our business endeavors.



FY02/19: Overview of Consolidated Financial Forecasts/Forecasts by Business Segment

Consolidated Financial Forecasts	FY02/18 (Actual)	FY02/19 (Forecasts)	YoY Changes	
			(¥ million)	%
Net sales	19,801	20,000	+198	+1.0
Operating profit	1,971	1,900	(71)	(3.6)
Ordinary profit	1,994	1,900	(94)	(4.7)
Profit attributable to owners of parent	1,477	1,350	(127)	(8.6)
EPS (¥)	85.69	78.29	(7.40)	(8.6)
Capital investment	524	500	—	—
Depreciation	344	300	—	—
R&D expenses	862	750	—	—

Financial Forecasts by Business Segment	FY02/18 (Actual)	FY02/19 (Forecasts)	YoY Changes	
			(¥ million)	%
Consolidated net sales	19,801	20,000	+198	+1.0
Machinery Business	14,403	14,000	(403)	(2.8)
Chemicals Business	5,398	6,000	+601	+11.1
Segment profit	1,971	1,900	(71)	(3.6)
Machinery Business	1,631	—	—	—
Chemicals Business	801	—	—	—
Adjustments	(461)	—	—	—
Exchange rate (JPY/USD)	111.46	110.00	—	—

1 Business Environment Surrounding the FREUND Group

The global pharmaceutical product markets are expected to undergo steady growth over the medium term, but pharmaceutical products prescribed by doctors in Japan are expected to see negative growth during fiscal 2018 due to the influence of the drug price revision. In addition, the revision has had a large impact on capital investments of Japanese pharmaceutical companies, which started to slow and entered an adjustment phase one year earlier than had been previously expected.

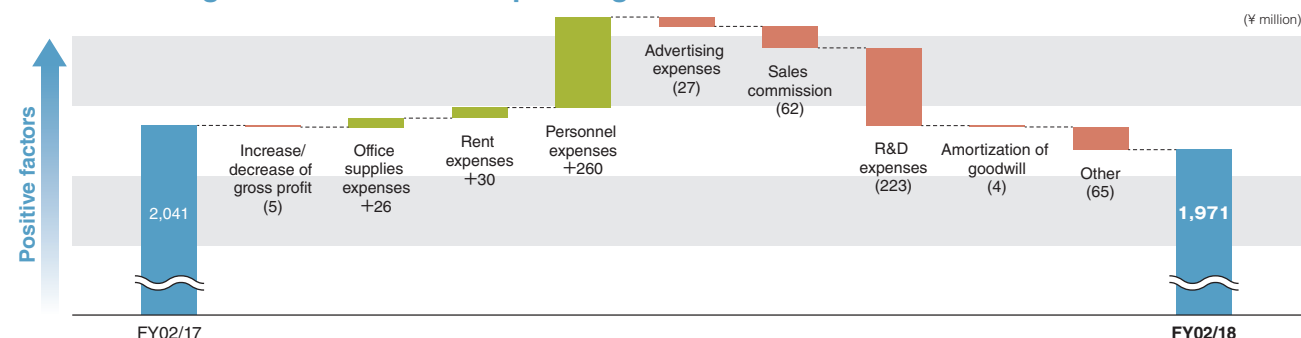
In the non-pharmaceutical product field, the shift from internal combustion engine powered cars to electric cars has begun on a full scale and led by Chinese and South Korean automobile battery manufacturers due to the rapid diffusion of electric cars on a global basis. Consequently, FREUND's shipments of products for lithium-ion battery applications are ramping up on the back of its track record of shipments.

2 Analysis of Consolidated Profits/Losses

Net sales fell by 6.4% year-on-year (yoy) in FY02/18, but the improved product mix mainly in the Chemicals Business Segment and contributions from highly profitable product sales to Europe allowed gross profit margin to rise by 2.2 percentage points (p.p.) yoy. At the same time, higher R&D expenses and other selling, general and administrative (SG&A) expenses caused SG&A expenses ratio to rise by 1.9 p.p. yoy.

