

Corporate Governance

As the globalization of its business progresses, the TEL Group believes that enhancing corporate governance is crucial to achieving management that emphasizes improving corporate value for all stakeholders. The TEL Group is building an optimal corporate governance structure that is highly effective at improving and strengthening its internal control system and risk management system.

Corporate Governance

Tokyo Electron endeavors to establish and operate optimal and highly effective structures of governance based on its three basic principles: (1) Ensure the transparency and soundness of business operations; (2) Facilitate quick decision-making and the efficient execution of business operations; and (3) Disclose information in a timely and suitable manner.

The corporate governance framework

Adopting an audit and supervisory board system based on the Companies Act of Japan, Tokyo Electron has established its own Nomination Committee¹ and Compensation Committee² to increase the transparency and objectivity of its management. The Company adopted the executive officer system to facilitate decision-making and, in 2015, established its Corporate Senior Staff (CSS), mainly comprised of its executive officers, as a global body for the deliberation of TEL Group strategies. Moreover, recognizing the importance of managerial transparency for shareholders, Tokyo Electron has been disclosing the remuneration of individual representative directors in its business reports since 1999.

[Report for the fiscal year ending March 31, 2015: http://www.tel.com/ir/stocks/asm/document/52_01.pdf]

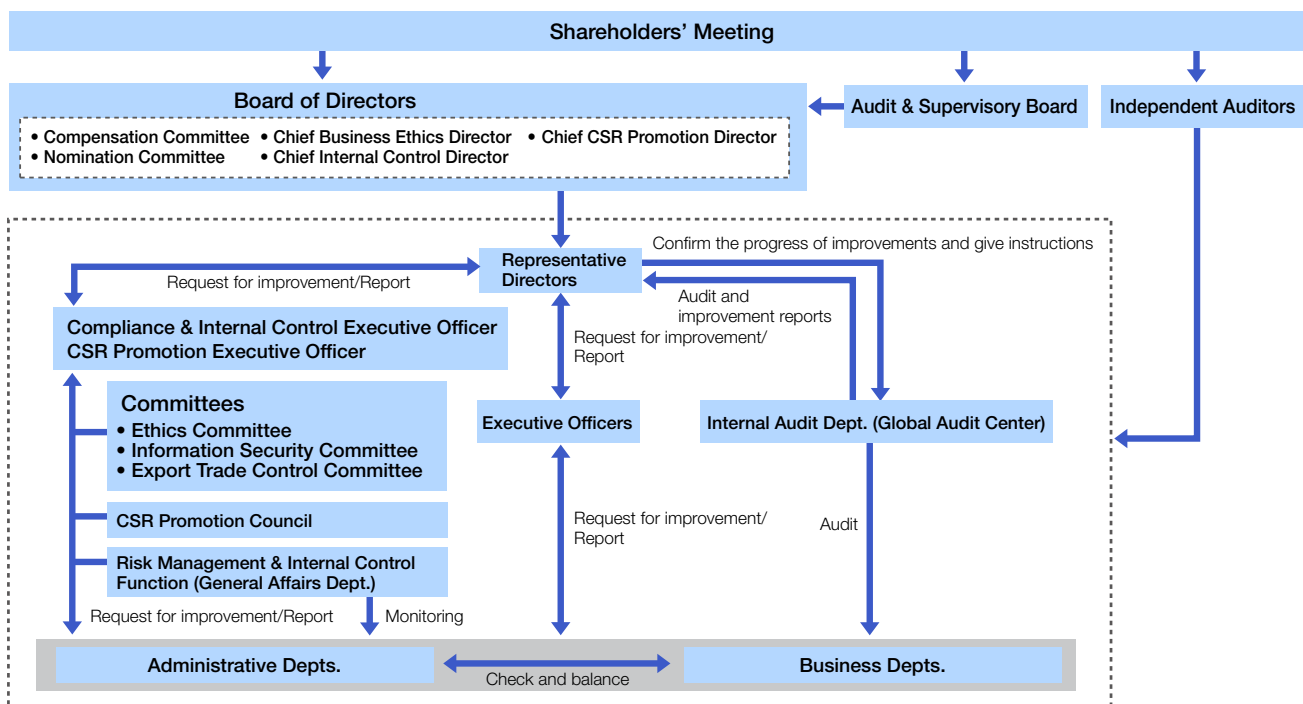
- 1 Nomination Committee: This committee nominates candidates for directors and a candidate for CEO, which it submits at the meeting of the Board of Directors for approval.
- 2 Compensation Committee: This committee develops proposals for the executive compensation program and the compensation to be paid to representative directors, which it submits at the meeting of the Board of Directors for approval.

Compensation for corporate directors and Audit & Supervisory Board Members

Tokyo Electron has adopted the following executive compensation program with the intention of tying compensation more closely to financial results and shareholder value, raising corporate competitiveness, and enhancing management transparency.

