

CORPORATE GOVERNANCE AND INTERNAL CONTROLS

As a company, THK aims to maximize the generation of stable returns for shareholders over the long term. To this end, THK is working to strengthen corporate governance over time while upgrading compliance, risk management and other internal control systems.

Basic stance on corporate governance

THK's basic stance on corporate governance is that, from the perspective of maximizing shareholder returns, the Company should boost the transparency of management to shareholders while at the same time aiming to achieve proper and efficient management.

The two basic management bodies are the Board of Directors and the Board of Auditors. THK has also established the Executive Council, a four-member body including the President & CEO and senior executive directors, to provide additional support in the form of strategic input to guide the decisions made by the Board of Directors.

The Executive Council gathers from relevant internal departments the information required by directors to facilitate informed discussion and debate. Where necessary, the Executive Council may seek the opinion of lawyers, accountants, or other third-party professionals so that any points of contention can be debated and resolved.

Based on such deliberations, the Board of Directors provides the forum for further discussion of issues. The Board of Directors has final decision-making power over all key management issues. As of June 2008, it was composed of 16 directors, with no external appointments.

The Board of Auditors comprises four members, two of whom are external auditors. THK aims to strengthen management oversight by reinforcing the role played by the Board of Auditors.

Implementation of corporate governance measures

THK's business environment is characterized by fierce competition from other companies and increasingly advanced customer requirements. To develop and offer products and services that can satisfy customer demands within such an environment, THK believes that an important element of business execution is the cultivation of strong, mutually cooperative connections between directors who also serve in concurrent roles as senior managers with responsibility for functions such as production, sales, and quality control. THK also believes that such directors should participate in important management decisions. For this reason, THK has not appointed any external directors to date. Director terms are set at one year to ensure clearly defined managerial responsibilities.

To achieve a clear separation of management oversight from operational execution functions, senior executive directors (the members

of the Executive Council) do not hold any line management position. This rule is designed to promote an independent supervisory management function. Mutual monitoring by directors with concurrent senior management roles and auditing of management by the external and standing auditors provide additional oversight at the senior level.

In cooperation with the independent auditors, the members of the Board of Auditors work to assess the status and results of financial accounting audits, based on reports requested from the independent auditors concerning the process and content of such audits.

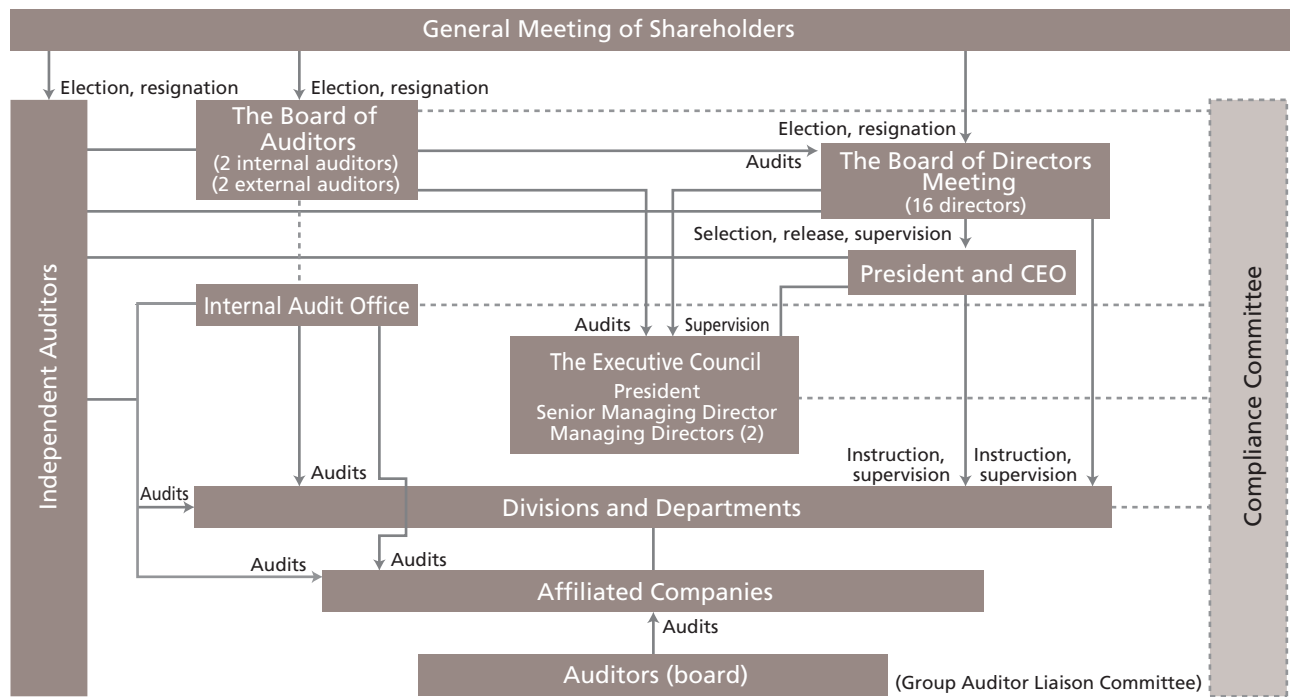
Separately, THK has also established the Internal Audit Office. Based on internal audit regulations, this section conducts ongoing internal audits to help evaluate whether operational execution is done on a faithful, sound, and rational basis and to assess overall management efficiency. The role of the external and standing auditors is to identify any matters requiring audit by Internal Audit Office personnel and to work with this section to implement appropriate auditing procedures. A separate liaison committee consisting of auditors working for the parent company and THK Group companies based in Japan also meets regularly to exchange information on auditing practices.