The U.S. subsidiary FREUND-VECTOR incurred additional expenses and delays in delivery of new products, but the fabless manufacturing structure of the Machinery Business Segment for pharmaceutical product field in Japan allowed the negative effects of these delays and expenses to be limited. Consequently, operating profit margin improved from FY02/17 by 0.4 p.p. to 10.0%, allowing the

FY02/18 Changes in Consolidated Operating Profit



margins of decline in operating and ordinary profits to be limited to 3.4% and 4.9% yoy, respectively.

At the same time, profit attributable to owners of parent rose by 38.8% yoy due to the disappearance of a one-off extraordinary loss that was recorded in FY02/17.

3 Analysis of Consolidated Financial Conditions

Assets, Liabilities, and Net Assets Conditions

Total assets rose by JPY24 million from the end of FY02/17 to JPY19,125 million at the end of FY02/18. The main factors influencing this increase include a decline in cash and deposits and an increase in work in process.

Total liabilities fell by JPY1,032 million from the end of FY02/17 to JPY5,883 million mainly due to declines in advances received and electronically recorded obligations-operating.

Net assets rose by JPY1,056 million from the end of FY02/17 to JPY13,242 million mainly due to a JPY1,132 million increase in retained earnings.

Cash Flows Conditions

Cash and cash equivalents at beginning of period fell by

JPY414 million yoy to JPY6,568 million.

Cash flows from operating activities amounted to JPY594 million, mainly due to cash outflow factors including income taxes paid of JPY694 million, an increase in inventories of JPY415 million and a decrease in advances received of JPY315 million, as well as cash inflow factors such as profit before taxes of JPY2,093 million and depreciation of JPY344 million.

Cash flows from investing activities amounted to JPY493 million, mainly due to purchase of property, plant and equipment of JPY592 million.

Cash flows from financing activities amounted to JPY499 million, mainly due to cash dividends paid of JPY343 million and repayments of short-term loans used for M&A activities of JPY106 million.

Basic Policy on Dividends

Regarding distribution of profits, the Company maintains a consolidated dividend payout ratio target of 30%. At the end of FY02/18, the same level of dividend payment as FY02/17 of JPY20.00 per share (dividend payout ratio of 23.3%) was implemented. For FY02/19, it plans to pay a common dividend of JPY20.00 per share (dividend payout ratio of 25.5%).

Close-Up

Machinery Business Segment

Promote Market Development of Non-Pharmaceutical Field Products

In addition to its traditional field of pharmaceutical products, the FREUND Group is implementing efforts to create a foundation for its next generation growth by promoting business development in the field of non-pharmaceutical products based on its technologies for the design of powders and particles. Sales of machines to the rapidly growing lithium-ion battery (LiB) industry were strong in FY02/18. We will report on the current conditions and future direction of our efforts to develop the non-pharmaceutical product markets for our Machinery Business.

FREUND-TURBO is a central player within the FREUND Group that cultivates market opportunities in the non-pharmaceutical product applications for the Machinery Business. Until now, FREUND-TURBO promoted product development for applications in the Japanese chemical, pharmaceutical, food, cosmetic and industrial machinery product industries by leveraging its strengths in core pulverizing and classifying technologies.

Based on the recent booming conditions in the LiB industry, commercial distribution of products are expanding in China, South Korea and other parts of the East Asia region where mass production of LiBs are conducted. In particular, demand for machinery that produces materials in high yields and quality is strong because of the high prices of LiB materials.

FREUND-TURBO fortified its product lineup including the revolutionary High-Speed Mixing/Granulating Machine "BALANCE GRAN" that allows for mixing, dispersing, kneading, granulating, and drying (optional) processes to be conducted in the same container. This allows for a wide range of upstream manufacturing processes for LiB electrode materials to be covered in manufacturing lines.

