

3 major areas of endeavor

Management system

Pages 15–17

As the concept of corporate social responsibility becomes more widely established, businesses are faced with increasingly demanding expectations from the society at large. At THK we feel that, as an enterprise engaged in *monozukuri*, our most essential duties are to maintain transparency in our operations and foster a corporate culture that is responsive to societal expectations. We have instilled a thorough awareness of our corporate social responsibilities and established a highly effective management system to ensure they are fulfilled.

In focus in 2011

- ▶ Self-assessment survey
- ▶ Business continuity planning

Involvement in society

Pages 18–29

Faced with the need to assist in the recovery following the Great East Japan Earthquake, as well as the need to help rebuild Japan's long-struggling economy, THK and other *monozukuri* businesses are finding more opportunities to contribute to society than ever before. As we work to strengthen our relationships with our many stakeholders, we will continue to demonstrate the vital importance of *monozukuri* in everyday life.

In focus in 2011

- ▶ Multilingual websites
- ▶ Countermeasures against influenza
- ▶ Passing on technical skills
- ▶ National tree-planting event

Harmony with the environment

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Dramatic improvements in energy efficiency, increases in product longevity, and other technological advances play a major role in reducing energy consumption in everyday life. THK has helped propel further advances in Japanese environmental technology, which is already regarded as the best in the world. We continue to pursue a variety of initiatives in this field, convinced that, by passing these advances on to future generations, we are contributing to the preservation of the global environment.

In focus in 2011

- ▶ Efforts at the YAMAGATA Plant
- ▶ Commendation from the Kanto Bureau of Economy, Trade and Industry
- ▶ Green purchasing training



» Corporate governance

● Governance system

Fundamentally, THK views corporate governance as a means of making management more transparent to shareholders and ensuring appropriate and efficient operations, in order to maximize shareholder returns.

THK's primary management structure consists of its Board of Directors and Board of Auditors. To facilitate sound, timely, and strategically apt decision-making by the Board of Directors, THK has also established an Executive Council made up of the president, two managing directors, and an outside director.

The Executive Council sets basic management policy from a strategic perspective. With the cooperation of various departments, the council collects the data required to enable the Board of Directors to hold informed discussions, soliciting expert opinions from lawyers, accountants, and other third parties whenever necessary. The council meets for consultations and keeps track of important issues and information.

● Internal controls

THK is working to improve its internal controls in order to further solidify its management infrastructure and ensure full compliance with all legal requirements.

In 2008 THK established regulations specifying internal controls on financial reporting. The entire THK Group, including subsidiaries and affiliates, is now taking part in an effort to establish a system that will

ensure the reliability of financial reporting, in accordance with Japan's Financial Instruments and Exchange Law.

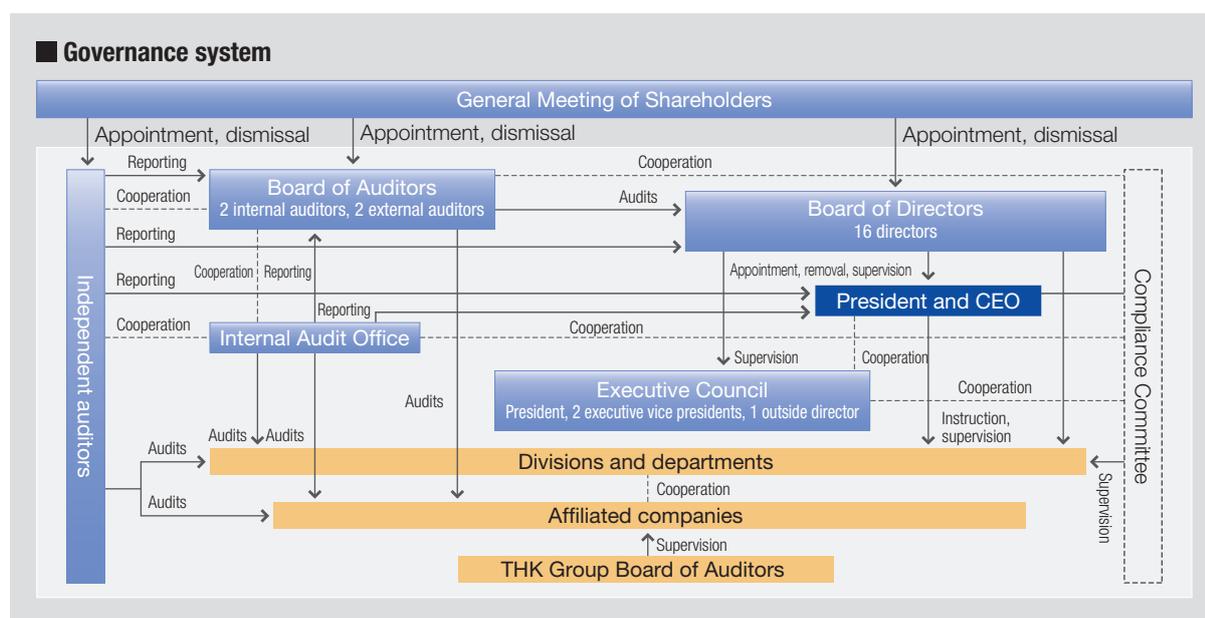
The Internal Control Audit Department, part of the Internal Audit Division, conducts an annual evaluation of the operational impact of THK's internal controls. Based on the findings, operational improvements are then implemented by the Internal Control Department, which serves as the secretariat of the Risk Management Division.