1. The compensation for corporate directors consists of a monthly fixed remuneration and a performance-linked compensation.
2. The performance-linked compensation system for corporate directors is designed to align compensation more clearly with financial results and increases in shareholder value. It takes into account consolidated net income and consolidated return on equity (ROE), two performance indicators of consolidated business results. Necessary adjustments are then made when there are special factors that should be taken into account, such as principal performance indicators for the term under review, including profits and losses, and so on. In principle, performance-linked compensation comprises cash bonuses and stock-based compensation. Performance-linked compensation is limited to five times the fixed yearly remuneration. The ratio of cash bonuses to stock-based compensation has generally been one-to-one. Stock-based compensation consists of granting share subscription rights with a set strike price of one yen per share and a three-year vesting period before the granted stock options may be exercised.
3. The performance-linked compensation of outside directors does not include stock-based compensation.
4. The compensation for Audit & Supervisory Board Members consists only of a monthly fixed remuneration, to maintain independence from management.
5. Retirement allowance systems for corporate directors and Audit & Supervisory Board Members have been abolished since the end of fiscal year 2005, as part of the revisions to Tokyo Electron's executive compensation program.

Diagram of the Corporate Governance Framework, Internal Control System, and Risk Management System (as of April 2015)



The Board of Directors

The Board of Directors consists of 13 directors, two of whom are outside directors. Directors serve a one-year term in order to ensure that Tokyo Electron can respond quickly to the changing business environment, as well as to more clearly define management accountability. To ensure and maintain the soundness and appropriateness of business practices, notwithstanding the rapidly changing market environment and technological industry trends, management by people who have specialized knowledge and experience in the industry is essential. Based on this premise, the Board of Directors is mainly composed of internal directors, but outside directors are also invited to join in order to objectively ensure the effectiveness of board decisions.

The Audit & Supervisory Board

Tokyo Electron has five Audit & Supervisory Board Members, three of whom are outside Audit & Supervisory Board Members. The Audit & Supervisory Board Members attend meetings of the Board of Directors and other important business meetings, audit the directors' performance of duties, determine audit policy and the division of auditing duties among Members at Audit & Supervisory Board meetings, and examine the Group's execution of operations. Through these and other measures, Audit & Supervisory Board Members work to provide effective auditing.

Internal Control/Risk Management

In order to enhance the TEL Group's corporate value and remain accountable for our actions to all stakeholders, we are making efforts to strengthen viable 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 conducting activities for internal control over financial reporting based on the Financial Instruments and Exchange Act of Japan. In response to the May 2015 changes to the Companies Act and the Ordinance for Enforcement of the Companies Act, Tokyo Electron has updated the Fundamental Policies concerning Internal Controls within the Tokyo Electron Group. The Company is working to strengthen internal control systems as a corporate group and to improve the audit system of the Audit & Supervisory Board in terms of concreteness and robustness.

Risk management system

To more effectively strengthen the internal control and risk management systems of the entire TEL Group, Tokyo Electron appoints a Compliance & Internal Control Executive Officer. Furthermore, the Company has established a dedicated risk management and internal control function within the General Affairs Department to manage and reduce risks through necessary measures such as, for example, analyzing risks that could affect the TEL 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.

Auditing by internal audit department

The Global Audit Center is the internal audit department of the TEL Group. This department is responsible for auditing business activities undertaken at the Group's domestic and overseas locations, as well as their compliance and systems, and evaluating the effectiveness of internal control systems. As necessary, the Global Audit Center also provides guidance to operating divisions.

Business continuity management

After 2012, the TEL Group redeveloped its Business Continuity Plan (BCP) at the headquarters to respond to large-scale earthquakes. The BCP is being developed at the plant and office levels by reviewing measures for early recovery and alternate production following a disaster.

Emergency supplies, such as food and drinking water, along with first-aid outfits for times of disaster, are made available at all times and thorough measures involving a disaster scenario are carried out across the entire Group.

Information security management

Under the TEL Group Information Security Policy and the Regulation for Management of Technical and Business Information, Tokyo Electron has put in place a framework for preventing information leakage to ensure appropriate management and safe and effective use of information assets.

In order to strengthen management of technical and business information across the Group, we review operation rules, as needed, and regularly provide web-based education for all executives and employees of Group companies in Japan and overseas. We also review rules related to information security. To get across the contracts and ensure rule compliance, we obtain consent for rule compliance from all executives and employees of TEL Group companies, including those overseas, every year.

Additionally, we have established a system for reporting incidents that lead to actual information leakage as well as those with that possibility. In light of these reports, we respond promptly to each incident and integrate analysis results into Group-wide efforts and measures.

Business Ethics and Compliance

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

Improving 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 TEL 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 faced by each company, and discuss measures to further improve ethical behavior and compliance.

