Management Structure

# Corporate Governance and Tax Matters

Corporate Governance

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, 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. Furthermore, over one-third of the Board of Directors comprises independent outside directors in order to enhance the neutrality and objectivity of management.

As a precaution for the coronavirus, 12 out of the 16 Board of Directors meetings held in 2020 were conducted with some members attending by video conference.

Governance Structure
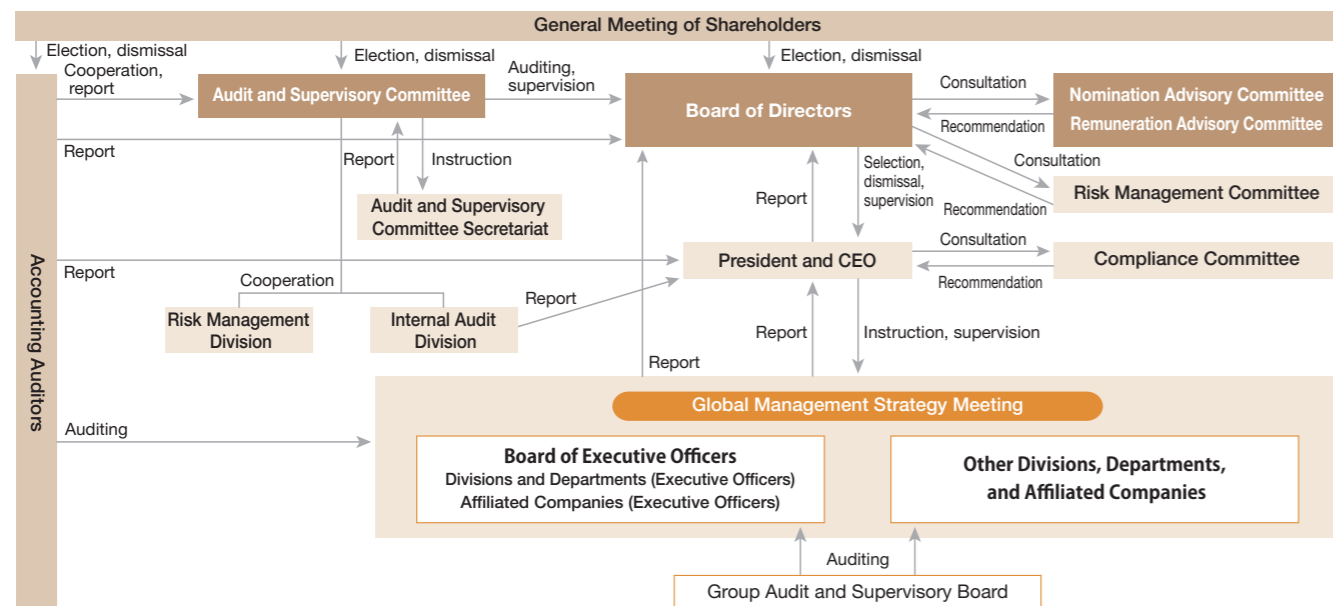
Tax Matters

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.

Management Structure

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 2020, a total of 45 locations and departments were audited virtually due to the spread of the coronavirus.

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 2020, the overall internal controls were evaluated at 21 locations, and the internal controls related to business processes were evaluated at 13 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.

In 2020, the evaluation was primarily conducted in a virtual format due to the coronavirus pandemic, and no critical deficiencies requiring disclosure were found. The final evaluation results were summarized in the internal control report submitted and disclosed to the Prime Minister (Kanto Local Finance Bureau) in March 2021.

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. Although the outside directors and legal counsel participated remotely due to the coronavirus, this committee made decisions concerning policies related to the establishment of information security systems, and it deliberated on responses to information security concerns.

Information System

Before the state of emergency was declared in Japan, we anticipated the need for remote work and took steps to make that transition. To that end, we established an even more advanced security environment including an e-mail license upgrade, anti-spam measures, account verification and cloud access management, and a virus detection framework. We also regularly monitor the Management Console logs for unusual activity.

