Corporate Governance

Internal Audit, Internal Controls, and Information Security

Governance Structure

With the aim of maximizing THK's corporate value, we strive to make medium- to long-term improvements to our corporate value by bettering our corporate governance.

The executive officer system represents one of our main efforts and has been in place since June 2014. Additionally, after the 46th General Meeting of Shareholders on June 18, 2016, and in conjunction with our establishment of an Audit and Supervisory Committee in place of our Audit and Supervisory Board, we set up a non-mandatory Nomination Advisory Committee and a Remuneration Advisory Committee to act as advisory bodies to the Board of Directors. In doing so, we have endeavored to bring enhanced transparency and objectivity to management, strengthen the auditing functions of the Board of Directors, and bring greater speed and efficiency to management-related decision-making and the management of corporate affairs.

SUMMARY

▶ **Audit and Supervisory Committee**
- The directors on the Audit and Supervisory Committee, which serves in an auditing and supervisory capacity, participate in Board of Directors meetings and exercise their votes.
- This committee utilizes internal controls to audit and supervise the work of directors and managing executive officers.

▶ **Nomination Advisory Committee and Remuneration Advisory Committee**
- To secure greater transparency and fairness, half of the members are outside directors.
- As advisory bodies to the Board of Directors, these committees review and deliberate on director candidates and remuneration proposals. The Board of Directors then deliberates and makes decisions regarding those topics.

▶ **Executive Officer System**
- This system endeavors to improve the management oversight function of the Board of Directors, clarifies roles and responsibilities relating to the management of corporate affairs, and accelerates operational execution.

Governance Structure
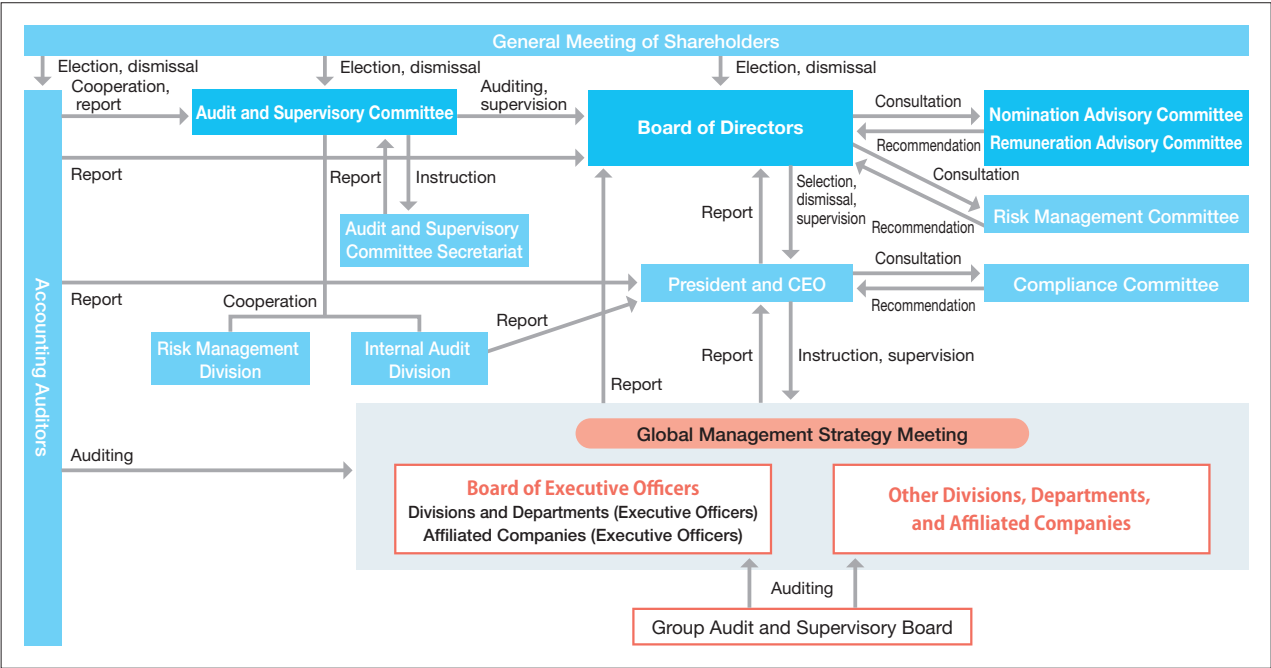
Internal Audit

As a matter of basic policy, we conduct internal audits that contribute to management and the departments being audited. Internal auditors monitor the business activities of each department as a group directly reporting to the CEO that is independent from any other department.

During internal audits, the business activities of each department and Group company are audited. These audits are generally performed on-site every year, and the results are summarized in an internal audit report and distributed to both management and the departments under audit.

In 2018, a total of 71 locations and departments were audited in and outside of Japan.

