

# Strengthening Corporate Governance

## Corporate Governance

### Basic Concept

FDK Group conducts reviews of the management system as necessary for each measure based on the general principles of the Corporate Governance Code stipulated by the Financial Instruments Exchange as well as establishes organizations and introduces other necessary measures because it believes strengthening corporate governance improves the soundness and transparency of the company and improves the value for FDK shareholders.

FDK strives to heighten fairness and transparency with broad disclosure of information such as the provision of financial information via the Internet while working to quickly release management information.

Moreover, FDK has introduced a corporate officer system composed of three directors and corporate executive officers as well as eight corporate officers to operate businesses that separate the auditing of management and the business operating system.

### Board of Directors

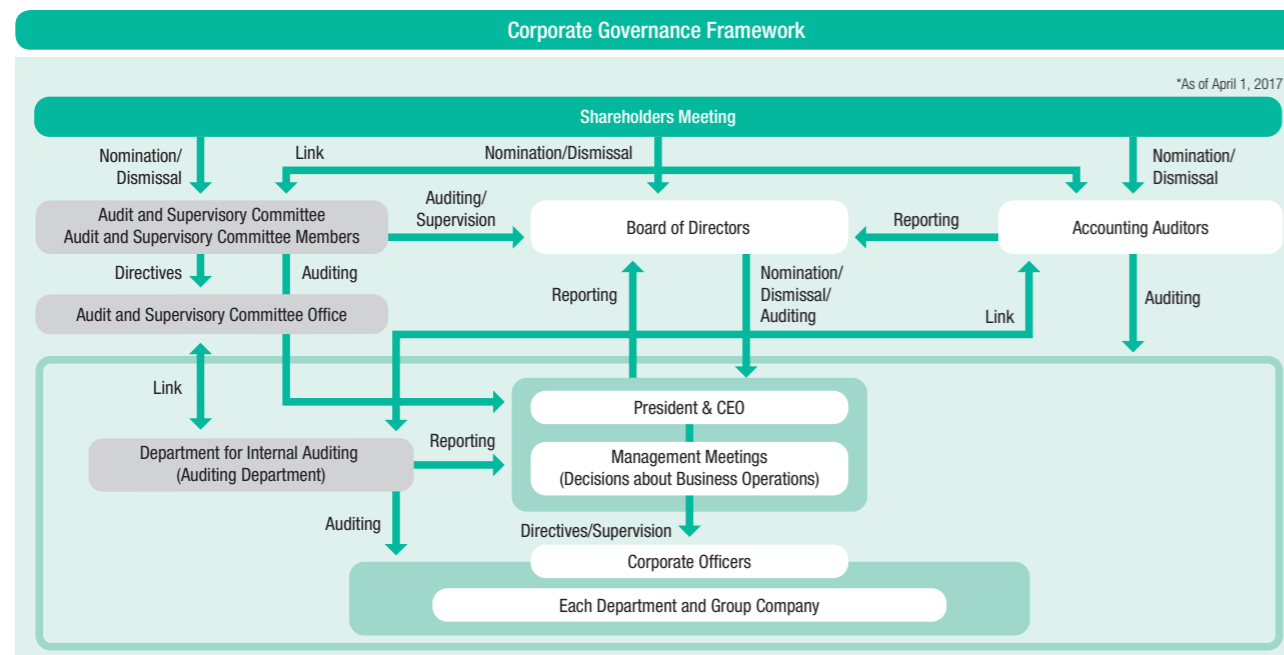
The FDK Board of Directors is composed of four directors (excluding directors who are Audit and Supervisory Committee members) and three directors who are Audit and Supervisory Committee members. Board of Directors meetings are held once every month to determine important management matters and deliberate the progress status of performance

and investigate the measures.

### Audit and Supervisory Committee

The Audit and Supervisory Committee is composed of three directors, including two outside directors, with meetings held once a month and whenever else a meeting is deemed appropriate to monitor and audit the appropriateness and validity of management. Furthermore, each Audit and Supervisory Committee member attends the Board of Directors meetings to share objective and fair insight about overall management and each matter while also auditing the appropriateness and validity of business operations of the directors according to the auditing policies formulated by the Audit and Supervisory Committee.

