Corporate Governance

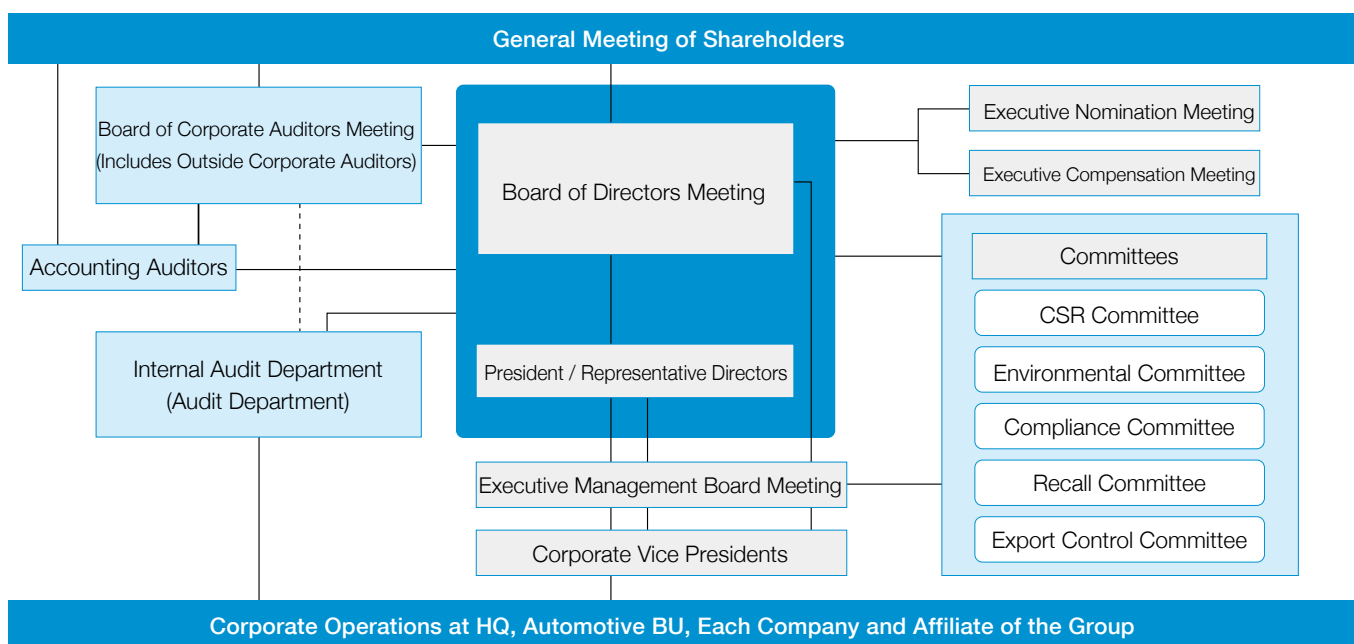## System of Corporate Governance

Further Reinforcement of the Corporate Governance System

Since June 1999, FHI has employed an executive officer system that helps clarify responsibilities to carry out operations in each division. In addition, since June 2003, the terms of directors and executive officers have been reduced from two years to one. Also, since June 2004, according to the decision of the Board of Directors, we have given responsibility for the selection of corporate officer candidates to the Executive Nomination Meeting and given responsibility for evaluating performance, determining the remuneration of corporate officers and others to the Executive Compensation Meeting.

Also, the execution of important business operations is decided and supervised by the board of directors and audited by the board of corporate auditors. The board of directors consists of 7 members with one of them invited from the outside as an independent member to enhance governance. The board of corporate auditors consists of 4 members with two of them invited from the outside for higher objectivity to monitor business management. In addition, we will take various measures to further strengthen internal control, and will also disclose information fairly and in a timely manner in order to increase management transparency.