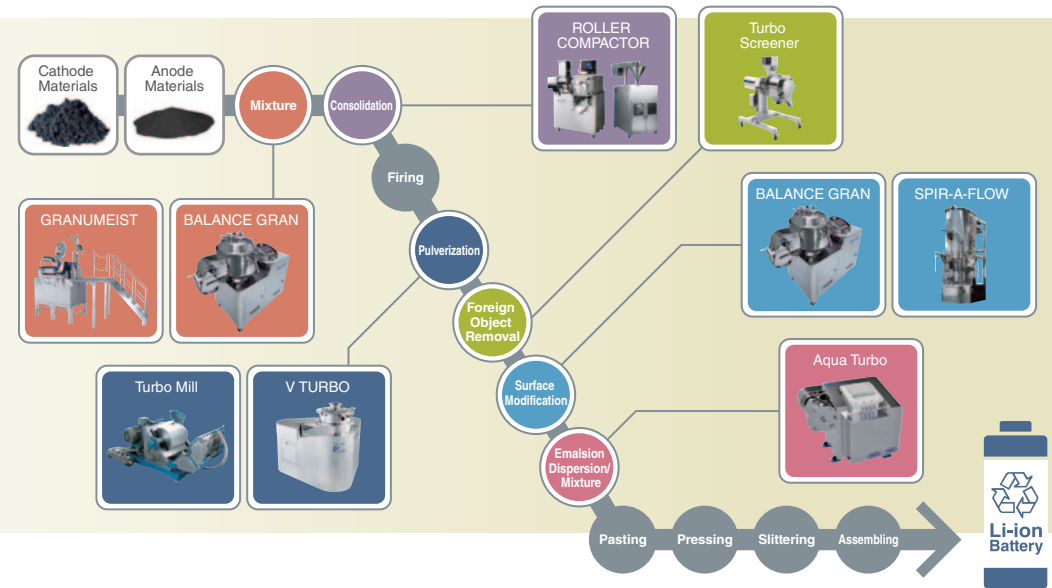
Recently, LiB manufacturers have come to demand that

suppliers provide engineering proposals encompassing the entire manufacturing line. By expanding the product lineup, provision of engineering support to efficiently bridge the gaps between various manufacturing processes is crucial. The ability to provide this type of support is critical in establishing steadfast relationships with client manufacturers, and an important factor in allowing our local sales agencies to differentiate themselves in marketing efforts.

From FY02/19 onward, strengthened efforts will be made to strategically expand the range of client industries to increase stability to our business platform. By fortifying our product lineup to match the needs of our respective client industries, the FREUND Group expects to increase its share within each of industry it serves and to achieve further growth in the Japanese market.

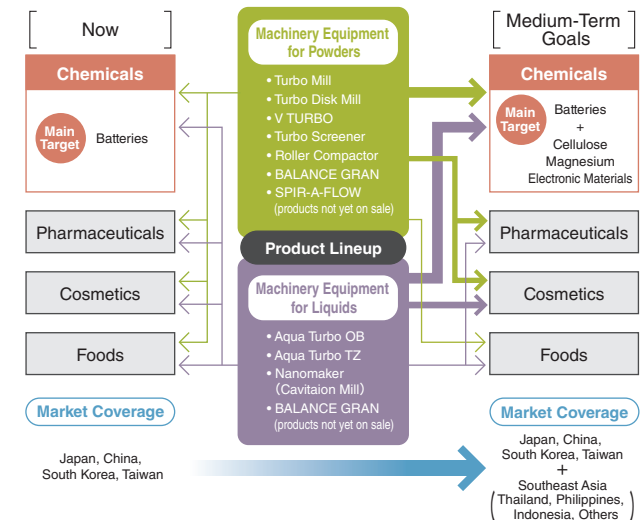
As for overseas markets, FREUND-TURBO is preparing to implement measures in manufacturing through collaborative plants of partners in China to capture demand from the rapidly growing LiB industry. Furthermore, strengthened efforts to cultivate overseas markets will be implemented with an initial focus on the food and cosmetic industries in Thailand, Philippines, Indonesia, and other regions of Southeast Asia.

Manufacturing Processes for Cathode and Anode Materials Used for Lithium-Ion Batteries and Product Coverage by the FREUND Group



Direction of FREUND-TURBO's Industry and Market Coverage Expansion

FREUND-TURBO seeks to accelerate its industry and market coverage expansion in the direction of the "chemical," "pharmaceutical," and "cosmetic" industries over the medium term. Also, preparations are being made to enter Thailand, Philippines, Indonesia, and other regions of Southeast Asia in addition to strengthened efforts to cultivate business in Japan, China and East Asia.



