

# 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

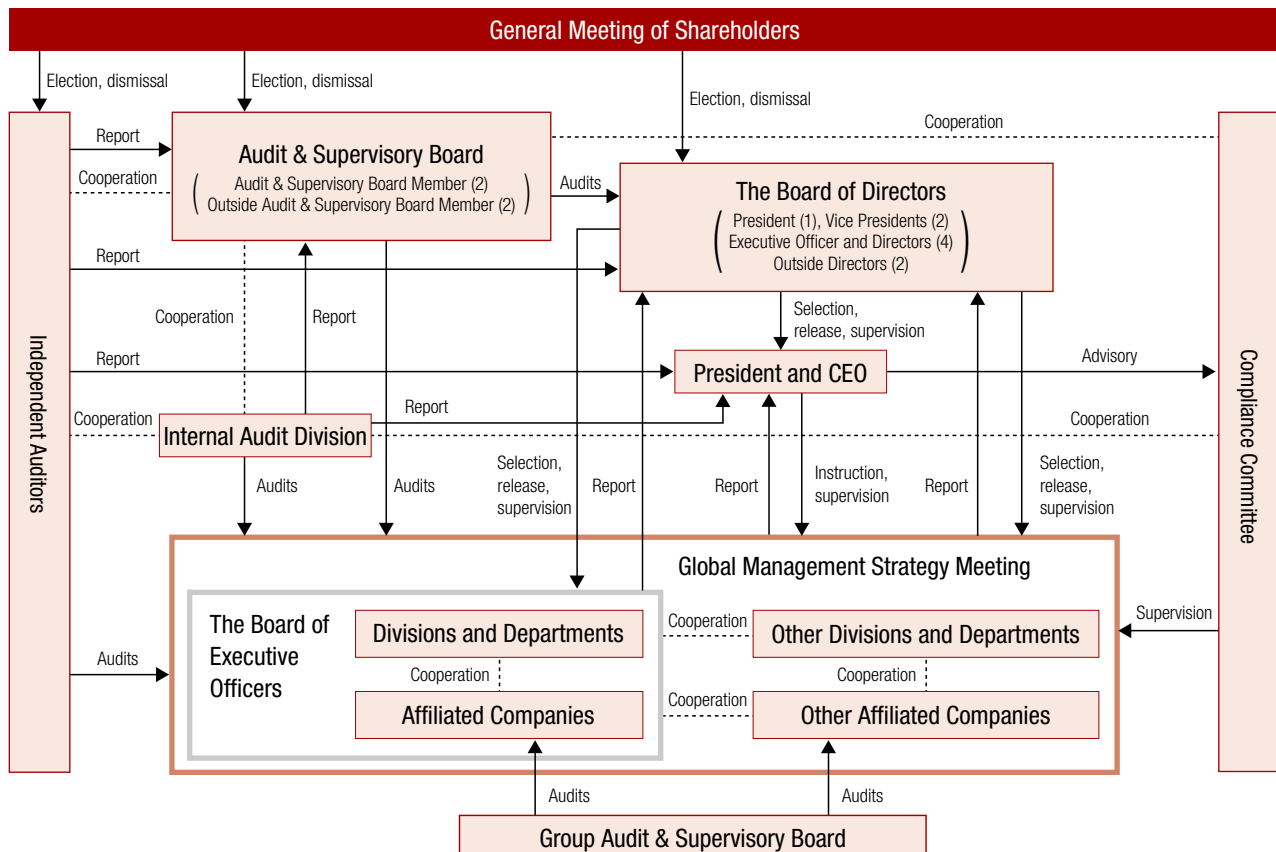
THK's basic stance on corporate governance is that, from the perspective of maximizing shareholder returns, the Company aims to boost the transparency of management to shareholders while at the same time striving to achieve proper and efficient management.

A company with a Board of Auditors, THK's management organizations are based on a Board of Directors and a Audit & Supervisory Board that include outside directors and Audit & Supervisory Board Members, respectively. With effect from June 21, 2014, the Company is introducing an executive officer system in conjunction with a reduction in the number of its directors. Through this move, THK is planning to enhance the management oversight function carried out by the Board of Directors, clarify roles and responsibilities with regard to operational execution, and accelerate decision making and operational execution.

Comprising a total of nine directors—a president, two directors with special titles, four directors who also serve as executive officers, and two outside directors—the Board of Directors make decisions on important management

matters and carry out oversight of directors and executive officers in the execution of their duties. Having introduced an outside director who has independence from the members who make up the Board of Directors, the Company is working to further improve management oversight functions. Also with effect from June 21, 2014, the number of independent outside directors was increased from one to two, as part of the Company's efforts to ensure the neutrality, legality, and validity of management.

