

Management system

As the world continues to grapple with economic uncertainty, and as we, in Japan, grapple with the aftermath of the Great East Japan Earthquake, corporations are being called upon more than ever to manage risk and contribute to society in times of emergency. THK will continue to reinforce its governance and compliance systems as we strive to build a rock-solid management system that is capable of handling any type of societal risk.



Topics in 2010

■ Implementation of Information Security

Internal audits of THK's information security were conducted by the Information Security Committee Office at the YAMAGUCHI Plant, FUKUOKA Branch, UENO Branch, Engineering and Development Department, THK CHINA (Engineering Department) and THK INTECHS Headquarters so as to establish a company-wide information security system at THK.



Corporate governance

Q How are corporate governance and internal controls being maintained at THK?

A → **Efforts are ongoing to secure management transparency and reinforce internal controls for the entire THK inclusive of all subsidiaries and group companies so as to secure a rock-solid audit system.**

Governance system

The organizations that oversee THK's operations are its Board of Directors, Board of Auditors which includes outside auditors, and Accounting Auditor. In order to continue to raise the company's corporate value, THK strives to improve the transparency of its operations and to reinforce its management monitoring function aimed at achieving its business goals. An Internal Audit Office has been established as an independent entity under the direct jurisdiction of the CEO to evaluate the faithful performance of business duties, management efficiency, and adequacy of internal controls.

Internal controls

THK is implementing measures to reinforce internal controls for the purpose of further solidifying its management infrastructure and ensuring full compliance with legal requirements.

In 2008, THK established the "Rules for Internal Control of Financial Reporting" to govern internal controls, and efforts are ongoing to put in place a system for ensuring the reliability of financial reporting based on Japan's Financial Instruments and Exchange Law throughout the entire group including subsidiaries and affiliated companies.

Evaluations of the operational status of internal controls are conducted by the Internal Control Audit Department established as part of the Internal Audit Office, and the Internal Control Department of the Risk Management Division, in its capacity as secretariat, is in charge of implementing opera-

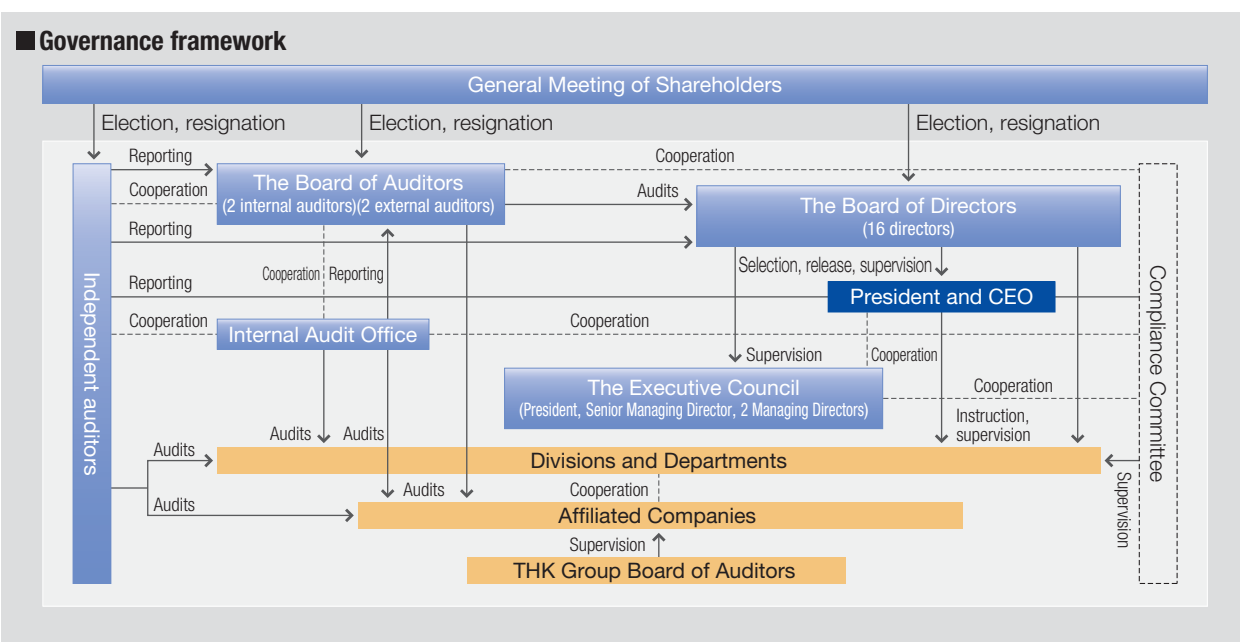
tional improvements annually based on the evaluations.