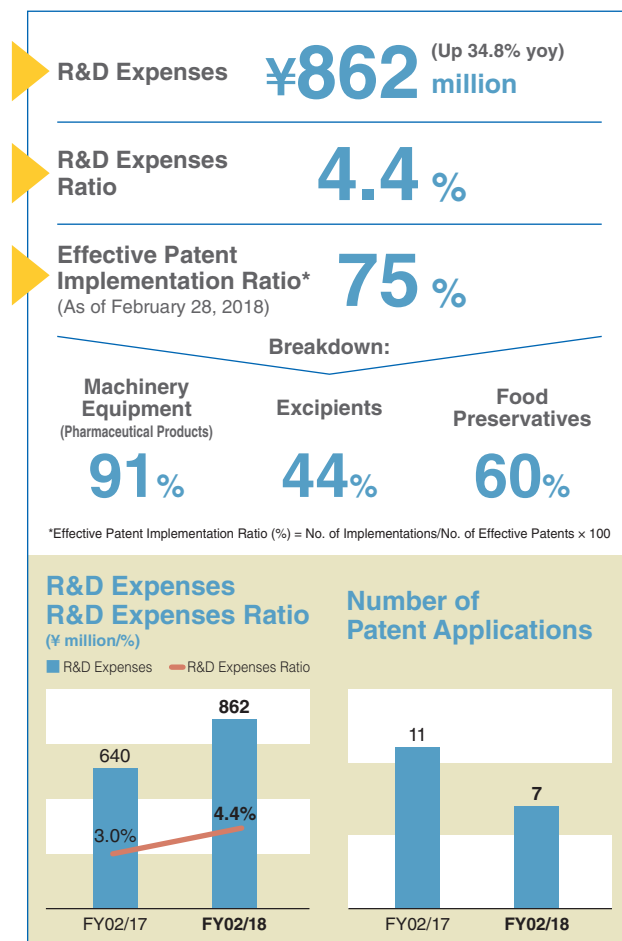
Research and Development

FREUND Group's Research and Development Activities to Realize "ONE FREUND" Value

The Development Promotion Office was newly created in the Chemicals Division in January 2018. The vision behind the creation of this new Office is to "promote collaboration and cooperation within the FREUND Group, and to develop highly sophisticated technologies that contribute to society." We will introduce the new challenges that the Group are taking on to promote cooperation within and outside of the Group to resolve various issues, create new cooperative development projects within and outside of the Group, and promote flexible thinking for near-term and future issues.



Our Development Promotion Office Senior Manager Yutaka Ebisawa states "we cannot overemphasize the negative aspect of dispersion of strong technological resources in the Group. We believe new strengths that are characteristic of FREUND can be created by increasing the joint sharing of successful experiences of engineers through various collaborative projects and the integration of these resources."



The role of the Development Promotion Office is to support and promote efforts of development projects which have a high probability of seeing success in the next several years. Among the main tasks currently being undertaken are quick adjustments and responses to existing development projects, and responses to new projects including the increase in manufacturing efficiencies of food preservatives, development of new functional excipients, and other new collaborative projects within and outside our company.

Efforts are being made to develop a temperature control system for seals to improve the manufacturing process for food preservatives. Because several raw materials are mixed to manufacture food preservatives, the filling process is difficult and product specifications vary widely making efficient manufacturing difficult.

In addition, these preservatives come into direct contact with consumers' hands because they are included in food product packaging and therefore need to achieve high quality levels. FREUND has been able to achieve stable manufacturing of food preservatives by managing the multiple key manufacturing processes. In particular, controlling the different variations of seal temperature within the powder filling process is critical.

Therefore, engineers from not only the Chemicals Business directly involved with manufacture of food preservatives but also engineers from the Machinery Business who have experience in machinery control work side-by-side on projects to add new perspectives in the development of temperature control systems for seals.

As for new functional excipient development, the Development Promotion Office introduces new manufacturing technologies and leverages equipment of the Machinery Business. Development of fillers that are more easily matched to manufacturing processes and can be used as functional excipients to conduct more efficient drug formulation development is being conducted. In new technology fields, technologies of both the Machinery Business and Chemicals Business are being combined.

In particular, many pharmaceutical manufacturers have implemented drug formulation development that differentiates them from their competitors, and efficient drug formulation development that raises their global competitive strength are being promoted to cultivate growing demand for prepared mix type excipients within Japan.

FREUND is developing new fillers that have higher value addition including multiple new functionalities as part of its efforts to cultivate market opportunities for prepared mix type excipients which are expected to grow.

