

# Corporate Governance and Tax Matters

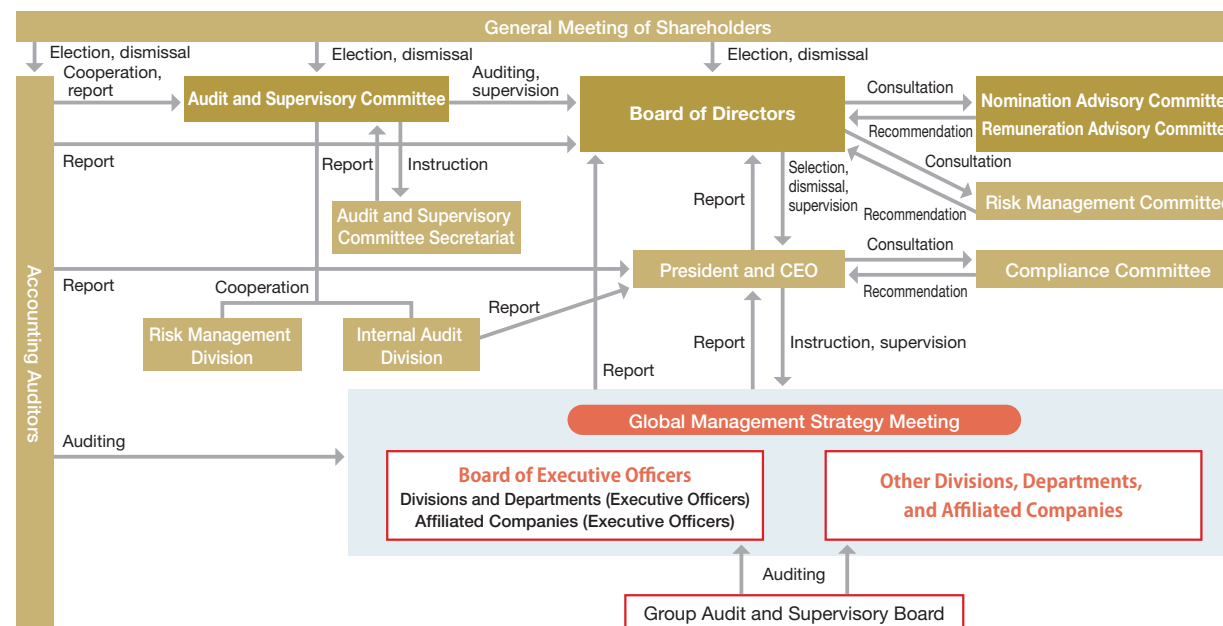
## Corporate Governance Framework

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.

For our institutional design, in conjunction with our establishment of an Audit and Supervisory Committee, we instituted a non-mandatory Nominee Advisory Committee and a Remuneration Advisory Committee to act as advisors to the Board of Directors, and half of the members of both committees are outside directors. We have also

introduced an executive officer system. In doing so, THK has strengthened the auditing functions of the Board of Directors in addition to bringing greater speed and efficiency to management-related decision-making and the management of corporate affairs. As of June 2020, four of the eleven directors are independent outside directors (three of whom are Audit and Supervisory Committee members), which enhances the neutrality and objectivity of management.

### Governance Structure



## Tax Matters

### Basic Policy

The THK Group appropriately files tax returns and pays taxes in accordance with both international tax regulations and the laws of each country and region in which it does business.

### Tax Risks

In addition to closely reviewing any transaction that may incur tax risks, we handle such matters appropriately by seeking advice from outside experts and consulting with the relevant tax authorities. Furthermore, we seek to control tax risks by utilizing advance pricing agreements (APA).

### Our Relationship with Tax Authorities

The THK Group strives to maintain a relationship of trust with tax authorities by disclosing required information in good faith.

### Ensuring Transparency

The THK Group appropriately discloses information in accordance with each country's laws and disclosure standards. Furthermore, we submit a Master File as well as a Country-by-Country Report in accordance with Japanese tax rules.

# Internal Audit, Internal Controls, and Information Security

## 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.

The Internal Audit Department carries the dual responsibilities of conducting internal audits and evaluating internal controls.

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 2019, a total of 73 locations and departments were audited in and outside of Japan.

During evaluations of internal controls, internal controls related to financial reporting are evaluated based on the Financial Instruments and Exchange Act. With the release of internal control reports, management evaluates the effectiveness of internal controls and undergoes an audit by accounting auditors on an annual basis. In 2019, the overall internal controls were evaluated at 20 locations, and the internal controls related to business processes were evaluated at 12 locations.

## 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 2019 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 2020.

