Corporate Governance

Basic Stance

In an environment where over 80% of our sales come from overseas, Tokyo Electron regards maintaining governance as essential to becoming a truly global company that achieves sustainable growth. To that end, Tokyo Electron strives to build frameworks to maximize the use of its worldwide resources. 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 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, a robust balance of knowledge, experience and skills among both executive directors and independent outside directors, and diversity, including gender and nationality. The current Board of Directors consists of 11 corporate directors, including one woman and one foreign national. Tokyo Electron believes this to be the appropriate size at present, to achieve a good balance in terms of knowledge, experience and skills.

The active expression of opinions, not only by independent outside directors, but also by Audit & Supervisory Board members, is the cornerstone that supports the sound decision making of the Board of Directors. Currently, six out of the 16 participants in the Board of Directors meetings, including the Audit & Supervisory Board members, are outside members, consisting of three independent outside directors and three outside Audit & Supervisory Board members. Board of Directors meetings currently achieve an appropriate sense of productive tension. The constructive debate essential for making operational decisions due to the combined presence of executive directors, who are highly knowledgeable about Tokyo Electron’s businesses, and outside members, who provide objectivity.

Does Tokyo Electron have these major components of corporate governance? (As of July, 2020)

<table>
<thead>
<tr>
<th>Component</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nomination Committee</td>
<td>Four corporate directors, including one outside director and excluding the CEO</td>
<td></td>
</tr>
<tr>
<td>Compensation Committee</td>
<td>Four corporate directors, including two outside directors and excluding representative directors</td>
<td></td>
</tr>
<tr>
<td>Outside Directors</td>
<td>Three of the 11 corporate directors are outside directors</td>
<td></td>
</tr>
<tr>
<td>Outside Audit &amp; Supervisory Board Members</td>
<td>Three of the five Audit &amp; Supervisory Board members are outside members</td>
<td></td>
</tr>
<tr>
<td>Executive officer system</td>
<td>Adopted in 2003</td>
<td></td>
</tr>
<tr>
<td>Disclosure of individual remuneration of representative directors</td>
<td>Disclosed since 1999</td>
<td></td>
</tr>
<tr>
<td>Annual performance-linked compensation system</td>
<td>Cash bonuses and stock options for internal directors</td>
<td></td>
</tr>
<tr>
<td>Medium-term performance-linked compensation system</td>
<td>Stock-based compensation system for internal directors</td>
<td></td>
</tr>
<tr>
<td>Non-performance-linked compensation system</td>
<td>Stock-based compensation system for outside directors</td>
<td></td>
</tr>
<tr>
<td>Stock options system</td>
<td>Applies only to internal directors</td>
<td></td>
</tr>
<tr>
<td>Retirement allowance system for executives</td>
<td>Discontinued after fiscal 2006</td>
<td></td>
</tr>
<tr>
<td>Anti-takeover measures</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

Nominations for Corporate Director and CEO

Tokyo Electron has established a Nominations Committee to ensure fairness and efficacy in management. The Nominations Committee has the authority to propose the appointment and removal of corporate directors or the CEO and proposes corporate 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. The Nominations Committee is composed of four corporate directors, including one outside director; the CEO is not a member of the committee.

In addition, to develop the next generation of management and executive human resources, the Nominations Committee carefully surveys and analyzes the status of the successor pool, then reports to the Board of Directors, which provides appropriate supervision to ensure that adequate time and resources are being devoted to implementing the successor development plan.

Corporate Director and CEO Compensation

Tokyo Electron’s compensation policy prioritizes the following considerations:

1. Globally competitive compensation levels and systems that can secure excellent management human resources.
2. Strong correspondence with short-term performance and medium- and long-term increases in corporate value aimed at sustainable growth.
3. Ensuring transparency and fairness in the process of determining compensation as well as the appropriateness of compensation.

In line with this policy, Tokyo Electron maintains a Compensation Committee to ensure management transparency and fairness as well as the appropriateness of compensation and has adopted a director compensation system that is closely linked to performance and shareholder value.

The Compensation Committee is composed of four corporate directors, including two outside directors and excluding the representative directors. From fiscal 2020, the committee is chaired by an outside director. The Compensation Committee utilizes advice from external experts and conducts an analysis and comparison of compensation and related factors at companies in similar industries in and outside Japan. Based on this analysis, the committee proposes to the Board of Directors a policy and system for the compensation of the corporate directors and executive officers that will be globally competitive and optimally suited to the Company as well as individual compensation amounts for the representative directors.

The compensation of corporate directors (excluding the outside directors) comprises fixed basic compensation; annual performance-linked compensation and medium-term performance-linked compensation.