Regarding equipment development and technology implementation, FREUND is cooperating with FREUND -VECTOR, which is based in the largest pharmaceutical market in the world of the United States, and it is planning the introduction and development of technological equipment that increases efficiency of in vivo usage of active pharmaceutical ingredients (APIs). The Development Promotion Office is responding to the needs of clients through its aggressive provision of technological support.

Honorary Chairman, Directors and Audit & Supervisory Board Members

Honorary Chairman and Directors



Ryuji Nakatake External Director
 Norio Shiratori Managing Director
 Yasutoyo Fusejima Honorary Chairman
 Iwao Fusejima President and CEO
 Narimichi Takei Director
 Tomohiko Manabe External Director
 Osamu Imada External Director

Audit & Supervisory Board Members

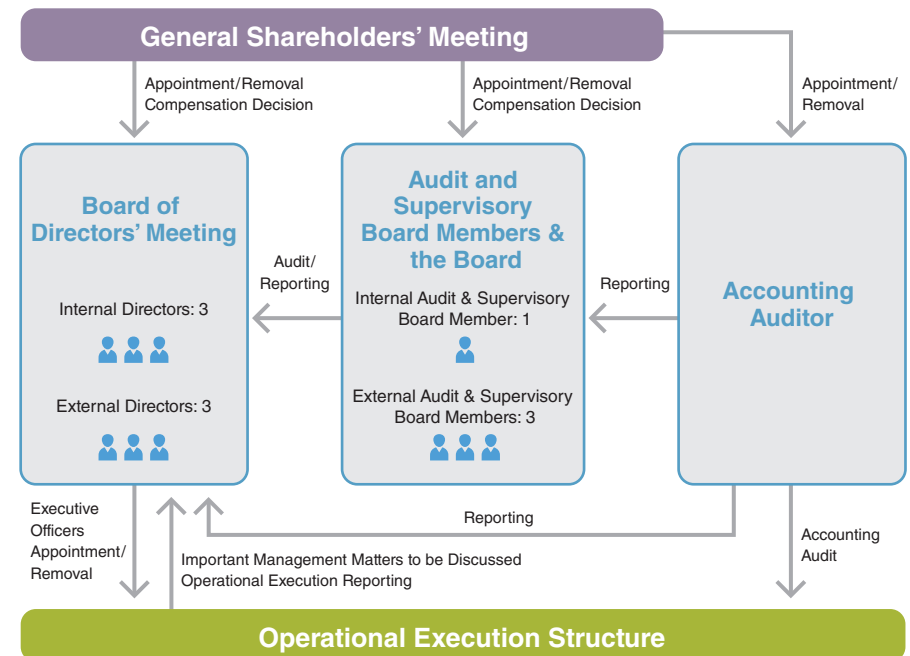


Mitsuaki Sato External Audit & Supervisory Board Member
 Sayoko Izumoto External Audit & Supervisory Board Member
 Tadashi Kobayashi Full-time Audit & Supervisory Board Member
 Masanori Sugawara External Audit & Supervisory Board Member

Corporate Governance to Support Sustained Growth

Starting from FY02/18, the FREUND Group has implemented its 7th Mid-Term Management Plan entitled “ONE FREUND” based on its corporate philosophy of “Develop the Future through Creativity.” Along with the implementation, the Group fulfills its economic responsibility to secure an appropriate level of profits through the provision of optimal products to client users through fair and appropriate competition. In addition, it fulfills its obligation to society to act as a responsible group of companies.

Corporate Governance Structure (As of May 31, 2018)



Basic Policy on Corporate Governance

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

Board of Directors

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

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 on 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 improvements in its corporate value over the medium- to long-term.

In addition to attending the Board of Directors’ meetings, the Company’s external directors receive direct and indirect reports from the Internal Control Division through resolutions and discussions on financial results reporting, internal control system reviews and other issues, and they 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 & supervisory board members view that it secures a structure to function management checking effectively through mutual restraints among the directors at the Board of Director’s meetings, and effective audits conducted by external audit & supervisory board members who also play a vital role objectively in monitoring the management from an external point of view. As for the appointment of external audit & supervisory board members, the Company nominates persons with vast experience and knowledge in corporate

monitoring and auditing tasks.

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

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

Key Activities in FY02/18 and Reasons for Appointments

► Tomohiko Manabe

(External Director)

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

Tomohiko attended 16 out of 16
Board of Directors’ meetings held in FY02/18.