The Code of Ethics is reviewed, as appropriate, in response to changes in the expectations of society. In January 2015, an anti-corruption statement was added to the introduction based on Principle 10 of the UN Global Compact about working against corruption including extortion and bribery.

The 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.

[Code of Ethics: http://www.tel.com/environment/corp_governance/compliance/ethical.htm]

Compliance system

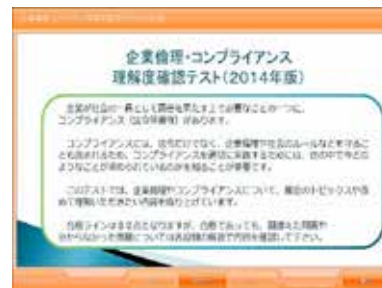
Tokyo Electron has appointed a Compliance & Internal Control Executive Officer from among its executive officers to raise awareness of compliance across the TEL Group and further improve its implementation. The Company has also drawn up the Compliance Regulations, setting out basic compliance-related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

Compliance education

Through the TEL Group's e-learning system, we provide a common web-based training program covering the basics of compliance, export-related compliance, and other topics. All executives and employees are required to complete this training, as well as a web-based training program on insider trading and other subjects tailored to specific positions and job roles.

In fiscal year 2015, we completely redesigned the existing basic compliance education program to include details on how to handle the confidential information of other companies and specific cases of conflict of interest. We provided the new education program to all executives and employees of Group companies in Japan. As of March 2015, we are providing web-based education on the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors of Japan to all executives and employees of Group companies in Japan to ensure fair transaction.

We also provided web-based, test-format education on business ethics and compliance to all Group executives and employees in fiscal year 2015, including those overseas, as we did in the previous year. These efforts will be continued every year.



Web-based, test-format education

Internal reporting system

In the event that an employee becomes aware of any activity that may violate a law, regulation, or principle of business ethics, the TEL Group operates an internal reporting system that employees may use to report their concerns. An ethics hotline and a compliance hotline have been established for all Group companies, and this reporting system is also in place at each overseas location. In all cases, this system ensures that strict confidentiality is maintained to protect whistleblowers and ensure that they are not subject to any disadvantage or repercussions. There has been no violation of compliance that could have had a major impact on the Company's business or local community in fiscal year 2015.

Approach to CSR

The Tokyo Electron Group believes that achieving sustained growth through sound business practices forms part of its corporate social responsibility to stakeholders. To achieve this, we must not only provide high-quality products and services, but we must also be a company that is esteemed in terms of good faith, fair corporate activities, the pursuit of safety and environmental preservation, respect for human rights and ethics, crisis management, corporate governance, and compliance.

The Tokyo Electron Group carries out initiatives based on its CSR Policy and in response to the opinions of its stakeholders.

CSR Promotion Framework



Key initiatives for fiscal year 2015

In fiscal year 2015, the CSR Promotion Council, comprising seven CSR promotion departments and CSR promotion executives, set specific indicators for department-specific issues and measured achievements. Separate from the biannual council meeting, a monthly working-level liaison meeting was established to actively discuss CSR issues in a timelier manner. To promote EICC® on a company-wide basis, the TEL Group held internal seminars and invited guest lecturers to make presentations. The events were attended by around 120 people in charge of CSR promotion.



Internal presentation on the EICC® Code of Conduct

Participation in CSR Initiatives

To work on CSR issues from a broad perspective and make improvement efforts, the TEL Group proactively participates in various initiatives.



Since July 2013, the TEL Group has been a member of the United Nations Global Compact. In support of its Ten Principles, the TEL Group will continue to work to maintain the harmonious pursuit of both its corporate activities and a sustainable society.



The TEL Group decided to join EICC® in June 2015. EICC® sets forth a code of conduct for labor, safety, the environment, and ethics to be used in the management of supply chains.

TEL Group CSR Policy

1 Corporate Activities

The Tokyo Electron Group will provide safe and high-quality products and services to customers around the world and contribute to the realization of an enriched society.

2 Business Ethics

The Tokyo Electron Group acts in compliance with the laws and regulations of each country and with international regulations, as well as in accordance with strict business ethics. We refrain from engaging in any conduct that impedes fair and open market competition.

3 Respect for Individuals

The Tokyo Electron Group respects the individuality and unique character of each person. We recognize and appreciate the diversity of our employees, share a sense of mission with them, and promote the development of workplaces with vitality.

4 Environment

The Tokyo Electron Group seeks to achieve harmony with the global environment. We strive to reduce our own impact on the environment and contribute to reducing the environmental impact of our customers by developing and providing eco-friendly products.

5 Communication with Stakeholders

The Tokyo Electron Group discloses information relating to the Group in a fair, impartial and timely manner, strives to engage in two-way communications, and works to meet the expectations of stakeholders appropriately.

6 Social Contribution

The Tokyo Electron Group engages in social contribution activities worldwide as a good corporate citizen to contribute to the development of local communities and society.