

Our Basic Approach to Corporate Governance

- FHI works on the enhancement of corporate governance as one of the top priorities of management in order to gain the satisfaction and trust of all of our stakeholders by achieving sustainable growth and improving our corporate value in the medium and long term aiming to be “A Compelling Company with Strong Market Presence” based on the “Customers Come First” principle under the corporate philosophy outlined on the right.
- FHI clearly separates the function of decision making and the oversight of corporate management from that of the execution of business operations and aims to realize effective corporate management by expediting decision making.
- FHI ensures proper decision making and the oversight of corporate management and the execution of business operations as well as enhancing compliance and our risk management system through monitoring of our management and operations and advice provided by outside officers.
- FHI implements proper and timely disclosure of information in order to improve the transparency of management.

Corporate Philosophy

- ① We strive to create advanced technology on an ongoing basis and provide consumers with distinctive products with the highest level of quality and customer satisfaction.
- ② We aim to continuously promote harmony between people, society, and the environment while contributing to the prosperity of society.
- ③ We look to the future with a global perspective and aim to foster a vibrant, progressive company.

We have also created the Corporate Governance Guidelines with the objective of clarifying the basic policy, framework, and operating policy of the corporate governance of FHI.

See here for the Corporate Governance Guidelines and the Corporate Governance Report.

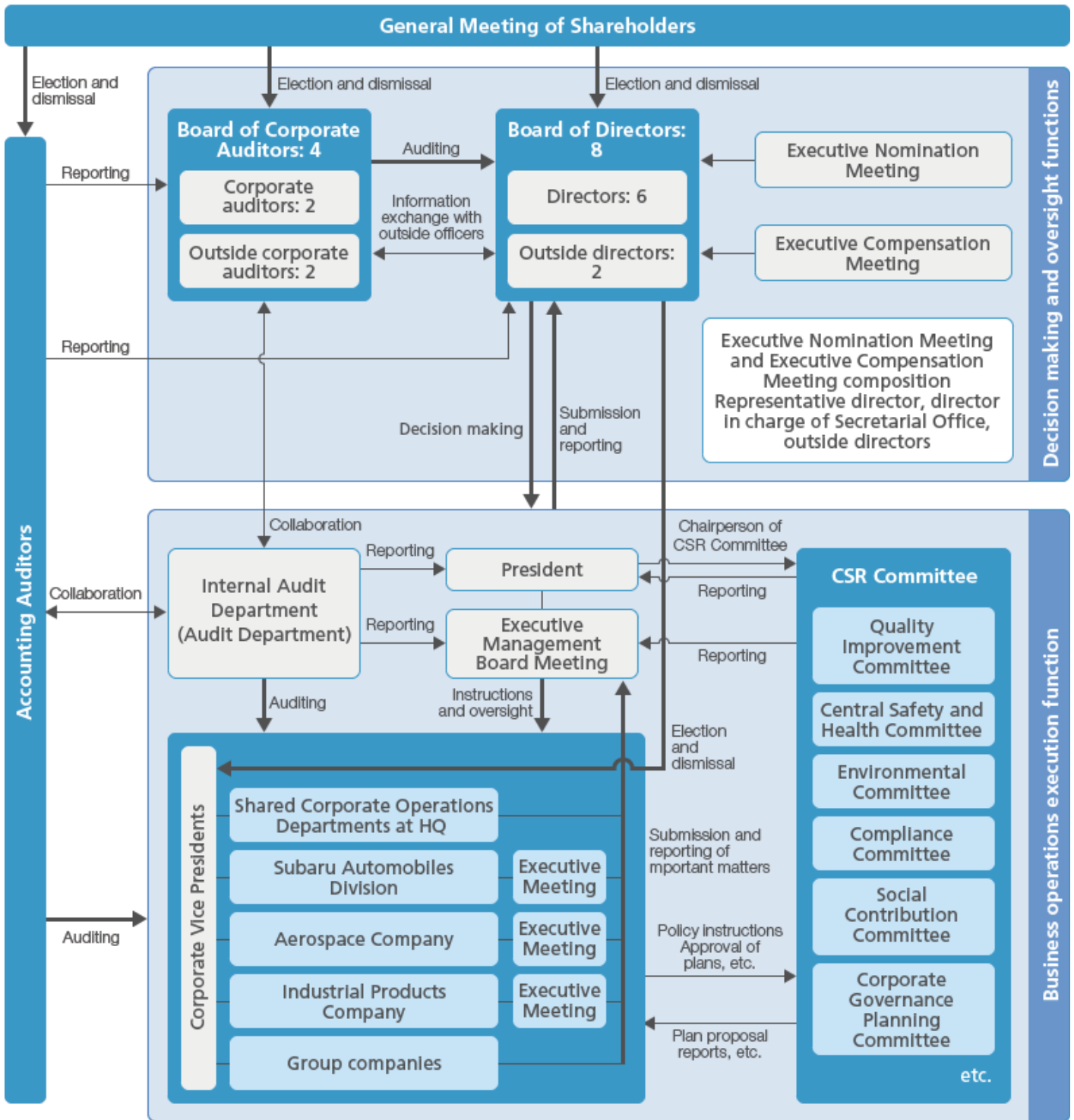
 [\[PDF 241KB\] Corporate Governance Guidelines](#)