## Information Security

**Policy** Establish, instill, and maintain the THK Group information security structure.

### Information Security Management

The standing Information Security Committee, chaired by the CEO, convenes four times per year. This committee, which is attended by outside directors and legal counsel, makes decisions concerning policies related to the establishment of an information security system and discusses responses to information security concerns. In recognition of the importance of utilizing data, as the number of cloud and other new services has grown in recent years, several activities were conducted to strengthen our information security structure in 2019.

### Complying with Laws Protecting Personal Information

When the GDPR (General Data Protection Regulation) entered into force in May 2018, we set up a fixed structure that included the establishment of a privacy policy and internal regulations that comply with the GDPR. As other legislation protecting personal information continues to be enacted in various countries and regions, we will properly manage personal information by confirming which laws apply to our Group and amend our privacy policy to establish a structure that safeguards personal information around the world.

Compliance and Intellectual Property

Compliance Structure

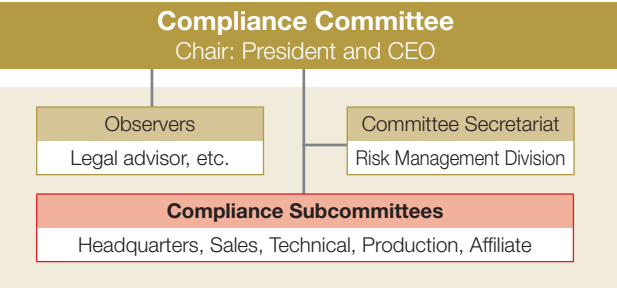
**Policy** Thoroughly instill compliance awareness and create a work environment that does not allow wrongful acts.

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



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 seven cases reported in 2019, 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. This booklet is available in a total of 12 languages and is distributed to all employees.

Intellectual Property

**Policy** THK values and promotes the creation and full utilization of its intellectual property to continue contributing to the creation of an affluent society through the development of innovative products.

Based on our growth strategies, we are developing new business areas on a daily basis and conducting intellectual property activities at a matching pace. Our activities include the following:

- 1. In concurrence with globalization, we promote the timely filing of patent applications and early acquisition of patent rights overseas in order to secure an advantageous business position and reduce business risk.
- 2. When entering new markets, we maintain the integrity of our brand name by reviewing the areas in which we have trademark rights and increasing new applications for trademarks.

In addition, we are strengthening our control over imitation products and strive to mitigate the negative effects if customers purchase counterfeit products by mistake.

Through the activities discussed above, in order to create intellectual property that can contribute to our business, we will continue to promote expanded intellectual property activities both in and outside of Japan, such as establishing new evaluation criteria when applying for patents and encouraging utilization of patents that have not been put into practice.

Risk Management Committee and BCP

Risk Management Committee

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

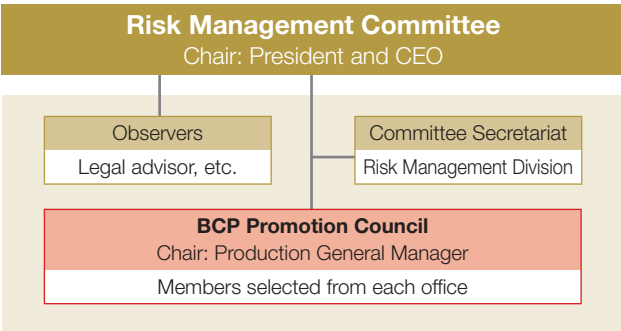
We maintain a forward-looking risk management structure that actively involves management in order to support appropriate risk-taking by executive staff.

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



2019 Activities

Activity	Description
BCP Promotion Council	The BCP Promotion Council established under the Risk Management Committee in 2018 was restructured so that the Production Division will take the lead in its promotion.  To quickly assess the status of our supply chain when a natural disaster such as an earthquake or heavy rain occurs, we adopted Rescue Web Map, which determines which suppliers are in affected areas.
Reviewing risk assessments	A review of THK and its domestic and international Group companies was conducted to uncover, identify, categorize, analyze, and evaluate the risks of which each company and department is aware, and the results were reported to the Board of Directors.
Other	The medium- to long-term financial sense and future outlook of primary cross-held stocks were verified.

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, we are 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).

In November 2019, the second BCP promotion meeting

was held to raise the awareness of the BCP Promotion Council members at each production facility. At the meeting, Yasuhiro Ueda, Officer in charge of Technology Policy and Relations at Sony Corporation, gave a lecture on the damage caused by the Kumamoto Earthquakes, the countermeasures taken, and lessons learned in the aftermath.

Recently, in order to minimize damage caused by unforeseen events in addition to earthquakes, including other natural disasters, cyber attacks, and new viruses, we have continued to promote BCM (business continuity management) practices such as the establishment of alternative production systems, supply chain management, and risk transfer through insurance.



BCP Promotion Council

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