The internal evaluations conducted in fiscal 2010 revealed no significant deficiencies.

The results of the final evaluation were submitted to the Prime Minister of Japan (via the Kanto Finance Bureau of the Ministry of Finance) in June 2011 and have been publicly disclosed.

Security-related trade controls

To handle requests for parameter sheets which arise when THK directly exports products, machinery or technology, as well as when THK products are exported by its customers, the company has developed an intranet-based parameter sheet management system designed to ensure thorough and accurate descriptions of parameters and timely preparation of parameter sheets, and rules for approval procedures have been established in order to manage the provision of technology. In addition, as overseas demand and product uses become increasingly diverse as the overseas markets expand, efforts are also being made to improve export controls and information management at THK's overseas locations by providing educational tools and seminars for employees of overseas affiliate sales companies so as to avoid inadvertent violations of the Foreign Exchange and Foreign Trade Control Law or self-imposed restraint by local sales divisions due to excessive concern over compliance matters. Measures such as these are enabling THK to appropriately comply with the requirements of security-related trade controls and contribute to Japan's security and future progress.



Compliance

Q What does THK do to ensure that compliance is observed throughout the company?



In order to ensure that compliance is observed throughout the company, the Compliance Panel which is comprised of members from each of the business departments holds regular study sessions, the content of which are then reported to and shared with the employees at each workplace.

Compliance system

Since 2005, THK has had a permanent Compliance Committee with the CEO as committee chairman. The Compliance Committee discusses and authorizes all compliance-related policies, rules, regulations, and training and educational programs, and handles violations of laws, regulations or internal rules as well as matters that have been reported internally. In addressing specific violations, THK consults closely with legal advisers who take part in Compliance Committee meetings as observers to ensure that appropriate legal action is taken.

Each THK business division has established its own Compliance Panel which operates under the Compliance Committee's jurisdiction. One Compliance Panel member is assigned to each business location or area to promote observance of the compliance system and to serve as a consultant and liaison.

In addition, an internal "THK helpline" system has been set up to help deter potential compliance violations by executives or employees, and to ensure that appropriate actions are taken quickly if a violation occurs. Violations can be reported by telephone or e-mail or by contacting the company's legal advisers who provide an external channel for such communications.

In fiscal 2010, the helpline received seven reports, all of which were resolved in coordination with the departments involved and properly reported to the Compliance Committee.

Training and education

In December 2010, Compliance Panel members held a scheduled workshop led by a visiting lecturer (a corporate lawyer) to improve their understanding of legal matters as well as their knowledge of and capacity for dealing with compliance matters. In the first half of the session, the participants studied the essence of compliance management based on actual corporate cases. The latter half was devoted to case studies and group discussions dealing with the pitfalls of misconduct companies must avoid, and ways of dealing with employees and managers who try to justify their violation of laws and regulations.

After the study session, the panel members immediately put their newly acquired knowledge from the workshop to use and set about improving the compliance system at their respective workplaces by holding voluntary workshops and discussions of their own.



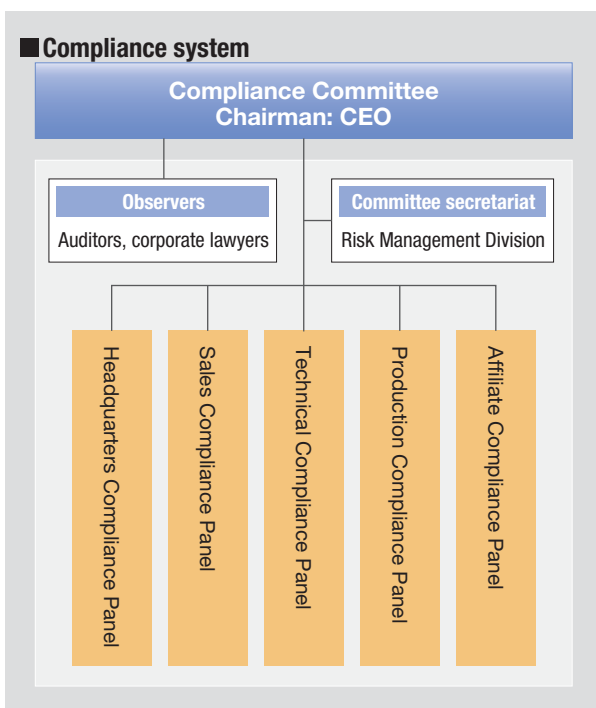
Compliance Panel members take part in a workshop

Each business location is also providing compliance training for general employees in an effort to educate them and develop their awareness of compliance. In fiscal 2010, a total of 792 employees including new employees received such training.