Company Organizational Bodies

FHI has adopted a Board of Corporate Auditors system, and the Board of Directors and the Board of Corporate Auditors perform decision making, and oversight and auditing for the execution of important business operations. The Board of Directors is composed of eight directors, two of whom are highly independent outside directors to further strengthen governance. The Board of Corporate Auditors is composed of four corporate auditors, two of whom are outside corporate auditors to provide objective oversight of management.

With regard to the system for the execution of business operations, important issues that require consultation with the Board of Directors are thoroughly discussed at the Executive Management Board Meeting, which deliberates on company-wide management strategy and the execution of key business operations. In addition to employing an executive officer system, FHI has introduced an in-house company system for the Aerospace and Industrial Products business divisions with the Automotive Business at its core with the aim of clarifying responsibility and speeding up execution of business operations.

System of Corporate Governance



(As of July 31, 2016)

Development of Internal Control System

FHI resolved its basic policy on the development of a system to ensure that the execution of the duties of the directors complies with laws and regulations and the Articles of Incorporation as well as the other systems stipulated by ordinance of Japan's Ministry of Justice as necessary to ensure the proper operation of a stock company at a meeting of the Board of Directors in May 2006.

Status of Development of Risk Management System

At FHI, the Corporate Planning Department, which plays a central role in the common functions of each business, and other company-wide shared corporate operations departments maintain close links with each department and company to enhance risk management.

In addition, the Audit Department performs planned audits of each department and Group company. FHI has also created and operates a system and organization to ensure compliance, which is the foundation of risk management, in order to assist with the development of the internal control system.

First, we have established the Compliance Committee which deliberates, discusses, determines, exchanges information, and liaises on important compliance issues to promote the implementation of company-wide compliance. In addition, we have assigned a compliance officer and compliance staff for each department and company to organize a system that meticulously implements compliance at each workplace. We also systematically provide education and training for officers and employees on a routine basis as well as raising awareness about compliance through such means as in-house publications as necessary.

Furthermore, in order to promote the implementation of compliance in the FHI Group, we conduct education and training and provide information through in-house publications for Group companies in addition to raising the effectiveness of these activities through the participation of Group companies in the FHI internal reporting system (Compliance Hotline.)

Status of Internal Audits and Auditing by Corporate Auditors

FHI's standing corporate auditors (including the standing outside corporate auditors), attend meetings of the Board of Directors and other important meetings, visit work sites, investigate subsidiaries, hear opinions from the internal audit department, and audit the execution of duties by the directors and others based on the audit policy and audit plan established by the Board of Corporate Auditors. The non-standing outside corporate auditors attend meetings of the Board of Directors and other important meetings, hear opinions from the internal audit department and the standing corporate auditors, and audit the execution of duties by the directors and others based on the audit policy and audit plan established by the Board of Corporate Auditors.