► Ryuji Nakatake

(External Director)

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

Ryuji attended 15 out of 16
Board of Directors’ meetings held in FY02/18.

▶ Osamu Imada

(External Director) <Newly Appointed>

Osamu is deemed to have more than adequate ability to oversee the management based on his long experience in finance and securities divisions, and in global business, combined with his wide network of business contacts in Japan and overseas. Therefore the Company was confident in his abilities to satisfy his role as an external director.

▶ Mitsuaki Sato

(External Audit & Supervisory Board Member)

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

Mitsuaki attended 13 out of 13
Board of Directors' meetings held in FY02/18.

▶ Masanori Sugawara

(External Audit & Supervisory Board Member)

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

Masanori attended 13 out of 13
Board of Directors' meetings held in FY02/18.

▶ Sayoko Izumoto

(External Audit & Supervisory Board Member)

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

Sayoko attended 12 out of 13
Board of Directors' meetings held in FY02/18.

Internal Audit Office

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

Internal Control Basic Policy

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

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

The President and directors play a role and assume responsibility in maintaining, operating and assessing the internal controls conducted by the Company and its group companies based on the internal control basic policy set by the Board of Directors. They also assume responsibility in establishing an environment where employees can be well conscious of internal control activities. The Company maintains a corporate philosophy of “Develop the Future through Creativity®” and seeks to make social contributions based upon this philosophy and by conducting compliance transparently and establishing a risk supervisory structure.

Regarding compliance, the Company seeks to “not only prevent the occurrence of illegal activities but to have it and its employees act ethically and in accordance with common sense.” Because lack of awareness of compliance can often lead to the occurrence of risks, the Company believes that

compliance and risk management are inseparable and it adopts a comprehensive approach to internal control including compliance through the establishment of the Internal Control Committee and Internal Audit Office.

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

Business Continuity Plan (BCP)

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

The BCP helps to ensure that important operations remain uninterrupted or that any interruptions are kept to a minimum by the execution of pre-established measures to promote quick recovery in the event that unforeseen 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 FY02/18

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

Classification of Directors/ Members	Total Remuneration (¥ million)	Remuneration by Category (¥ million)		Number of Directors/ Members
		Basic Salary	Bonus	
Directors (Excl. External)	103	53	50	3
Audit & Supervisory Board Members (Excl. External)	10	9	0	1
External Directors/ Members	14	12	2	7

Risk Management

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

The Group has identified the various factors listed on the following pages as potential business risks, and its financial results may be influenced in the event that any of these risks occur. 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 FY02/18.

Business Risks

Industry Trend Risk

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

Pricing Competition Risk

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

Client Relationship Risk

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

Collaborative Alliances with Strategic Partnership Risk

The Group maintains numerous collaborative alliances with strategic partners for development of new technologies and products, and improvements in existing products. However, unexpected changes in strategic targets 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 on 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.

Facilitating A Platform to Realize Our “ONE FREUND” Value

FREUND has established the value concept of “ONE FREUND” as a key theme for its 7th Mid-Term Management Plan started in FY02/18 to “realize a management structure that can sustain growth in profits.” We asked External Auditor & Supervisory Board Member Sayoko Izumoto about her views on the current conditions and future challenges facing the FREUND Group from her perspective as an independent board member.



Sayoko Izumoto

External Audit & Supervisory Board Member

Profile

After joining a major corporate auditing firm as a certified public accountant, Sayoko participated in the creation of certified public accountant systems, accounting standards, auditing standard guidelines and self-regulatory guidelines at the Financial Services Agency and the Japanese Institute of Certified Public Accountants. Currently, based on her immense knowledge on finance and accounting, she works as external directors, and various committee members of the Ministry of Internal Affairs and Communications.

FREUND Group Approaching a Turning Point

After having been appointed as external audit & supervisory board member of FREUND in May 2017, I have visited the Institute for Technology Development in Hamamatsu and its subsidiary FREUND-TURBO. Having seen the front line of FREUND workplaces, I recognize its ability to produce high quality products. However, there appears to be a trade-off in terms of the product replacement cycle because of the durability of the high product quality levels that FREUND achieves.

