

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

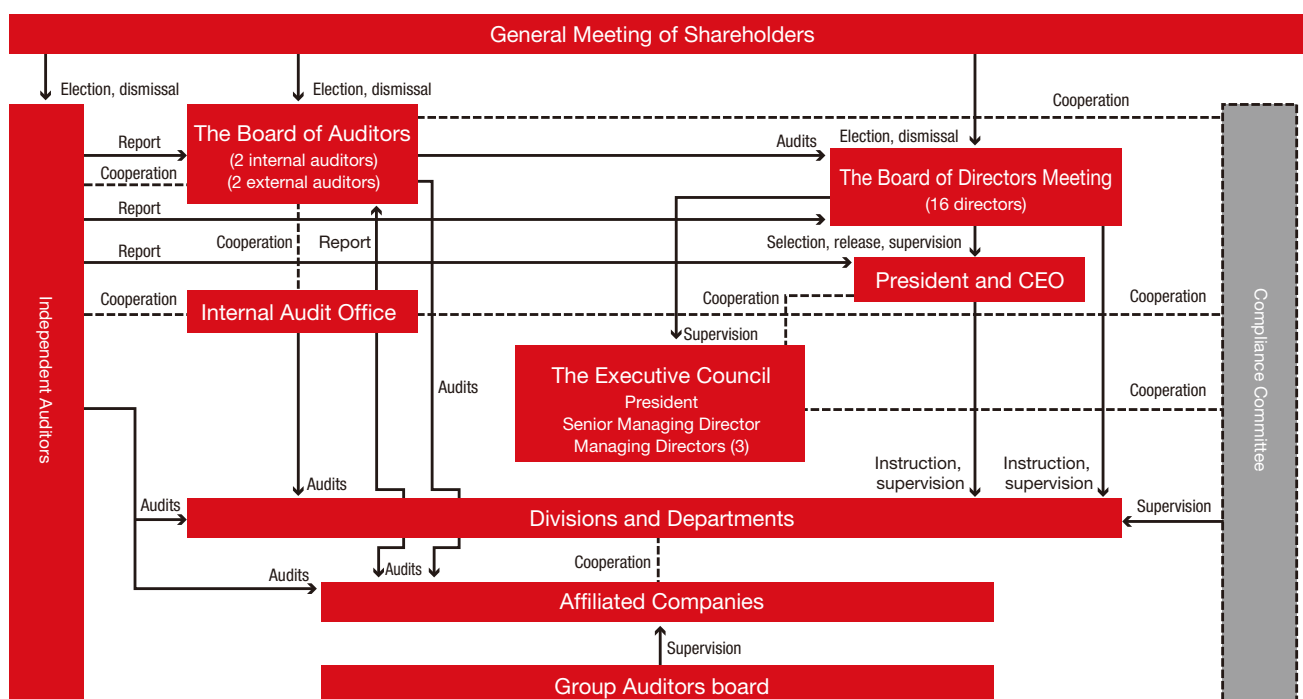
THK's basic stance on corporate governance is that, from the perspective of maximizing shareholder returns, the Company aims to boost the transparency of management to shareholders while at the same time striving to achieve proper and efficient management. The two basic management bodies are the Board of Directors and the Board of Auditors. THK has also established the Executive Council to provide additional support in the form of strategic input. In this fashion, every effort is made to ensure that decisions by the Board of Directors are made in a timely and appropriate manner. 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. The Board of Auditors comprises four mem-

bers, 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 development. 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 direc-



tors (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 Division. 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 Division 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.

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 a System of Internal Controls

In compliance with Japanese legislation, THK is implementing initiatives to reinforce internal controls as a part of efforts to strengthen its management platform. In this context, THK put in place a set of in-house rules with respect to the Company's internal control structure and systems as they relate to financial reporting in 2008. Based on Japan's Financial Instruments and Exchange Law, THK has established an internal framework to ensure the reliability of the Company's financial reports. THK is also endeavoring to promote an internal controls framework and system that covers the entire THK Group including subsidiaries and affiliated companies. 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 2010 on the Group's internal control systems did not detect any flaws or serious outstanding issues. The conclusions from these evaluations were openly disclosed and submitted in a statutory filing on internal controls to the Prime Minister of Japan (the Kanto Local Finance Bureau) in June 2011.

Framework for the 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, rules and regulations, education plans as well as programs aimed at enhancing compliance awareness, this Committee considers and manages the response to any instances where employees are in breach of statutory or internal regulatory requirements as well as cases of reported compliance violations. In order to ensure the legality and efficacy of each response, steps are taken to coordinate with designated legal counsel in its capacity as observer to the Committee.

In addition, THK's operating divisions have all established compliance working groups reporting to the Compliance Committee. Working group members are selected from each site and region and are charged with the responsibilities of promoting compliance while fulfilling an advisory function.

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 and 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. Reports can be channeled by telephone or electronic mail. Contact can also be made with external legal counsel. In fiscal 2010, seven inquiries were fielded through the Help Line. Each was attended to in an appropriate manner in collaboration with the relevant department with details reported to the Compliance Committee.

Comprehensive Risk Management

THK has set up the Risk Management Division to monitor risks and to coordinate Group-wide efforts to address such risks. Within this division, 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.