In order to make rapid and appropriate decisions, the Board of Directors hears and acts upon necessary information from officers and relevant internal departments. Discussions and debate are undertaken during Board of Directors' meetings with the opinions of lawyers, accountants and other third-party professionals sought as required. The Board of Directors then holds discussions on the basis of the gathered information and makes decisions on important management matters. As seen from the above, the Company is working to improve management oversight functions by having the opinions of experts, who have a third-party perspective, reflected in the Board of Directors' decision-making process, and the opinions of the two outside directors, who possess sufficient insight and a wealth of experience reflected in its



corporate management. It should also be noted that a director's term of office has been set at one year to clarify his or her management responsibilities.

Comprising a total of four Audit & Supervisory Board Members—two full-time and two part-time—Audit & Supervisory Board works to improve auditing function by strengthening the functions of Audit & Supervisory Board itself. In addition to attending Board of Directors' meetings and other important meetings, and having examined the Company's business affairs and finances, each Audit & Supervisory Board Member works on effective audits of the execution of directors' and executive officers' duties and of business execution through the exchange of views and information at Audit & Supervisory Board. The outside Audit & Supervisory Board Members conduct legitimate and pertinent audits in each of the respective fields with which they are conversant, namely financial accounting and corporate legal affairs.

Appointed by decision of the Board of Directors, executive officers will be granted authority as officials responsible for the comprehensive execution of business affairs in specific matters. The Company is working to accelerate business execution by clarifying roles and responsibilities related to the execution of executive officers' duties. It should be noted that an executive officer's term of office has also been set at one year to clarify his or her management responsibilities.

## Active Disclosure of Corporate Information

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

With a view to open meetings, THK has held its General Meeting of Shareholders on a Saturday in mid-June every year since 1998, thereby avoiding the period when many shareholder meetings are clustered. Furthermore, the Company provides seating for stakeholders, including business partners, to observe the proceedings and makes efforts so that more people gain a greater understanding of the Company.



## Construction and Reinforcement of a System of Internal Controls

Concentrating on comprehensive compliance, THK is implementing initiatives to reinforce internal controls as a part of efforts to strengthen its management platform. In 2008, THK introduced an internal control regulation regarding financial reporting. The entire THK Group including its subsidiaries and

affiliates is thus endeavoring to engage in ongoing efforts to facilitate a corporate structure that ensures the reliability of its financial reporting based on Japan's Financial Instruments and Exchange Law.

At the same time, the Internal Control Audit Department was established within the Internal Audit Division to evaluate the operational status and performance of internal control systems. Based on evaluations that are conducted annually, initiatives are implemented within the Internal Control Department, set up as a secretariat within the Risk Management Division, to further improve operations and performance.

In-house evaluations undertaken during fiscal 2014 on the Group's internal control systems did not detect any flaws or serious outstanding issues that required disclosure. The conclusions from these evaluations were submitted in a statutory filing on internal control to the Prime Minister of Japan (the Kanto Local Finance Bureau) in June 2015 and then disclosed.

## Promotion of a Framework for Compliance

THK established the Compliance Committee in 2005 as a permanent body chaired by the President and CEO. As well as determining all policies relating to the establishment of an in-house compliance framework, the Committee reports and considers responses to any cases where employees are in breach of statutory requirements or cases of reported compliance violations. The Compliance Committee coordinates with designated legal counsel in the latter's capacity as observer to the Committee and provides a legal and appropriate response.

In addition, THK's operating divisions have all established compliance working groups reporting to the Compliance Committee, working group members being selected from each site and region. The working group members play an important role in maintaining the compliance system through a variety of measures, including the holding of voluntary study workshops on compliance at the sites and in the regions for which they are responsible, while fulfilling an advisory function covering compliance issues.

The Company has established the THK Help Line to prevent executive officers and employees from committing violations and to help ensure that swift corrective measures can be taken even in the event of a serious compliance-related problem. In fiscal 2014, seven inquiries were fielded through the THK Help Line. Each was attended to in an appropriate manner in collaboration with the relevant department.

## Thorough Risk Management

With regard to the risks related to such areas as compliance, the environment, disasters, quality, information security, export controls and new forms of influenza, each responsible department within THK has formulated regulations and guidelines, organized educational and training programs as well as compiled and distributed manuals. The monitoring of and Companywide response to cross-organizational risk is the responsibility of the Risk Management Division. With regard any to newly arisen risk, the Company will promptly designate a director or executive director to be placed in charge of the response at a Board of Directors' meeting. After a large-scale earthquake has occurred, the Company will put in place a business continuity plan (BCP) that is well known to its officers and employees. The Internal Audit Division conducts audits of the risk management system.