FHI has established the Audit Department as an internal auditing organization to implement planned audits of the execution of business operations in each in-house department as well as Group companies inside and outside Japan. At the beginning of the fiscal year, the department coordinates its internal audit plan for the fiscal year with the Board of Corporate Auditors' policy in advance. The Audit Department reports the results of all internal audits to the corporate auditors and reports on the status of internal audit activities and exchanges opinions with them on a monthly basis to achieve collaboration. The Audit Department also endeavors to strengthen the auditing function in conjunction with audits by the Accounting Auditor.

Evaluation of Internal Control System for Financial Reporting

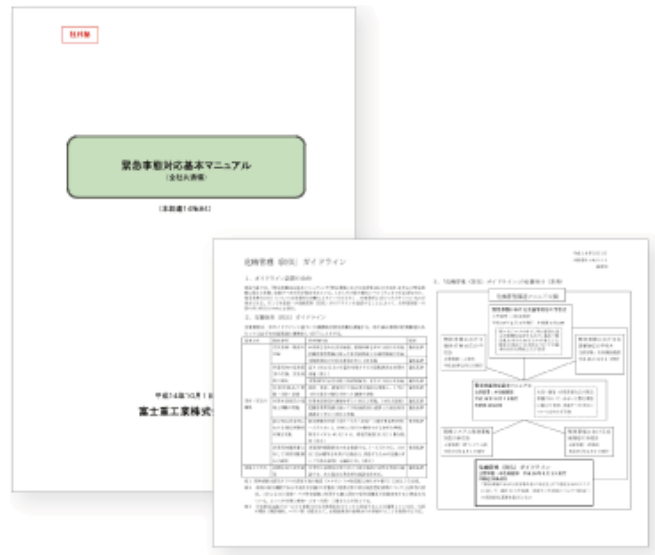
An evaluation of the internal control system related to financial reporting in connection with the internal control reporting system based on Japan's Financial Instruments and Exchange Act is conducted using the final date of the fiscal year of the consolidated financial statements as the reference date. The evaluation conforms to the standards for evaluation of internal control related to financial reporting that are generally accepted to be fair and reasonable.

The President & Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) evaluated the status of the development of the internal control system related to financial reporting as of March 31, 2016 and affirmed that it has been established properly and functions effectively and issued an internal control report audited by the Accounting Auditors to that effect.

Crisis-level Risks

We define risk as uncertain elements with the potential for negative impact on our business operations. While there are many types of risk, we call those risks that are particularly dangerous to our business operations and that we cannot handle through regular decision-making channels “crisis-level risks” and categorize them as follows: natural disaster, accident, internal human factors, external human factors, social factors (domestic, overseas), and compliance.

We have created manuals for dealing with each type of emergency, which delineate what communication channels are to be used once a risk is recognized, how to form crisis management headquarters, and other methods to follow to respond optimally to the situation.



FHI emergency response procedure manual and crisis management (disaster prevention) guidelines

Location-specific Business Continuity Plans (BCPs)

With the goal of minimizing any reduction of service to customers and preventing loss of market share and corporate value, we have created a BCP for each business unit to maintain business operations or restore them as quickly as possible in the event of an emergency. Should our resources (employees, physical assets, monetary assets) be affected by an emergency, we will leverage our remaining resources to minimize the shutdown of priority operations and restore all operations to their original state as quickly as possible. We have also established an Emergency Response Policy, in accordance with which we strive to maintain operations in the event of an emergency.

Emergency Response Policy

- 1 Give first priority to people's survival and physical safety.
- 2 Minimize loss of stakeholder interests and corporate value.
- 3 Act always with honesty, fairness, and transparency, even in an emergency.