Active disclosure of corporate information

THK has consistently regarded active communication with all stakeholders as an important part of management. THK is actively committed to maintaining fair and proper disclosure of information.

In particular, in light of the basic stance on corporate governance to maximize shareholder returns, THK continues to devote efforts to upgrade and expand the disclosure of information to shareholders and investors. According prime importance to its business philosophy, THK releases long-term management targets, medium-term management plans, and annual forecasts on a regular basis, along with reports on the progress status of activities to achieve the goals outlined within this structure. THK also holds the General Meeting of Shareholders on a Saturday in mid-June. This policy deliberately avoids the period at the end of June when many shareholder meetings are clustered, thus making it easier for shareholders to attend.

THK strives to maintain high standards of reliability in financial disclosure. Accounts are compiled in accordance with generally accepted accounting standards. In addition, monitoring by the external and standing auditors along with the financial accounting audit un-



dertaken by the independent auditors serve to enhance reliability.

Development of system of internal controls

THK formulated a set of basic policies in 2005 aimed at promoting reliable internal administrative operations and has taken measures to raise awareness of these policies among employees. THK is currently implementing initiatives to reinforce and develop internal controls in order to ensure legal compliance and to strengthen the management platform.

In line with the provisions of Japan's Company Law, THK instituted a basic policy on internal controls in April 2006 (see pp. 40–41). A plan for developing these controls was formulated in fiscal 2006. In line with this plan, THK made progress during fiscal 2007 in creating a system of internal controls to cover the entire THK Group, including subsidiaries and affiliates. As required by the Financial Instruments and Exchange Law, whose provisions became effective in April 2008, THK has created an internal framework to ensure the reliability of financial reporting. Status checks were performed for selected parts of the THK Group during fiscal 2007 to test the operation of internal controls and to identify any outstanding issues or weak areas for prompt remedial action.

Promotion of compliance frameworks

THK established the Compliance Committee in 2005 as a permanent body chaired by the President & CEO. As well as discussing and approving all compliance-related policies, regulations and educational plans, this committee also considers and directs THK's response in the event of serious compliance violations or instances of whistle blowing. THK's operating divisions have all set up compliance working groups reporting to the Compliance Committee. Working group members are chosen to represent various sites and regions. Besides promoting compliance status and related awareness, the working groups also perform an advisory function in relation to compliance issues. Working group members submit regular reports on the compliance promotion status of the division so that any problem areas can be identified and actions taken to improve compliance. For example, to tackle the issue of potential subcontract-related fraud, check sheets were issued to all production facilities and the working groups provided advice on checking supply contracts.

The Company has also established the THK Help Line to provide employees with an internal channel for reporting suspected compliance violations. The aim is to prevent executive officers or employees from committing violations and to help ensure that swift corrective measures can be taken in the event that serious compliance-related problems do arise. THK has posted a series of notices on internal network bulletin boards to raise internal awareness of this help line facility.

To make further progress with promoting compliance education, THK has begun organizing related classes for managers in supervisory roles (deputy section leaders, group leaders, and team leaders). As of February 2008, a total of 528 people working in production-related roles within the THK Group had taken this compliance-related training course.

THK has also created compliance-related e-learning modules as a tool for raising internal awareness of compliance issues within everyday business activities. These modules are compulsory for all THK managers. Efforts are continuing to boost the level of internal understanding on compliance issues.

In other moves, THK has organized training seminars for the members of the compliance working groups. These seminars are led by lawyers and other outside experts, and cover topics such as subcontract-related fraud, Japan's laws on subcontracting, and sexual harassment in the workplace.

Comprehensive risk management

THK has established the Risk Management Department to monitor risks and to coordinate company wide efforts to address such risks. Within this office, separate sections are responsible for formulating guidelines and organizing educational and training programs relating to risks such as compliance, the environment, disasters, information security, legal affairs, and export controls. From the standpoint of business continuity planning, THK is constantly in the process of developing countermeasures to prevent and mitigate risks as well as contingency plans to restore operations after any unforeseen eventualities.

THK's Basic Policy on Internal Controls

Based on the Company Law of Japan and the regulations pertaining to its enforcement, the Company hereby institutes the following systems to ensure the soundness of operations(hereinafter referred to as "internal controls").