Internal Controls

We have established and properly enforce our internal control policy to ensure that each THK employee complies with laws and the articles of incorporation as we maintain sound and transparent operations and achieve our corporate philosophy.

We have established the "Regulations for Internal Control over Financial Reporting" to comply with the internal control reporting system, which is based on the Financial Instruments and Exchange Act. In accordance with the basic framework outlined in the Financial Services Agency standards, we have established and enforce the "Regulations for Internal Control over Financial Reporting," and we improve them as necessary.

Furthermore, the internal evaluation performed in 2018 found no critical deficiencies requiring disclosure. The final evaluation results were summarized in the internal control report submitted and disclosed to the Prime Minister (Kanto Local Finance Bureau) in March 2019.

Information Security

Information Security Management

The Information Security Committee, chaired by the CEO, has been in place since 2006, and the organization, authority, and roles and responsibilities of its members are clearly defined in the committee's regulations. This committee makes decisions concerning policies related to the establishment of information security systems, and it deliberates on responses to information security concerns.

In 2018, the activities below were conducted to strengthen information security.

Activity	Description
Training	• Providing online training about personal information
Sending out alerts	• Sending information about e-mail scams
Surveying and correcting current conditions	• Internal information security audits (4 locations in Japan)
Measuring results	• Self-survey on information security
GDPR compliance	• Information session for staff in charge • Data mapping and checking for compliance • Establishing a privacy policy and internal rules • Appointing a DPO (Data Protection Officer)
System countermeasures	• Monitoring and updating anti-virus software • Preventing unauthorized access and transmissions • Detecting and preventing intrusion of targeted e-mail attacks from external sources

GDPR Compliance

The GDPR (General Data Protection Regulation) is a new framework for protecting the personal information of individuals living within the European Economic Area (EEA) and governs the processing* and transferring* of such data. At first glance, the GDPR may seem irrelevant outside of the EEA. However, because of corporate globalization, Japan and many other countries outside of the EEA are affected.

To understand how personal information was being processed and transferred at our locations in Japan and the EEA, we closely examined the areas that handle relevant personal information. Based on the results, we established a privacy policy and internal rules that comply with the GDPR. We have established a global framework for protecting personal information and properly manage the information we possess based on our policy and rules.

*Processing: Any act done to personal information (collecting, storing, disclosing, viewing, deleting, etc.)
*Transferring: Moving the personal information of EEA residents out of the EEA

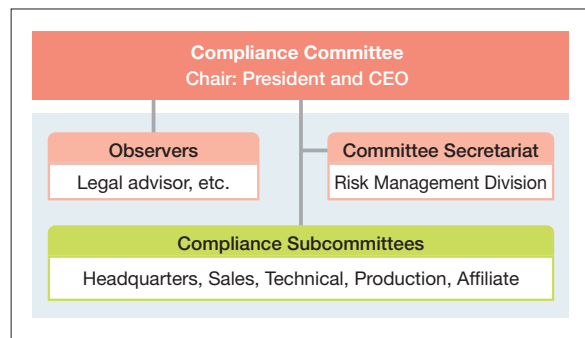# Compliance Structure and Security Export Control

Compliance Structure

Policy | Thoroughly instill compliance awareness and create a work environment that does not allow wrongful acts.

To thoroughly instill compliance awareness, we maintain structures and conduct various programs with the aim of complying with laws, internal standards, and ethical norms.

Compliance Committee
The Compliance Committee is headed by our CEO and convenes four times a year. This committee, which is attended by outside directors and a legal advisor, properly approves the annual activity plan and reports on the execution of those activities, as well as on the handling of compliance violations by employees and other matters reported internally.

Compliance Structure

| Compliance Committee |
| Chair: President and CEO |

| Observers | Committee Secretariat |
| Legal advisor, etc. | Risk Management Division |

| Compliance Subcommittees |
| Headquarters, Sales, Technical, Production, Affiliate |

THK Group Helpline (Internal Reporting System)
The THK Group Helpline was established to prevent compliance violations and to enable quick and appropriate action in the event of an employee committing a violation. There are two internal contacts (the Risk Management Division and Audit and Supervisory Committee) and one external contact (our legal advisor) for reporting. Reports can be made anonymously, and we faithfully enforce our rules ensuring confidentiality regarding their contents and prohibiting unfavorable treatment on the basis of having made a report. There were nine cases reported in 2018, and we worked with the necessary divisions to handle each case appropriately.

Distribution of the "Fundamentals for the THK Group Employees" Booklet
With the aim of helping employees always properly execute their duties without losing sight of our mission, "Fundamentals for the THK Group Employees" contains the materials that constitute our CSR policy: our Corporate Philosophy, Corporate Basic Policies (creating value and contributing to society, being customer-oriented, and compliance with laws and regulations), and The THK Group Action Charter (ten principles of behavior). This booklet is available in a total of 12 languages and is distributed to all employees.