In principle, annual performance-linked compensation consists of cash bonuses and stock compensation-based stock options; the ratio of these two components is roughly 1:1. Stock compensation-based stock options are awarded with the exercise price set at one yen per share, and a three-year exercise restriction period from the date of allotment of rights before the options may be exercised.

In order to incentivize the improvement of corporate performance, Tokyo Electron has designated net income attributable to owners of the parent and return on equity (ROE) as the main benchmarks for calculating annual performance-linked compensation.

The medium-term performance-linked compensation utilizes performance shares (share-based compensation) with the aim of using shareholdings to align the perspectives of corporate directors with those of shareholders and incentivize corporate directors to increase corporate value. The number of Tokyo Electron shares issued to corporate directors varies according to the payout rate based on the responsibilities and level of performance goal achievement over the relevant three-year term. The operating margin and ROE are used as indicators to assess the attainment of performance targets and appropriately link compensation with the medium-term enhancement of corporate value.

The compensation of outside directors comprises fixed basic compensation and non-performance-linked stock-based compensation. Non-performance-linked stock-based compensation was adopted from fiscal 2020 to create a compensation system better suited to the outside directors’ role of providing advice aimed at enhancing corporate value over the medium to long term in addition to management supervision. Under this system, stock is granted after the expiration of the applicable period of three fiscal years.

Evaluation of the Effectiveness of the Board of Directors

To evaluate the effectiveness of the Board of Directors, including the Nomination Committee and Compensation Committee, Tokyo Electron conducts a question-based survey of all corporate directors and Audit & Supervisory Board members as well as individual interviews with some of them.

In fiscal 2020, Tokyo Electron again hired a third-party institution to provide advice on the selection of the items to be evaluated, hold the interviews, and compile and analyze the results. Using the compiled data and analysis, the outside directors and outside Audit & Supervisory Board members held discussions of the Board of Director’s effectiveness. These findings were then shared with and discussed by the entire Board of Directors, which deliberated and comprehensively evaluated its effectiveness and disclosed a summary of the results.

At meetings of the Board of Directors, corporate directors and Audit & Supervisory Board members actively engage in discussion based on their diverse viewpoints and experiences. Each matter is reviewed and deliberated in depth, leading to effective policy and conclusions from the perspective of sustainably improving corporate value. The evaluation found that positive initiatives and improvements were moving forward. For example, the diversity of
Corporate Governance

the Board of Directors is advancing in terms of gender, the Board of Directors discusses the appropriate ratio of outside directors, and matters that are important in the medium and long term are discussed at off-site meetings. These matters include management strategy, risk management, Group governance and corporate social responsibility (CSR).

Tokyo Electron thus concludes that in general its Board of Directors is effectively ensuring that the key roles of the Board of Directors are being fulfilled, namely (1) Establishing management strategy and vision and (2) Making major operational decisions based on strategic direction, as prescribed in the Tokyo Electron Corporate Governance Guidelines. In addition, Tokyo Electron recognizes that the Board of Directors, including the Nomination Committee and Compensation Committee, is functioning effectively.

Based on the results of this evaluation, the Board of Directors will strive to secure ample opportunities and time for enhancing discussion of medium- and long-term management strategy while working to further reinforce risk management and Group governance. In addition, the Board of Directors will review the composition of the Nomination Committee to enhance its objectivity and examine how the committee relates to the board. It will also work to reinforce dialog with stakeholders with greater awareness of environmental, social and governance (ESG) issues and the United Nations’ Sustainable Development Goals (SDGs).

Corporate Governance Framework, Internal Control System and Risk Management System

<table>
<thead>
<tr>
<th>Corporate Governance Framework, Internal Control System and Risk Management System (As of July 2020)</th>
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<tbody>
<tr>
<td><strong>Management &amp; Supervision</strong></td>
</tr>
<tr>
<td>Management Committee</td>
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<tr>
<td><strong>Board of Directors</strong></td>
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<tr>
<td>Appointment or Oustment of Corporate Directors</td>
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<tr>
<td><strong>Audit &amp; Supervisory Board</strong></td>
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<td></td>
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<tr>
<td><strong>Business Execution</strong></td>
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<tr>
<td>Corporate Staff (CIS)</td>
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<td></td>
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<tr>
<td><strong>Global Audit Center</strong></td>
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<td></td>
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<tr>
<td><strong>Audit</strong></td>
</tr>
<tr>
<td>Internal Control Executive Officer</td>
</tr>
<tr>
<td>Ethics Committee</td>
</tr>
<tr>
<td><strong>Business Execution Organization</strong> (All Divisions/All TEL Group Companies)</td>
</tr>
</tbody>
</table>

Audit & Supervisory Board

The Audit & Supervisory Board currently consists of five members and includes three outside members. Two members 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 expertise at other companies. Tokyo Electron believes its Audit & Supervisory Board members are able to perform their auditing functions effectively.