1. Controls to ensure that the execution of duties by directors and employees is in compliance with laws, regulations and the Articles of Incorporation

THK has instituted basic policies to ensure that directors and employees observe laws, regulations and the Articles of Incorporation and execute their duties in a sound manner in accordance with accepted social norms. The repeated communication of this attitudinal stance by the President & CEO to all directors and employees shall help to entrench full legal and regulatory compliance as the underlying premise of corporate activities. Moreover, to promote compliance, the Company shall establish the Compliance Committee (a body chaired by the President & CEO) and, underneath this committee, a compliance working group with members representing each THK operating division. Drawing on specialist outside expertise, members of the Compliance Committee shall strive to develop a compliance system that functions across the entire Company and to identify any related problems. The Company shall also establish and operate the "THK Help Line" as a means for employees to provide information directly to outside specialists on an anonymous basis regarding any actions that seem questionable from a compliance standpoint.

2. Storage and management of information relating to execution of duties by directors

In accordance with the Company's management regulations, information relating to the execution of duties by directors shall be recorded and stored in documented form or using electromagnetic media (hereinafter collectively referred to as "documentation"). In accordance with these same regulations, directors and auditors shall have full access to such documentation.

3. Regulations and other controls relating to management of loss-related risks

Each internal department shall bear responsibility for overseeing institution of rules and guidelines relating to risks such as compliance, the environment, disasters, quality, information security and export controls, and for organizing educational and training programs as well as the production and distribution of risk manuals. The Risk Management Office shall monitor the status of every part of the Company's organization and shall coordinate company-wide efforts to address such risks. In the event that any new risk emerges, the Board of Directors shall confer responsibility for addressing such risk to a designated director.

4. Controls to ensure efficient execution of duties by directors

The Board of Directors shall set consolidated performance targets shared by directors and employees and shall work to ensure that such targets are widely understood within the organization. Based on these targets, the Board of Directors shall also formulate medium-term management plans covering periods of three fiscal years. Directors with responsibility for each operating division shall determine division-specific policies to achieve the designated performance targets and shall develop efficient frameworks for operational execution covering issues such as delegation of authority. Making suitable use of information technology, the Board of Directors shall review progress status against performance targets on a monthly and quarterly basis and, by promoting any necessary improvements, shall oversee the construction of systems across the THK Group to facilitate efficient operations.

5. Controls to ensure sound operations across the entire THK Group

With the aim of constructing internal controls for the parent company and all THK Group companies, the Company shall establish a section responsible for the internal controls relating to THK Group companies and shall also construct systems to promote efficient consultation, cooperation, sharing of information and communication of instructions and requests between the parent company and THK Group companies relating to such internal controls. The authority and responsibility for establishing and operating internal controls to ensure the sound operations of each business division shall rest with the directors of the Company and with the presidents of each THK Group company. The Internal Audit Office shall conduct internal audits of the Company and all THK Group companies and shall report the results both to the Board of Directors and to the relevant internal controls sections established inside the parent company and THK Group companies. Based on the internal audit results, the internal controls sections shall provide any necessary guidance, advice or assistance to THK Group companies in facilitating the implementation of any measures required to improve internal controls.

6. Controls applicable to employees declared designated subordinates by the Board of Auditors and independence of such employees from directorial chain of command

Members of the Board of Auditors shall be able to issue orders to employees attached to the Internal Audit Office relating to matters deemed necessary to auditing operations. In such cases, directors or the head of the Internal Audit Office shall not be able to issue countermanding orders to such employees.

7. Controls governing reporting by directors and employees to the Board of Auditors and related systems

The Company shall establish a system to facilitate prompt reporting by any director or employee to the Board of Auditors of legal matters, of information relating to any matters with a serious bearing on the Company and the THK Group, of internal audit-related matters, or of information relating to actual or suspected compliance violations reported through the THK Help Line. While the reporting parties, recipients, timing, method and other aspects of such reporting shall normally be determined through consultation and discussion between the Board of Directors and Board of Auditors, employees shall be able to report directly to members of the Board of Auditors in cases where there is a threat of grave damage to the Company, or in relation to matters involving the discovery of serious legal or regulatory compliance breaches or grave violations of the Articles of Incorporation.

8. Other controls to ensure effective auditing by the Board of Auditors

The Board of Auditors shall convene regular meetings to facilitate exchanges of opinions between auditors and various members of the Executive Council.

■ Basic philosophy on the elimination of anti-social forces and the status of related efforts

The steps THK is taking to establish a system aimed at eliminating anti-social forces are as follows.

1. In its Basic Policy, THK vows a "zero-tolerance stance against anti-social forces."
2. THK is a member of the Federation for Prevention of Special Violence Under Jurisdiction of the Metropolitan Police Department ("Tokuboren").
The Company collects information distributed at the monthly meetings of this and other organization. This information is consolidated by the Corporate Strategy Department.
3. If and when THK is the target of unreasonable claims by anti-social forces, the Corporate Strategy Department and the Risk Management Office will lead the company's response.
Having participated in the Tokuboren's training programs, the staff of the Corporate Strategy Department and the Risk Management Office, in cooperation with the police, will respond to such claims.
The company will also take legal action as needed through its corporate attorneys. In these and other ways, THK has a zero-tolerance stance against anti-social forces.
4. To ensure that THK does not do business with companies that have relations with anti-social forces, THK has its business partners submit a written declaration stating that it has no such relations.