The 2011 evaluation found no serious deficiencies. The findings were presented in a report on internal controls submitted to the Prime Minister of Japan (via the Kanto Local Finance Bureau of the Ministry of Finance) in June 2012 and have been publicly disclosed.

● Security-related trade controls

THK has improved its security-related trade controls by providing management tools and training for overseas sales divisions. This will help prevent inadvertent violations of the Foreign Exchange and Foreign Trade Control Law in dealings with overseas customers and countries from which products were not previously exported, in accordance with THK's midterm plan for increasing overseas sales.

THK has also improved its intranet- and Web-based parameter-sheet management system, to quickly provide accurate parameter sheets to customers exporting THK products, and is working to provide greater customer satisfaction and reduce the cost of preparing parameter sheets.



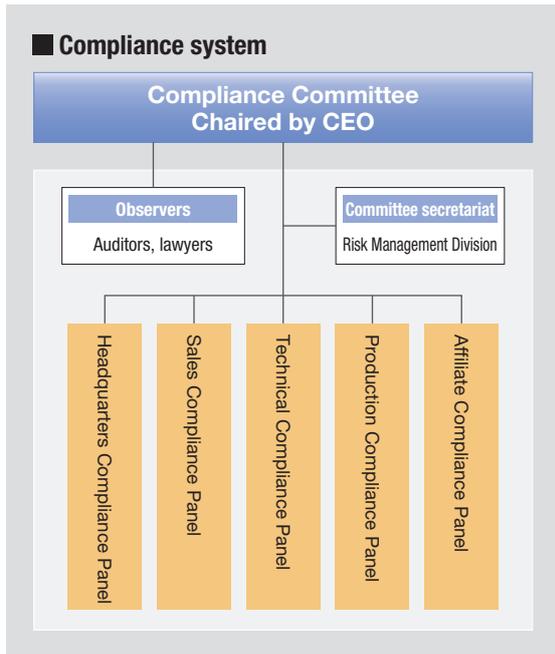
» Compliance

● Compliance system ●

THK has had a permanent Compliance Committee since 2005, chaired by its president and CEO. The Compliance Committee sets policy in relation to THK's compliance system and deals with violations of laws, regulations, and internal rules, as well as internal reports of such infractions. In addressing specific violations, the committee consults with legal advisers who attend its meetings as observers, to ensure that the response is appropriate and legally sound.

THK has also established the THK Helpline, an internal notification system designed to deter potential compliance-related violations by executives or employees and ensure that prompt and appropriate action is taken in the event that a violation occurs. Infractions can be reported by telephone or e-mail or by contacting the company's legal advisers, who provide an external channel for such notifications. In 2011 four reports were received via the helpline; all four were resolved with the cooperation of the departments involved.

Each business division has its own Compliance Panel, all of which are subordinate to the Compliance Committee. Compliance Panel members provide guidance and act as liaisons to help ensure observance of the compliance system at each business location and area. They play an important role, organizing workshops and other activities to help ensure full compliance with all legal and regulatory requirements.