Tokyo Electron’s full-time Audit & Supervisory Board members concurrently serve as Audit & Supervisory Board members of key subsidiaries, enhancing audit effectiveness. In addition, all of Tokyo Electron’s Audit & Supervisory Board members, the Audit & Supervisory Board members of its subsidiaries, the head of the Internal Audit Department, and the head of the Risk Management Department hold Group Audit & Supervisory Board member meetings to share information and exchange opinions. In these ways, Tokyo Electron maintains a Group-wide audit system.

Risk Management

Approach to Risk Management

Reflecting changes in society and the business environment, the risk facing businesses is growing increasingly complex and diverse. Tokyo Electron considers understanding and appropriately addressing the risks that it may face in its businesses, as well as their impacts, to be essential to its sustainable growth.

Risk Management System and Initiatives

In order to promote more effective risk management, Tokyo Electron carries out enterprise risk management through a body established within the General Affairs Department at its headquarters. This body works with the respective departments responsible for each operation to identify a wide range of risks arising in corporate activities (such as compliance risk, human resource and labor risk, and business continuity risk). It then classifies risks with high impact and probability as key risks within the Tokyo Electron Group. The body also formulates and executes measures to minimize these key risks, monitors the effect of said measures, works to understand the status of risk control and implements the PDCA cycle for risk management. In fiscal 2020, in addition to these activities, the body conducted interviews with the responsible departments at the corporate headquarters, and Japanese and overseas subsidiaries to understand the status of risk management. From fiscal 2021 onward, it also plans to enhance the various functions and systems of risk management and internal audits to further promote highly effective risk management activities.

The status of these activities is regularly reported to the Board of Directors and the Audit & Supervisory Board.

Supply Chain Management

For manufacturers of semiconductor and flat panel display production equipment, implementation of sustainable supply chain management is an essential part of such activities as development, production and providing services. To prepare for disruptions to the procurement of important parts or production due to earthquakes or other natural disasters, Tokyo Electron develops and maintains alternative production structures within its network and to develop a multisource system for important parts. In addition to formulating business continuity plans (BCPs) and holding regular drills, we are building a multi source system to establish stable product supply systems.

Information Security

With information security becoming increasingly important as more and more of society is data-driven, it is equally important that companies work to improve their information literacy and build robust information infrastructure. Tokyo Electron is focusing on information security risk from the two perspectives of cybersecurity and confidential information management. To improve cybersecurity, we use a combination of industry-leading security systems, provide security training for employees, and work to protect our information from the sabotage of our servers or computers as well as data theft, data manipulation and other forms of cyberattack. The information security environment, including cyberattack methods, is continually changing. Tokyo Electron is always working to stay ahead of these changes and formulating and implementing the necessary countermeasures on a global basis. To improve confidential information management, our Human Resources Department and Intellectual Property Department work in close collaboration to strengthen measures to prevent leaks of confidential information, particularly targeting employees who retire or resign to ensure proper management of confidential information, including the return and destruction of data.

Business to businesses to continuously create innovation and to provide high value-added products and services. While actively investing in research and development of leading-edge technologies to enhance its own research and development capabilities, Tokyo Electron is also focusing on collaboration with Japanese and international consortiums. In addition, we are sharing technology roadmaps with our customers and collaborating with them in the early stages of development to ensure our research and development activities properly reflect future needs. Going forward, we will continue to drive technological development for the next generation through a Group-wide development structure for collaboration between the Development & Production Divisions and Business Divisions.
In fiscal 2021, we will establish common global policies on anti-corruption to ensure that they understand and comply with the Code of Ethics. In addition to reflecting standards required as a global company, we will add a new section to the Code of Ethics to emphasize it in the form of a booklet to all executives and employees.

Compliance Training
We conduct online and face-to-face training adapted to different levels for all employees. In fiscal 2023, we will deploy a more comprehensive and systematic training program and advance multilingual support to reinforce efforts to foster compliance awareness and behavior-oriented awareness-building activities.

Internal Reporting System
As a means for employees to provide information and seek redress outside the chain of command about behavior that is, or may be, in violation of laws, regulations or corporate ethics, we have established internal reporting mechanisms that ensure confidentiality, anonymity and the prohibition of retribution. Apart from an internal point of contact that can also be accessed by suppliers, our reporting mechanisms include an external point of contact at a Tokyo Electron Group site.

