

■ Corporate Governance

Corporate Governance

Basic stance

In an environment where over 80% of our sales come from overseas, Tokyo Electron regards building governance as essential to becoming a truly global company that achieves sustainable growth.

To that end, Tokyo Electron has built a framework to maximize the use of its worldwide resources and works to incorporate a wide range of opinions. In addition to strengthening its management platform and technology base, the Company maintains a governance structure that will enable it to attain world-class profitability.

Tokyo Electron uses the Audit & Supervisory Board System, which consists of a Board of Directors and an Audit & Supervisory Board. Effective governance is achieved based on the supervision of management by the Audit & Supervisory Board.

Board of Directors

1. Roles and responsibilities of the Board of Directors

The Board of Directors works to achieve sustainable growth and increase corporate value over the medium- to long-term based on its fiduciary responsibility to shareholders. The roles and responsibilities of the Board of Directors are as follows:

- (1) Establishing management strategy and vision
- (2) Making major operational decisions based on strategic direction
- (3) Engaging in constructive, open-minded debate

The Board of Directors seeks the active participation of those present in discussions in order to obtain a wide-range of opinions, and supervises management and operational execution based on active debate.

The Board of Directors respects opinions even when they are minority or opposing viewpoints, including opinions voiced by outside directors; revises the conditions for implementation or the content of proposals as necessary; and engages in extensive debate with the goal of reaching decisions based on consensus. However, emphasis is placed on making necessary decisions quickly to avoid missing opportunities.

2. Board size and independent outside directors

Tokyo Electron considers it essential to maintain a Board of Directors with the appropriate size to ensure high quality, active debate and the diversity expected of both executive directors and independent directors. The current Board of Directors consists of 11 directors, and Tokyo Electron believes this to be the appropriate size, at present, to achieve a good balance in terms of knowledge, experience and skills.

Tokyo Electron regards the active expression of opinions, not only by independent directors, but also by Audit & Supervisory Board Members, as the cornerstone that supports the sound decision-making of the Board of Directors. Currently, five out of the 16 participants in the Board of Directors meetings, including the Audit & Supervisory Board Members, are outside members, consisting of two

independent directors and three outside Audit & Supervisory Board Members. Tokyo Electron believes that the current Board of Directors meetings achieve an appropriate sense of productive tension and constructive debate due to the combined presence of executive directors, essential for making operational decisions, and outside members, who provide objectivity.

3. Nominations for Director and CEO

Tokyo Electron has established a Nomination Committee to ensure fairness and efficiency in management. The Nomination Committee proposes director candidates to the Board of Directors prior to their election at the General Meeting of Shareholders and also nominates CEO candidates for appointment by the Board of Directors. No representative directors, including the CEO, are members of the Nomination Committee, and the authority to propose election or dismissal of the CEO or directors is entrusted to a Nomination Committee member.

4. Director and CEO compensation

Tokyo Electron aims to strengthen its global competitiveness and increase management transparency, adopting a director and executive officer compensation system that is closely linked to performance and shareholder value. The compensation of directors and executive officers comprises a fixed monthly wage and an annual performance-linked bonus.

The Compensation Committee, which comprises three or more directors and includes at least one outside director, performs an analysis of industry wage levels in and outside Japan, accounting for both monetary and non-monetary aspects of the total compensation package. Based on this comprehensive analysis, the committee proposes a policy and system for director compensation to the Board of Directors. The proposal includes specific amounts for individual compensation, including the CEO's bonus.

In order to better link factors that increase corporate value and shareholder value to compensation, Tokyo

Does Tokyo Electron have these major components of corporate governance?

Compensation Committee	Yes	Composed of directors, excluding representative directors, or Audit & Supervisory Board Members
Nomination Committee	Yes	Composed of directors, excluding representative directors, or Audit & Supervisory Board Members
Outside directors	Yes	Two of the 11 directors are outside directors
Outside Audit & Supervisory Board Members	Yes	Three of the five Audit & Supervisory Board Members are outside Audit & Supervisory Board Members
Executive officer system	Yes	
Disclosure of individual remuneration of representative directors	Yes	Disclosed since 1999
Performance-linked compensation system	Yes	
Stock options system	Yes	Does not apply to outside directors and Audit & Supervisory Board Members
Retirement allowance system for executives	No	
Anti-takeover measures	No	

Message from the Outside Directors



This year marks a new start for Tokyo Electron.

From my outside perspective, the Company's transition to a new organizational structure appears to be going extremely smoothly.

Tokyo Electron's new president and CEO, Toshiki Kawai, has made a good start, thanks in part to the thoroughgoing efforts of Corporate Advisor Tetsuro Higashi and Chairman Tetsuo Tsuneishi. While the planned merger with Applied Materials last year ultimately did not work out, the process had the significant positive effect of prompting deep analysis of our competitor's strengths and weaknesses.