● Education and training ●

In December 2011 Compliance Panel members attended a periodic training session, conducted by a visiting legal expert, to improve their understanding of legal matters as well as their knowledge of and ability to address compliance-related issues. This session was devoted to harassment in the workplace. The participants examined case studies involving sexual harassment and power harassment as well as relevant judicial precedents, in order to become more aware of situations to watch out for in the workplace. After the session, the panel members organized voluntary study sessions at various locations in an effort to increase awareness of compliance-related issues.

To help employees understand the laws governing everyday conduct in the workplace and absorb other requisite knowledge, compliance-related study materials have been made available via THK's in-house e-learning program. In March 2012, 10 new short-answer study questions were added, bringing the total to 78. Employees can also review 30 compliance-related case studies via the e-learning program.



Training session for Compliance Panel members.

● Self-assessment survey ●

To ascertain the effectiveness of compliance-related education and facilitate future efforts to improve its compliance system, THK conducted an anonymous survey in July 2011 via its intranet, in which employees assessed their own compliance preparedness.

Some 1,500 respondents took part in the survey, which consisted of 30 questions, 15 concerning personal behavior and 15 focusing on the workplace. The results were reported to the Compliance Committee, and prompt action was taken to make concrete improvements based on the survey findings. THK will continue to make periodic efforts to ascertain the status of and further improve its internal compliance system.

» Risk management and information security

● Business continuity planning ●

To ensure that it is prepared for a major earthquake or other disaster, THK has been engaged in a group-wide effort to formulate business continuity plans. Continuity plans for the 10 major THK plants in Japan have been in existence for some time. Plans for 28 other locations in Japan, including THK Headquarters and its sales offices, were completed in 2011. Business continuity plans for all but four THK locations are expected to be finished by the end of 2012. A variety of measures have been taken to help ensure the effectiveness of these plans.

Headquarters backup plan

When the Great East Japan Earthquake struck last year, some the operations ordinarily conducted at THK Headquarters were temporarily relocated to the GIFU Plant, to reduce the earthquake's impact on business continuity. Since then telecommunications equipment has been installed and other steps have been taken to ensure that, in an emergency, headquarters functions can rapidly be transferred to other locations as well. A framework has been established enabling some of these operations to be conducted at the YAMAGUCHI Plant and NAGOYA Branch.

Securing critical servers

To protect critical server computers, THK formerly housed its actual servers and backup servers in data centers inside separately located earthquake-resistant buildings. To further ensure their safety in the event of an earthquake, THK's servers have now been relocated to buildings equipped with seismic isolation and vibration control. The private generators installed in these buildings have been upgraded to ensure that the servers will continue to operate in the event of a power outage.

Maintaining lines of communication

To ensure that lines of communication between different locations remain available even when ordinary telephone service is disrupted by a disaster or other calamity, THK locations have been equipped with satellite telephones. Training has been provided at each location in the use of these telephones, which differ somewhat from conventional phones. THK has also established a system for quickly ascertaining the safety of employees in the event of a disaster. When a disaster occurs, each employee is contacted and responds by indicating whether he or she, and any family members, are safe. Maintaining these lines of communication will assist THK in its efforts to reduce human casualties and rapidly assess the situation when a disaster occurs.

Training for a disaster

To prepare for an earthquake or fire, THK Headquarters has long conducted evacuation drills, firefighting exercises, and training in first aid. In 2011 the group also began providing training in the use of satellite phones, operation of power generators, assembly of simple toilets, and effective use of relief supplies.



CPR training, part of the Headquarters business continuity plan.

● Information security ●

To help ensure that a reliable information security system is in place throughout the THK Group, in 2011 the Information Security Committee Office conducted internal audits of information security arrangements at the THK KOFU Branch, HACHIOJI Branch, THK INTECHS MISHIMA Plant, and THK RHYTHM.

To further educate employees about the importance of information security, THK also conducted a groupwide self-assessment program via its intranet, providing a reality check of the state of information security at THK. Wherever problems are identified, improvements will be carried out.

In addition, THK has introduced a backup system for all internal e-mail, which will prevent the loss of data in the event of problems affecting the e-mail system. The backup system is an effective measure not only for information security but also for business continuity planning.