In the event of a report or request for advice, the Tokyo Electron Group undertakes an investigation in accordance with internal regulations. If, as a result, a compliance violation is found, a disciplinary action will be taken in accordance with the Rules of Employment. Preventive measures and corrective measures, such as improvements to the workplace environment, are also implemented as necessary.

Third-Party Recognition
Tokyo Electron has been selected for inclusion in world-leading environmental, social and governance (ESG) investment indices, including DJSI Asia Pacific, FTSE4Good Index, FTSE Blossom Japan Index, MSCI World ESG Leaders Index, MSCI Japan ESG Select Leaders Index, and MSCI Japan Empowering Women Index. Furthermore, for a second consecutive year, Tokyo Electron was recognized as a White 500 company under the 2020 Certified Health & Productivity Management Outstanding Organization Recognition Program administered jointly by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kagai. This year, the recognition was given not only to Tokyo Electron, but shared with all its domestic Group companies.

For more details on our corporate governance, please refer to the Tokyo Electron Corporate Governance Guidelines.

For details on Tokyo Electron’s ESG-related initiatives, please refer to our Sustainability Report 2020.

Shareholders’ Meeting
Tokyo Electron schedules its shareholders’ meeting to avoid days on which many such meetings are concentrated as part of its measures to utilize these meetings and to promote smooth and efficient voting. The Company also mails a Notice of Annual General Meeting of Shareholders to shareholders more than three weeks in advance of the meeting and discloses notices on its website before they are mailed, striving to provide shareholders with information as early as possible. Shareholders are free to cast their votes via the internet, and Tokyo Electron participates in the web based voting platform for institutional investors operated by ICJ, Inc.

To supplement the above shareholder meeting-related initiatives, Tokyo Electron’s website carries the resolutions, voting results and presentation materials of shareholders’ meetings.

Corporate Governance

Compliance
Approach to Compliance
Stakeholder trust is essential to business activities. In order to maintain this trust, it is essential to continuously ensure compliance and enhance corporate ethics. The Code of Ethics of the Tokyo Electron Group establishes the “appropriate actions to be taken” in conducting business operations in an honest and fair manner in accordance with the laws and regulations of the countries and regions in which the Tokyo Electron Group operates as well as with internal regulations and rules, and stipulates that all executives and employees must understand and apply the Code of Ethics.

Compliance System
In order to strengthen our compliance system and to ensure efficacy, people responsible for compliance (Regional Compliance Controllers) have been appointed at key overseas sites, creating a system for direct reporting to the newly established Chief Compliance Officer and Compliance Department. The primary role of the Compliance Department is to formulate and review practical compliance programs for the Tokyo Electron Group, establish and implement corporate ethics, plan and implement education and training, and establish and operate internal reporting systems.

Compliance Initiatives
Corporate Ethics
In addition to establishing the Code of Ethics as common and minimum standards of conduct by which all executives and employees should abide, we have also established a Business Ethics Committee for the purpose of promoting and raising awareness of compliance and corporate ethics more effectively within the Tokyo Electron Group. We have also set up the Disciplinary Committee as a subordinate organization of the Business Ethics Committee for the purpose of ensuring that reasonable and appropriate punishments are imposed and proper procedures are taken when following disciplinary action.

To ensure awareness of the Code of Ethics, we arrange to translate it into five languages for local use, including Japanese, and distribute it in the form of a booklet to all executives and employees. In fiscal 2021, the Code of Ethics will be revised. In addition to reflecting standards required as a global company, we will add a number of new provisions on such important issues as personal data protection, information security and money laundering. The revisions, including changes to the booklet design and adoption of a bullet point format, will be made in pursuit of clarity and usability. We strive to further strengthen compliance and corporate ethics by annually obtaining confirmation from all executives and employees that they understand and comply with the Code of Ethics.

Global Policies on Anti-Bribery and Competition Laws
In fiscal 2021, we will establish common global policies on anti-bribery and competition laws. Under our anti-bribery policy, we will review our standards concerning gifts, entertainment and donations, and we will thoroughly enforce a process requiring pre-approval if undertaking conduct outside these standards. As for our policy on competition laws, we will compile different types of violations in an easy-to-understand format, based on applicable laws and regulations in the countries and regions in which we operate.

Compliance Training
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In fiscal 2020, a total of 64 cases were received via internal reporting mechanisms, including overseas subsidiaries, primarily concerning harassment, attendance management and work environment. Among these, there were no reports or cases of non-compliance with laws, regulations, or the Code of Ethics that could have had a material impact on the Tokyo Electron Group’s business or local communities.

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