System of Corporate Governance

General Meeting of Shareholders

Board of Corporate Auditors Meeting
(Includes Outside Corporate Auditors)

Accounting Auditors

Internal Audit Department
(Audit Department)

Board of Directors Meeting

President / Representative Directors

Executive Management Board Meeting

Corporate Vice Presidents

Executive Nomination Meeting

Executive Compensation Meeting

Committees

CSR Committee

Environmental Committee

Compliance Committee

Recall Committee

Export Control Committee

Corporate Operations at HQ, Automotive BU, Each Company and Affiliate of the Group

Establishment of Internal Control System

Enhancing the Whole FHI Group Internd Control System

Internal control is an indispensable mechanism to achieve corporate objectives, and top management is responsible for establishing it and maintaining its effectiveness and efficiency. Specifically, companywide departments, centering on Corporate Planning Department (which plays a central role in the common functions of each business), maintain close links with other departments and companies to enhance risk management.

Internal Audit Department systematically audits group companies and their operations. In addition, to regulate the internal control system, there are systems and organizations Establishment of Internal Control System to promote compliance, which is positioned as the most vital element in risk management. Also, the internal control system of the whole group has been overhauled and reinforced to comply with the "Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting" which was released to the public on February 15, 2007 by the Business Accounting Council of the Financial Service Agency, in the following areas:

1. Effectiveness and efficiency of business operations
2. Reliability of financial reporting
3. Compliance with applicable laws and regulations related to business activities
4. Safeguarding of assets

Risk Management

Risk is Classified and Properly Managed

We understand that risk is an uncertain element with potential for negative impact on our business operations. There are many types of risk. Among them, what concerns management seriously, are emergency situations which cannot be dealt with through the regular decision-making channels. These situations are categorized as "crisis risk" and classified by type into risks associated with natural disaster, accident, internal and external human factors, social factors (domestic and overseas) and compliance.

In the event of an emergency, we follow instructions on communication channels and the most appropriate actions for dealing with a particular situation as provided in a manual designed to respond to various types of emergencies.
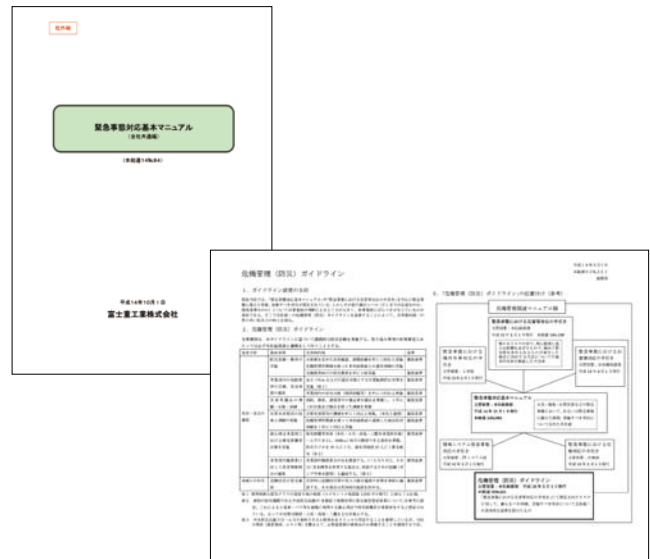
FHI emergency response procedure manual and crisis management (disaster prevention) guidelines

Mapped out BCP[*1] by Business Unit

BCP is formulated to continue or restore business as rapidly and completely as possible. In each emergency situation, we will exert the utmost effort to minimize negative impacts on services to customers, the market share and any loss of corporate value. In this respect, if our business resources including personnel, properties and monetary assets are affected under an emergent situation, we go all out to minimize business interruption prioritizing available resources to restore operations expeditiously to pre-mishap levels.

Setting the basic policy to meet emergency situations as follows, we mapped out BCP by business unit and are promoting uninterruptable business operations.
❶ Life and physical safety precede all other things.
❷ Minimize the loss of the interests of stakeholders and corporate value.
❸ Always act with honesty, fairness and transparency even in an emergency.

*1 BCP: Business Continuity Plan

Revising Disaster Risks after the Great East Japan Earthquake

As a part of revision activities after the Great East Japan Earthquake, we are currently improving our BCP, particularly in the area of initial response. Each business site is now equipped with emergency power generators and seismic detectors that are linked with the evacuation guide announcement system to enable smooth evacuation in the event of an emergency. At the same time, we are working to identify a variety of risks at revised earthquake levels, including those in procurement, production, and distribution, to minimize such risks and create an action plan for disaster recovery.