Furthermore, a drop-off in the extraordinary demand for capital investments is expected to accompany the achievement of the 80% share target for generic drugs in Japan. At the same time, the declining birthrates and aging population, and declines in new drugs are structural issues which arise from the maturing of the market. Therefore, FREUND needs to cultivate new business fields outside of pharmaceutical products, and consider reforms to its business model in Japan.

Regarding overseas business, the implementation of a strategy that allows for reinforcement of operations in large and well-established pharmaceutical product markets in Europe and North America, and cultivation of growth markets in Asia and South and Central America

needs to be implemented.

In light of these conditions, I believe that the Group’s 7th Mid-Term Management Plan will play a key role in taking on the challenges as it approaches a turning point.

“ONE FREUND” Value Contributes to Sustained Innovation

FREUND has continued to grow based primarily on its business in Japan. However, new innovations need to be created in order to achieve sustained growth in the future.

I think that it is important to create a structure that enables young employees with flexible thinking to take on challenges that lead to the creation of new innovation. I also believe that diversity is important and the need to take on and leverage staff of various gender and nationalities, and with various values is important to invigorating communication between various groups within our organization and will help create a corporate culture where sustained discovery of innovation can be achieved.

As an audit & supervisory board member, I have focused my attention on creating appropriate rules and

structures that will help us to realize an effective internal control function. I have also endeavored to visit workplaces to provide support by helping to create structures that lead to fair, speedy and effective decision making, along increasing the transparency of our business activities.

To Our Stakeholders

It is my desire for all employees to constantly consider how they can contribute to realizing the “ONE FREUND” value. And while each individual employee may have a different approach to how they go about doing this, I am confident that the combination of these unique and organic efforts will allow us to achieve “ONE FREUND.”

We ask for your continued unwavering support in our efforts to pursue challenges that lead to new growth opportunities as called for in our “ONE FREUND” value without being bound to tradition.

Corporate Social Responsibility

Responsible Communications with Stakeholders

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.

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 (at the 1st quarter and 3rd quarter ends) targeting institutional investors.

In addition, the department in charge visits and/or interviews both domestic and overseas institutional investors. In FY02/18, a total of 121* such individual meetings took place. We also invited investors for a tour to our U.S. subsidiary and visited overseas investors (based in Singapore and Hong Kong).

*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 FY02/18, a total of 20 presentations were held in 12 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

FREUND was selected for the “2017 Award for Excellence in Corporate Disclosure – Emerging Markets” by the Securities Analysts Association of Japan in its 23rd Annual Awards Ceremony.

This award reflects our management’s view that investor relations activities are a highly important function, and recognizes our IR division’s successes in accurately representing our management with regard to explanations of management strategies in investor meetings and as part of our IR activities. In addition, this award is also an indication of our ability to maintain high standards with regards to fair disclosure and corporate governance activities.



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), FREUND/Integrated Reports, financial results announcement presentation materials, factbooks, factsheets and others.



Examples of Our “ONE FREUND” Efforts

As part of the “ONE FREUND” value identified as an integral part of the 7th Mid-Term Management Plan, FREUND (Japan) has accepted trainees from FREUND-VECTOR (the United States) in our “Exchange Program” (cross-cultural program).

As part of this “Exchange Program,” FREUND and FREUND-VECTOR employees hold meetings in English to discuss their respective work styles and potential solutions to improve work styles for the FREUND Group overall. Twelve employees of differing backgrounds including both new graduate hires and mid-career hires participate in these meetings to discuss “Work Style Reforms” in English.

Issues arising from communications conducted by e-mail, streamlining operations using business tools, work time flexibility and other various ideas have been born from these meetings that apply to not only the employees’ own divisions but also to the FREUND Group overall. Furthermore, employees who are proficient and not so proficient in English do their best to participate in these meetings held in English and thereby get a sense of belonging to a truly global company.