Meeting evolving needs and engaging with new technologies is part of Tokyo Electron's core mission. To survive and prosper, we must also always maintain a global orientation. To this end, Tokyo Electron's employees must continue to commit fully to the Group's Corporate Principles and to achieving continuous growth to be even more global and even more trusted.

Tokyo Electron's new organization has not changed the transparent, unrestrained nature of its Board of Directors' meetings. I believe that this level of sincerity and openness is the key to cultivating and maintaining highly effective corporate governance.

I hope to see Tokyo Electron reach new heights. I will do my part as best I can to make that a reality.

Outside Director
Hiroshi Inoue

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Electron has designated the net income attributable to owners of the parent and return on equity (ROE) for the current period as the main calculation benchmarks in the performance-linked compensation system for the CEO and other directors. These are adjusted, as necessary, for extraordinary income/losses and other special factors.

In principle, performance-linked compensation consists of monetary compensation and share-based compensation; the composition is roughly 1:1 for directors, and single year performance is appropriately reflected in the performance-linked compensation of the CEO and other directors. Share-based compensation is awarded in the form of stock options with the exercise price set at one yen per share, and the restriction that they may not be exercised for three years from the date of allotment.

5. Evaluation of the effectiveness of the Board of Directors

Each year, based on an evaluation survey filled out by the Board of Directors and Audit & Supervisory Board members, the Board of the Directors discusses, analyzes and evaluates its own effectiveness, and discloses a summary of the results.

Audit & Supervisory Board

The Audit & Supervisory Board currently consists of five

members and includes three outside Audit & Supervisory Board Members. Three members, including one outside member, are full-time. The full-time Audit & Supervisory Board Members collect information through onsite surveys, and the board maintains appropriate coordination with the Internal Audit Department and the independent auditors as part of a structure that enables Audit & Supervisory Board Members to obtain all information necessary for audits.

Moreover, the composition of Audit & Supervisory Board Members provides a good balance of knowledge required for operational audits and accounting audits, including financial and accounting knowledge, legal knowledge, and audit experience at other companies. Tokyo Electron thus believes its Audit & Supervisory Board Members are able to perform their auditing functions effectively.

Internal Control System and Risk Management

Basic Stance

In order to enhance the Tokyo Electron Group's corporate value and remain accountable for our actions to our stakeholders, we are making efforts to strengthen effective internal control. This involves implementing practical measures that are in line with the Fundamental Policies concerning Internal Controls within the Tokyo Electron Group, set out by Tokyo Electron's Board of Directors. We are also

annually evaluating our internal control over financial reporting based on the Financial Instruments and Exchange Act of Japan.

Risk Management System

To more effectively strengthen the internal control and risk management systems of the entire Group, Tokyo Electron has established a dedicated risk management and internal control function within the General Affairs Department of the corporate headquarters. This function manages and reduces risks through appropriate measures, such as by analyzing the risks that could affect the Group, and instructing responsible departments to conduct self-assessments of major identified risks. The function also regularly reports the status of risk management activities to the Audit & Supervisory Board Members and the Board of Directors.

In fiscal 2016, the Group thoroughly reevaluated the material risks surrounding its operating environment in order to improve the effectiveness of its risk management.