2018 Activities

Activity	Purpose	Description
Training	Preventing illegal and wrongful acts that would significantly impact operations	• Compliance sub-committee member seminar (July) • New hire training (April) • Seminars at various THK locations (9 sessions) • Seminars at business partner locations (5 sessions) • Seminars at overseas subsidiaries (3 European subsidiaries) • Providing e-learning materials (2 topics)
Establishing global compliance structure	Global collaboration in compliance-related work	• Providing support to establish a compliance committee for Chinese subsidiaries
Compliance violation awareness	Improving knowledge and awareness of compliance	• Creating and posting materials to increase awareness via articles about scandals, etc. (12 postings)
THK Group Helpline awareness	Improving familiarity with THK Group Helpline	• Introducing THK Group Helpline via internal newsletter (3 times)

Security Export Control

We use our intranet to promptly issue parameter sheets and grant permission for service transactions.

In consultation with the Ministry of Economy, Trade and Industry and CISTEC, we carefully examine transactions involving items with special applications and those for which Appended Table 1 of the Export Trade Control Order and the Appended Table of the Foreign Exchange Order apply to

ensure compliance with the Foreign Exchange and Foreign Trade Act.

In 2018, we introduced a system to simplify material classification and strengthened our catch-all examinations for countries without strict export controls. We are also looking into establishing procedures for catch-all examinations for new business and e-commerce transactions.

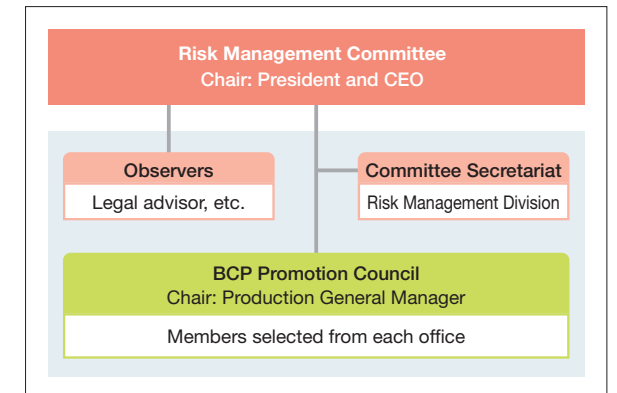# Risk Management Committee and BCP

Risk Management Committee

Policy | We facilitate assertive governance with elements of bold risk-taking.

THK has established a risk management structure that anticipates future circumstances, enabling management to take appropriate risks by identifying, analyzing, and responding to conceivable risks from the perspective of management and the company as a whole.

Risk Management Committee
The Risk Management Committee convenes annually and is headed by the CEO. The committee, which is attended by outside directors and legal counsel, approves the annual activity plan and works to establish, promote, and maintain the risk management structure by controlling risks throughout the entire Group.

Risk Management System

| Risk Management Committee |
| Chair: President and CEO |

| Observers | Committee Secretariat |
| Legal advisor, etc. | Risk Management Division |

| BCP Promotion Council |
| Chair: Production General Manager |
| Members selected from each office |

2018 Activities

Activity	Purpose	Description
Establishing the BCP Promotion Council	Maintaining a BCP promotion structure that will continuously reevaluate our BCP and ensure its practicality	• Established a BCP Promotion Council under the Risk Management Committee
Reviewing risk assessments	Reviewing our risk management structure related to everyday risk prevention and properly controlling risks	• Identifying, classifying, analyzing, evaluating, and reviewing risks, and reporting results to directors
Other	Verifying suitability of holding cross-held stocks	• Verifying medium- to long-term financial sense and future outlook of primary cross-held stocks
	Investment subcommittee studies	• Conducting studies that act to support appropriate risk-taking

BCP

Policy | As a company that supports industry around the world, it is our essential social responsibility to minimize any negative impact on society by fulfilling our responsibility to supply parts even in the event of unforeseen disasters.

As a component manufacturer, THK is responsible for supplying parts to customers, no matter the situation. We have formulated a BCP (business continuity plan) to minimize damage and ensure a rapid business recovery in the event of

a disaster, such as a large-scale earthquake (an earthquake registering at least 6 Lower on the seismic intensity scale, or one that brings about significant destruction).

BCP Strategies for a Large-Scale Earthquake

Activity	Description
Servers	• Maintaining main and backup servers in separate data centers • Practicing switching to backup servers in case main servers were to go down (once per year)
Earthquake-proofing	• Production facilities: installing equipment to prevent toppling of shelves that hold components, fixtures, and tools • Sales offices: installing equipment to prevent toppling of printers, cabinets, etc.
Emergency supplies	• All production and sales facilities: potable water, food, sanitary items, emergency supplies, and rescue equipment
Safety drills	• Annual drills at all locations • Annual satellite phone test