

CORPORATE GOVERNANCE AND INTERNAL CONTROLS

THK's aim as an enterprise is to maximize the generation of stable returns for shareholders over the long term. To this end, THK is working to strengthen corporate governance 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 aims to boost the transparency of management to shareholders while at the same time striving 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 that comprises 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 2009, it was composed of 16 directors, with no external appointments.

The Board of Auditors comprises four members, two of whom are external auditors. THK is working 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 to satisfy customer demands within such an environment, THK believes that an important element of business execution is the cultivation of 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. While 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 independent supervisory management functions. Mutual monitoring by those directors with concurrent senior management roles and auditing of management by the external and standing auditors enhance 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 the Internal Audit Office 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 that collectively constitute its business framework on a regular basis, along with reports on the progress status of activities to achieve stated performance goals.

THK holds the General Meeting of Shareholders on a Saturday in mid-June. This policy deliberately avoids the period in late June when many shareholder meetings are clustered, thus making it easier for shareholders to attend.

Construction and reinforcement of system of internal controls

In compliance with Japanese legislation, THK is implementing initiatives to reinforce internal controls in order to strengthen the management platform. A project team overseeing the development of an internal controls framework was established in fiscal 2006. As required by the Financial Instruments and Exchange Law, THK has since established an internal framework to ensure the reliability of financial reporting. A system of internal controls covering the entire THK Group, including subsidiaries and affiliates, has also been created, in line with the internal controls development plan formulated in fiscal 2006. Tests undertaken on the system of internal controls during fiscal 2008 did not detect any flaws or serious outstanding issues. The conclusions from these tests have been submitted in a statutory regulatory filing on internal controls to the Prime Minister of Japan through the Kanto Local Finance Bureau.

Framework for promotion of compliance

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 oversees issues relating to legal and regulatory compliance, as well as managing the response to any instances of reported compliance violations.

THK's operating divisions have all established 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. Lawyers and other outside experts are regularly invited to host lectures, seminars and study groups to provide compliance-related training opportunities for members of the compliance working groups. These events cover topics such as protection of confidential information, insider trading and sexual harassment in the workplace.

The Company has 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 of any serious compliance-related problems arising. THK is trying to raise internal awareness of this help line facility through repeated ongoing measures. THK has also created compliance-related e-learning modules as a tool for raising internal awareness of compliance issues within everyday business activities.

Comprehensive risk management

THK has set up the Risk Management Department to monitor risks and to coordinate Group-wide efforts to address such risks. Within this department, separate sections are responsible for formulating guidelines and organizing educational and training programs relating to risks such as compliance, the environment, disasters, information security, export controls, and new forms of influenza.