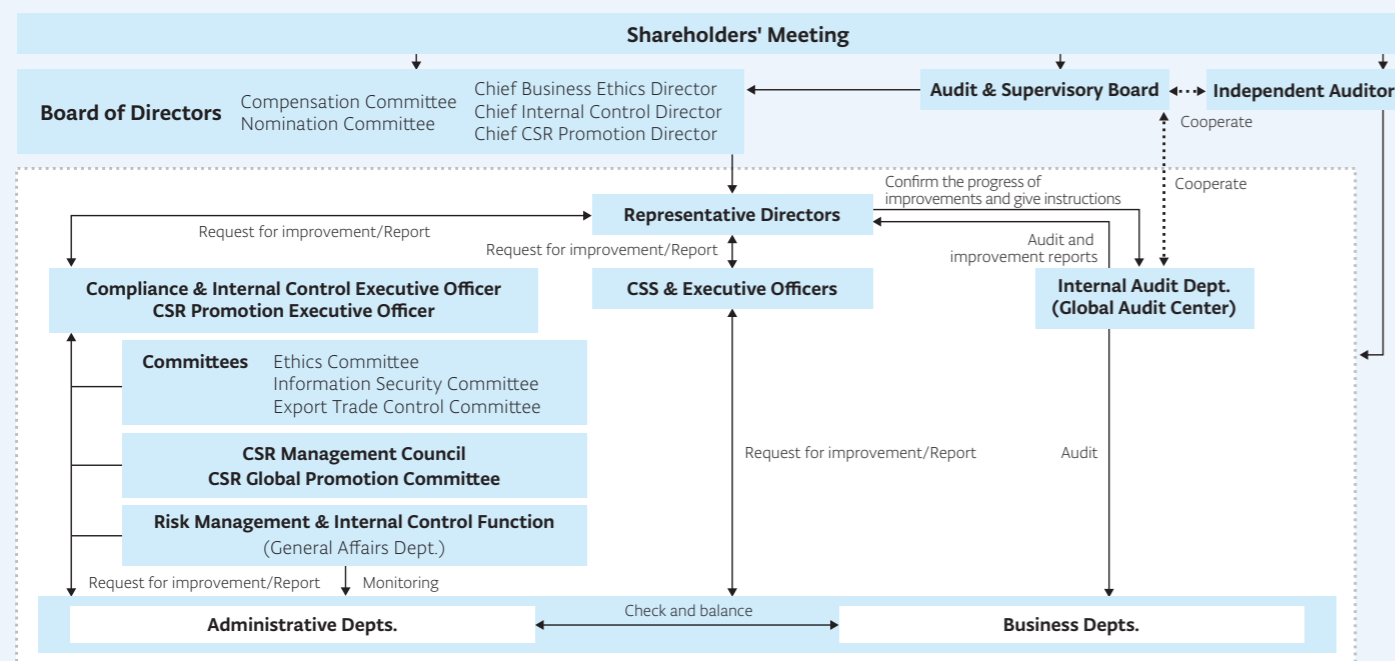
Based on this reevaluation, the Group is redefining material risks and clarifying each risk owner to enhance the efficacy of its risk management framework.

Auditing by the Internal Audit Department

The Global Audit Center of the corporate headquarters is the Group's internal audit department. This Center is responsible for auditing business activities, compliance and systems at domestic and overseas Group companies and business units (BUs) in accordance with each fiscal year's auditing plan. The Center also annually evaluates the effectiveness of the Group's internal control over financial reporting based on the Financial Instruments and Exchange Act of Japan.

At operating divisions where issues have been identified through audits and assessments, the Center monitors progress and provides necessary guidance for improvement.

Corporate Governance Framework, Internal Control System and Risk Management System



Message from the Outside Directors



Tokyo Electron has a strong reputation among market participants as an early adopter of robust corporate governance systems in line with global best practices. At the same time, stakeholder expectations continue to evolve amid an increasingly competitive global environment and what could be described as historic geoeconomical changes.

Corporate governance in Japan is in a period of historic transformation. The adoption of Japan's Corporate Governance Code, Stewardship Code, and the new benchmark JPX-Nikkei 400 has led investors to focus more and more on companies' business strategies in the context of a greater emphasis on return on equity (ROE) and the role of independent outside directors. In this regard, an effectively functioning corporate governance system is critical to enhancing understanding of and confidence in Tokyo Electron with its operations throughout the world.

I believe the role of an independent outside director is to pay close attention to global trends and, in addition to providing an independent and objective point of view, proactively raise issues and ask questions regarding matters of importance to the Company, including topics that may be difficult to debate within the organization. I hope to contribute to enhancing Tokyo Electron's corporate value by fulfilling my responsibilities as an independent outside director and helping to further foster the Company's culture that promotes free and open discussion.

Outside Director
Charles Ditmars Lake II

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Business Continuity Management

Since 2012, the Group has been improving its Business Continuity Plan (BCP) for large-scale earthquakes. The BCP is being updated at the headquarters, local offices and plants so that it will work effectively in the event of a disaster, facilitating early recovery and alternate production.

In fiscal 2016, the Group focused on revising the manuals and plans, as well as on implementing BCP drills and employee education.

In addition, emphasis has been placed on improving early emergency response with top priority given to securing employee safety, including stockpiling emergency supplies (including food and drinking water), and reinforcing essential infrastructure. As a result of these preparedness initiatives, we were able to smoothly implement the BCP to respond quickly to the Kumamoto Earthquake in April 2016.

Information Security Management

To ensure appropriate management and safe and effective use of information assets, the Group has established a framework for preventing information leakage under the Tokyo Electron Group Information Security Policy and the Regulation for Management of Technical and Business Information. These rules have been disseminated globally throughout the Group companies and are updated whenever necessary.

In order to strengthen information security, the Group is enhancing training and education for all of its executives and employees worldwide. These programs ensure that they can protect technical and business data and abide by the IT security rules.

Additionally, we have established a system for reporting both actual and potential cases (incidents) of information leakage. Such reports are critical in making quick responses, and their analysis can offer valuable insights into improving Group-wide measures to prevent leakage.