FDK established an Audit and Supervisory Committee Office on April 1, 2017 with the purpose to facilitate high-quality auditing and supervision as well as to contribute to the strengthening of governance through smooth informational sharing between outside directors who are Audit and Supervisory Committee members. FDK aims to improve the effectiveness and efficiency of auditing with close links that include bilateral informational exchange and sharing of opinions between the Audit and Supervisory Committee, Audit and Supervisory Office, Accounting Auditors, and the Auditing Department.



## Internal Control

### Basic Concept

As a means to fulfill corporate social responsibilities, FDK Group approved the "Basic Policy for Establishing an Internal Control System" at the Board of Directors meeting by recognizing the necessity of strengthening corporate governance to maintain a sound and strong relationship with

FDK stakeholders from employees to suppliers and local communities while ensuring the appropriateness of operations and reliability of financial reporting in addition to realizing management that complies with relevant laws and the Articles of Incorporation.

## Response to Amendments of the Companies Act and Corporate Governance Code

FDK transitioned to a company with an audit and supervisory committee and released a corporate governance report in June 2016 in accordance with amendments to the Companies Act in 2015 as well as the formulation of the Corporate Governance Code by the Financial Instruments Exchange.

In FY2016, FDK endeavored to improve matters of explanation as well as items to comply to in FDK governance report in addition to respond to amendments in the Companies Act.

Disclosure Based on Principles of the Corporate Governance Code		
Five General Principles	30 Principles	38 Supplementary Principles
1. Securing the Rights and Equal Treatment of Shareholders	7	9
2. Appropriate Cooperation with Stakeholders Other Than Shareholders	5	3
3. Ensuring Appropriate Information Disclosure and Transparency	2	4
4. Responsibilities of the Board of Directors <b>FY2016 reformation/enhancement matters</b>	14	19
5. Dialogue with Shareholders	2	3

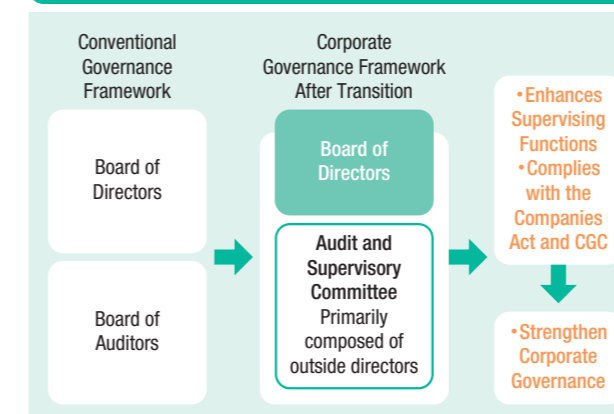
Either comply with a principle or, if not, explain the reasons why not to do so for the 73 items above  
"Comply or Explain"

<ul style="list-style-type: none"> <li><b>FY2015 Status</b> Comply 65 items/ Explain 8 items of the 73 items Challenges (items to explain): Items related to outside directors and settlement for exercise of voting rights electronically</li> </ul>	<ul style="list-style-type: none"> <li><b>FY2016 Status</b> Complied with 72 items/ Explained 1 items of the 73 items Challenges (items to explain): Approval for exercise of voting rights electronically</li> </ul>
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### Transitioned to a Company with an Audit and Supervisory Committee

FDK transitioned to a company with an audit and supervisory committee as a new institution of the company in accordance with the amendments of the Companies Act put in place May 2015. FDK has transitioned to a company with an audit and supervisory committee after approval at the 87th Annual Shareholders Meeting held June 28, 2016 with the objective of strengthening corporate governance while enhancing supervising functions of Directors and realizing management with a high-level of transparency.

### Transitioning to a Company with an Audit and Supervisory Committee



### Enhancing and Strengthening "General Principle 4: Responsibilities of the Board of Directors" in the Corporate Governance Code

#### (1) Director Training

FDK held training for directors three times a year with the objective to reaffirm expert knowledge and learn things outside of that expertise in an effort to increase the expertise and knowledge of FDK directors.

#### (2) Effective Assessment of the Board of Directors

FDK dug deeper into the heart of challenges and enhanced assessment methods in an effort to take action to strengthen supervising functions by incorporating interviews through third-party institutes in addition to evaluation methods through conventional questionnaires.



Director Training

FDK will enhance and strengthen corporate governance by extracting prioritized initiatives related to the Corporate Governance Code every year from FY2017.