THK has also introduced various educational materials concerning compliance into its e-learning program, an in-house educational tool, to promote self-development and help employees become more aware of compliance in their daily work. In February 2011, 7 new case studies were added, bringing the total to 30 (in addition to 69 drill-type study questions). Going forward, additional case studies of legal violations that can happen in the daily course of business will continue to be added in our effort to foster the legal minds of our employees.



Compliance materials are included in the e-learning program



Risk management and information security

Q Is THK adequately prepared for risks such as natural catastrophes or information security breaches?

A **THK has formulated a Business Continuity Plan (BCP) to prepare its production sites for the possibility of a major disaster. We are also continuing disaster drills and educational programs on information security.**

BCP

In order to prepare for a major earthquake or other disaster, THK facilitated the development of a BCP (Business Continuity Plan) on a company-wide basis, and in 2009, the KOFU Plant completed work on its BCP, followed by 10 more major plants in 2010.

Since then, THK Headquarters and the sales offices have gone ahead with preparations for formulating their BCPs which are expected to be completed in the first half of 2011.

But formulating a BCP is not sufficient in itself. It is important to follow this with on-site and desktop training, and by implementing improvements and educating employees. In other words, the BCP must be refined in a Plan-Do-Check-Act problem-solving process. Regrettably, the THK business locations also suffered damage in the Great East Japan Earthquake. It is our hope that the experience gathered from the occurrence of the disaster and through the process of reconstruction (for details see page 3) will be utilized effectively and reflected in future improvements to the BCPs company-wide.

Disaster drills

The GIFU Plant holds regular annual disaster drills to prepare for earthquakes and fires. As last year's event was not meant to be merely an evacuation drill but an important opportunity to test the effectiveness of the recently formulated BCP, planners and participants alike participated in the event in earnest.

The drills took place in mid-October with a total of 226 participants in attendance including not only the employees from the CHUBU Distribution Center located on the plant premises but also employees from other cooperating companies.

After the evacuation drill, selected members demonstrated the use of fire hydrants while new employees were shown how to use a fire extinguisher by local firefighters.

While only a drill, the total evacuation time is recorded every year because having things run smoothly and according to the rules in extreme situations is a very important aspect of the exercise. Two years ago, the process took 5 to 6 minutes, but this year it took only 4 minutes and a few seconds. Nevertheless, since the result fell short of the targeted 3 minutes, both the drill and the awareness training of employees will have to be improved further. Based on the shortcomings observed in this year's drill, the Plan-Do-Check-Act problem-solving process will need to be employed more effectively in preparation for the next drill or for a natural catastrophe that could hit us at any time.

Information security

Internal audits of the THK information security system were conducted by the Information Security Committee Office at the YAMAGUCHI Plant, FUKUOKA Branch, UENO Branch, Engineering and Development Department, THK CHINA (Engineering Department) and THK INTECHS Headquarters so as to establish a THK company-wide information security system.

Additionally, workshops were held at 18 branches in 2010 to educate employees about information security. THK also implemented a company-wide self-inspection utilizing the intranet in an effort to promote an understanding of the actual state of information security within the company, and where problems were observed, improvements were made.

While use of the internet has become necessary and unavoidable in carrying out business activities, it also comes with the risk of third parties with malicious intent attacking company websites. This kind of harm not only affects THK itself but can also cause immense damage to those who access our site and to our customers whose personal data we store, making it critical that companies implement information security measures.

Under these circumstances, THK has introduced a system that allows it to diagnose its website at any time so as to spot vulnerabilities at an early stage and develop solutions as they are necessitated. By repeating the cycle of vulnerability diagnosis solution verification as needed, the THK website is maintained in a state that allows everyone to visit without any concerns for information security.