Business Ethics and Compliance

Basic Stance

Stakeholder trust is the cornerstone of business activities. In order to maintain trust, it is necessary to continuously act in rigorous conformity to business ethics and compliance. In line with the Fundamental Policies concerning Internal Controls within the Tokyo Electron Group, all Group execu-

tives and employees are required to maintain high standards of ethics and to act with a clear awareness of compliance.

Business Ethics

In 1998, Tokyo Electron formulated the Code of Ethics of the Tokyo Electron Group to establish uniform standards to govern all of its global business activities. In the same year, the Company appointed a Chief Business Ethics Director and established the Ethics Committee, which is responsible for promoting business ethics awareness throughout the Tokyo Electron Group. The Ethics Committee comprises the Chief Business Ethics Director, the Ethics Committee Chairman, and presidents of major Group companies in and outside Japan. The members meet semiannually, report on ethics-related issues facing each company, and discuss measures to further improve ethical behavior and compliance.

The Code of Ethics is reviewed in response to changes in the expectations of society. In January 2015, an anti-corruption statement was added to its introduction based on Principle 10 of the UN Global Compact, which concerns working against corruption including extortion and bribery. In fiscal 2016, the Group reviewed its Code of Ethics in response to the Code of Conduct of the EICC**, an electronic industry CSR consortium that the Group joined in June 2015.

The Tokyo Electron Group's Code of Ethics and its Q&A section are published in Japanese, English, Korean and Chinese and disclosed on the intranet to enable all Group executives and employees, including those overseas, to view them at any time. The Code of Ethics is also publicly accessible from the corporate website.

http://www.tel.com/environment/corp_governance/compliance/ethical.htm

* EICC is a registered trademark of Electronic Industry Citizenship Coalition Incorporated.

Compliance System

Tokyo Electron has appointed a Compliance & Internal Control Executive Officer from among its executive officers to raise awareness of compliance across the Group and further improve Group-wide compliance. The Company has also drawn up the Compliance Regulations, setting out basic compliance-related requirements in line with the Code of Ethics. The Compliance Regulations are intended to ensure that all individuals who take part in the business activities of the Tokyo Electron Group clearly understand the pertinent laws and regulations, international standards

and internal company rules, and consistently apply these rules in all of their activities.

Compliance Education

Through the Group's e-learning system, we provide standard web-based training programs covering the basics of compliance, export-related compliance, protection of personal information, the Act for Subcontracting and other topics. All executives and employees are required to complete this training. In addition, other web-based programs tailored to specific positions and job roles are also available, including those on insider trading and the Social Security and Tax Number System.

We also have a quiz-based business ethics compliance education course for all Group executives and employees from fiscal 2014. Updated yearly, the quiz is intended to maintain compliance awareness throughout the Group and disseminate the latest information.

In addition to these web-based courses, we organized

in-house seminars in fiscal 2016 for Corporate Directors and domestic Group company presidents on the subjects of compliance and internal control.

Internal Reporting System

The Tokyo Electron Group has an internal reporting system that employees can use to report any activity suspected of being in breach of laws, regulations or business ethics principles. An ethics hotline and a compliance hotline have been established to receive reports from all Group companies, and each overseas location also has its own reporting system. In all instances, the system ensures that whistleblowers remain anonymous and are protected from any disadvantage or repercussions.

There were no reports or cases of non-compliance with laws, regulations, or principles of ethics in fiscal 2016 that could have had a material impact on the Group's business or local communities.

I have closely followed the semiconductor production equipment industry over the eight years I have served as an outside director on Tokyo Electron's Board of Directors. I am now certain that the Company's greatest strength stems from the firm trust customers place in Tokyo Electron.

To me, corporate management means working with customers to increase business value and generate higher returns and then fairly distributing these returns to stakeholders, including shareholders and employees.

With the popularization of the internet of things, semiconductor applications are on the verge of enormous change and expansion, deeply altering the market landscape. Applications that used to target customers in relatively specialized fields, such as niche products or control technologies, are now beginning to expand in scope. They are finding uses across extremely broad areas, spanning not just supply chains, but entire value chains.

As such, this is a time of great opportunity for Tokyo Electron. By capitalizing on its strengths and working with customers to stay ahead of the curve as markets evolve, I hope to see Tokyo Electron markedly increase its corporate value.

Although I will leave the Board of Directors in June 2016, I am confident that Tokyo Electron will continue producing results that meet the expectations of its shareholders and other stakeholders. I would like to thank all of the Company's stakeholders for your support over these eight years, and I look forward to seeing the great things to come for Tokyo Electron.

Outside Director **Masahiro Sakane**

Message from the Outside Directors