Company and Stock Information

(As of February 28, 2018)

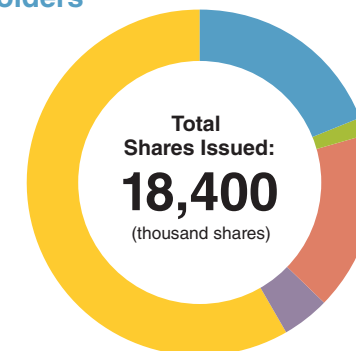
Company Name:	FREUND CORPORATION
Established:	April 22, 1964
Capital Stock:	¥1,035,600,000
Employees:	360 (Consolidated)
Head Office Location:	FREUND Bldg. 6-25-13 Nishishinjuku, Shinjuku-ku, Tokyo
Website:	http://www.freund.co.jp/english/
Stock Listing:	TSE JASDAQ Standard (Securities Code: 6312)
Fiscal Year:	From March 1 to the last day of February next year
Annual General Shareholders' Meeting:	Held in May of every year
Shareholder Registry Administrator:	Mitsubishi UFJ Trust and Banking Corporation
Total Number of Shares Issued:	18,400,000
Total Number of Shareholders:	10,885

Major Shareholders (Top Ten)

	Shares owned (1,000)	Ownership ratio (%)
Yasutoyo Fusejima	1,821	10.56
K. K. Fusejima Yokosha	1,648	9.56
The Bank of Tokyo Mitsubishi UFJ, Ltd.	861	4.99
Sumitomo Mitsui Banking Corporation	744	4.31
Okawara Mfg. Co., Ltd.	673	3.91
Freund Employee Shareholding Circle	411	2.39
The Master Trust Bank of Japan, Ltd. (Trust Account)	393	2.28
The Shizuoka Bank, Ltd.	368	2.13
Japan Trustee Services Bank, Ltd. (Trust Account)	364	2.11
Meiji Yasuda Life Insurance Company	360	2.09

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

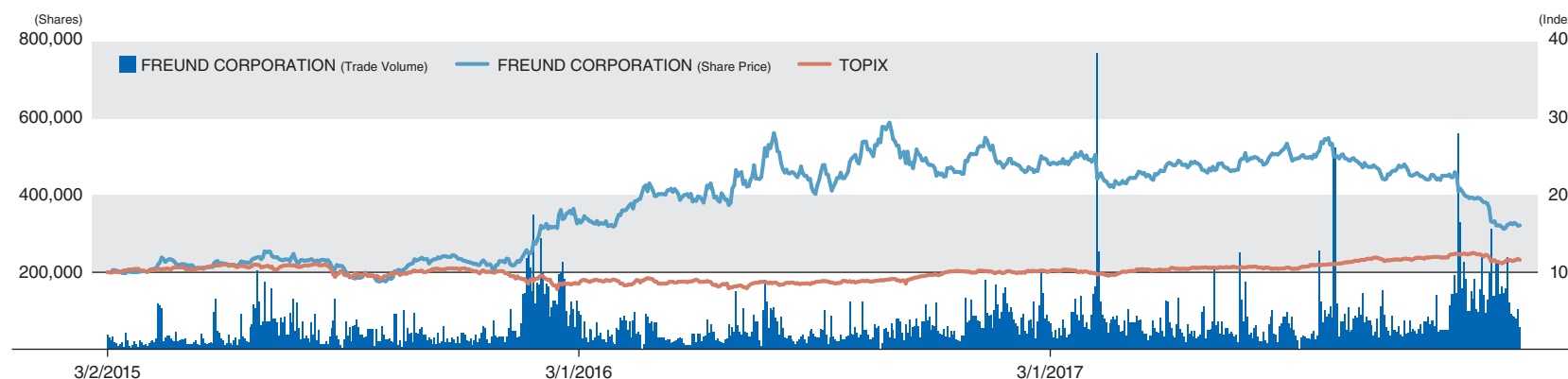
Shareholder Distribution by Type of Shareholders



	Thousand shares	Percentage
Financial Institutions	3,433	18.7
Financial Instruments Firms	327	1.8
Other Corporations	3,307	18.0
Foreign Corporations	773	4.2
Individuals, Others	10,549	57.3

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

Trends of Share Prices, Trading Volumes and TOPIX



Note:
Share prices and trading volumes prior to the stock split shown in the chart have been adjusted to reflect the stock split. FREUND CORPORATION and TOPIX prices have been adjusted to show relative valuations on March 2, 2015 as 100.

FREUND CORPORATION

FREUND Bldg. 6-25-13, Nishishinjuku, Shinjuku-ku, Tokyo, 160-0023 JAPAN

Please contact us at the phone number or website listed below
regarding any questions about this FREUND Report.

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