> **Measures to enable remote work included:**
> 1. Procuring new laptops
> 2. Obtaining additional SSL VPN licenses to enable access to internal systems
> 3. Reconfiguring the network to boost its speed and performance when connecting from outside
> 4. Providing mobile routers to employees without internet access at home
> 5. Preparing handsets for connecting with Teams meetings, internal phone calls, and external Skype phone calls

In addition, we modified the network on the Technology Center floor for the value chain teams to use as a headquarters office space kept separate from other departments.

Compliance and Intellectual Property

Compliance Structure

> **Policy** Thoroughly instill compliance awareness and create a work environment that does not allow wrongful acts.
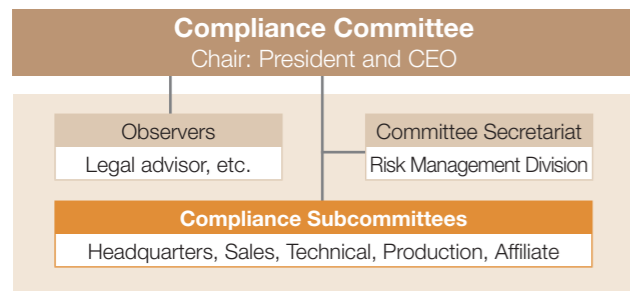
To thoroughly instill compliance awareness, we maintain structures and conduct various programs with the aim of complying with laws, internal standards, and ethical norms.

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.

Due to the coronavirus, the outside directors and legal advisor participated virtually.

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 ten cases reported in 2020, 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.

Establishing the THK Group Human Rights Policy
The THK Group has always conducted its business activities in a manner that respects human rights based on The THK Group Action Charter. In order to further clarify our stance on human rights and align our efforts therewith, we established the THK Group Human Rights Policy, which was approved by the Board of Directors in June 2020.

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.

Even during the coronavirus pandemic, we have continued to plan and develop products aimed at both improving the value of our offerings and contributing to society, working together with the sales and development divisions to promote activities related to intellectual property. Although working remotely presented communication challenges when it came to conveying nuance and confirming product details during planning and development, we met those challenges by making effective use of Teams and 3D CAD data during discussions. Next year, we will utilize the company's improved system environment and the skills we developed from this year's experiences as we conduct internal and external meetings related to intellectual property. We will continue to increase our utilization of digital tools and further revitalize the intellectual property efforts of the THK Group.

Risk Management Committee and BCP
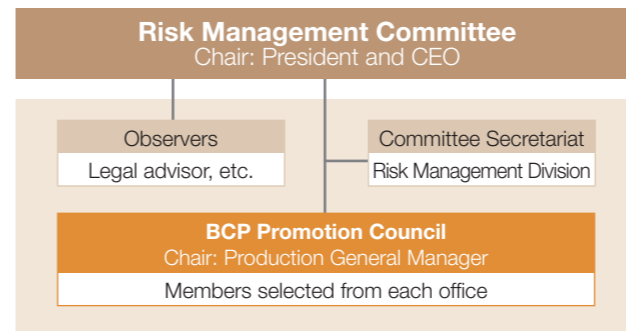
Risk Management Committee

> **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

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

2020 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. • This year, the meeting for those in charge of BCP promotion was delayed as a precaution for the coronavirus. However, they did coordinate with the Material Purchasing Unit to strengthen the supply chain. • 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. • In consideration of the global spread of the coronavirus, we reevaluated risks arising from infectious diseases.
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).

This past year was one of coping with how the coronavirus upended both the business environment and everyone's way of life. On the other hand, this experience has made evident the depth of harm that natural disasters bring and the threat they pose to business continuity.

In order to fulfill our responsibility to supply products even during a disaster, we introduced a system to quickly identify components that are impacted by the supplier's location.

We also participated in a gathering held by the Disaster Risk Reduction Industry Conference of Japan in order to begin promoting BCP activities that involve working with the National Research Institute for Earth Science and Disaster Resilience and other participating organizations. We will continue to improve our business continuity management in order to fulfill our social responsibility.

BCP Strategies for a Large-Scale Earthquake

Activity	Description
Supplying products	• Confirming back-up domestic and international Group factories to make products in place of a facility suffering a disaster • Expanding production capabilities of international Group factories
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