

■ Corporate Governance

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 of Directors

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 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.

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, and 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 and 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.

Nominations for Corporate Director and CEO

Tokyo Electron has established a Nomination Committee to ensure fairness and efficacy in management. The Nomination 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 Nomination 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 Nomination 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) Assuring 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 increasing corporate value. The evaluation found that positive initiatives and improvements were moving forward. For example, the diversity of

Does Tokyo Electron have these major components of corporate governance?

(As of July, 2020)

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

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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 environment, social and governance (ESG) issues and the United Nations' Sustainable Development Goals (SDGs).

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 experience at other companies. Tokyo Electron thus 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 risks facing businesses are 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<sup>1</sup> 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.

<sup>1</sup> Enterprise risk management: Group-wide systems and processes related to risk management activities

Auditing by the Internal Audit Department

The Global Audit Center serves as the internal audit department for the entire Group and implements audits based on the audit plan. Based on the results of these audits, it provides instructions for making improvements as needed, confirms the progress of these improvements, and provides any necessary support. The Group's internal control over financial reporting in fiscal 2020 was also evaluated as effective by the independent auditors.

Risk Management Initiatives

Each year, Tokyo Electron identifies key risks for the Group and steadily works to reduce those risks. In fiscal 2020, we reinforced measures in the following areas.

Research and Development

To maintain a competitive advantage and continue growing in markets where technological innovation is rapid, it is important for

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.

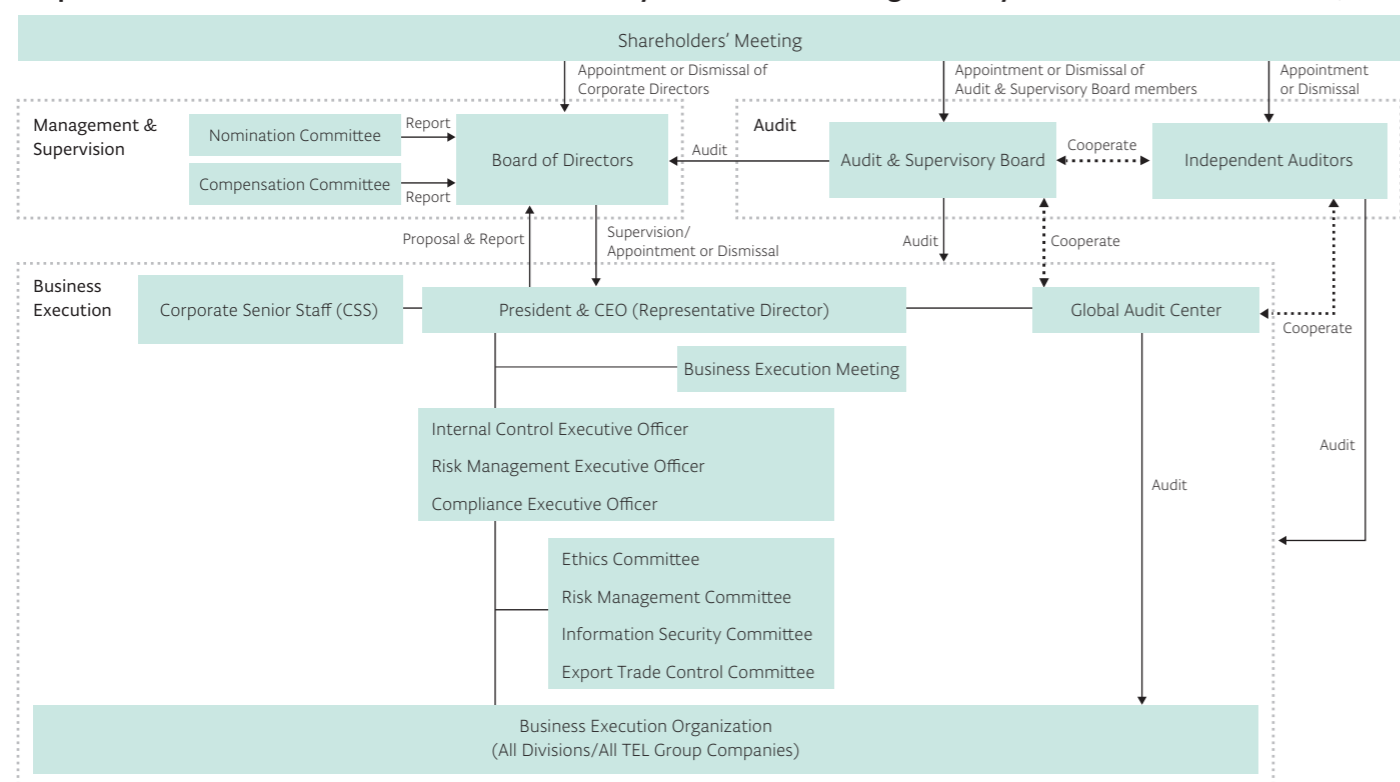
Supply Chain Management

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 works, on an ongoing basis, to establish 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 seismically isolated production buildings, adopting appropriate inventory controls, and taking other steps 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.

Corporate Governance Framework, Internal Control System and Risk Management System (As of July, 2020)



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## 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 followed when taking 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

We conduct online and face-to-face training adapted to different levels for all employees.<sup>1</sup> In fiscal 2021, 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 in the Tokyo Electron Group.

<sup>1</sup> Training and seminar topics include basics of corporate ethics and compliance, anticorruption, export compliance, insider trading prevention, the Act for Subcontracting and the prevention of harassment. Some training is limited to certain employees.

## 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 law firm that can be contacted directly. In March 2020, we enhanced the internal reporting system, and renamed Tokyo Electron Group Ethics & Compliance Hotline—a global common point of contact that uses a third-party system—thereby ensuring a greater level of confidentiality and anonymity. This hotline can be accessed via phone or a dedicated website 24 hours a day, 365 days a year, and accommodates all languages used by employees.

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 is imposed in accordance with the Rules of Employment.<sup>2</sup> Preventive measures and corrective measures, such as improvements to the workplace environment, are also implemented as necessary.

In fiscal 2020, a total of 64 cases were received via internal reporting mechanisms (excluding 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.

<sup>2</sup> A leniency system has been introduced whereby any disciplinary action may be reduced or exempted in the event the employee involved in a compliance violation has made a report or sought advice on his/her own volition.

## Promoting Dialog with Investors

## Basic Stance

Tokyo Electron endeavors to provide opportunities for constructive dialog with as many investors around the world as possible to contribute to the Company’s sustainable growth and increase corporate value over the medium and long term. Furthermore, to the extent that this is reasonable and possible, the Company places emphasis on having the Chairman of the Board and CEO communicate with investors through direct dialog.

## IR Activities

Striving to maintain dialog with investors, Tokyo Electron maintains a dedicated Investor Relations Department under the direct control of the CEO. The Chairman of the Board and CEO serve as spokespersons for the Company at such events as earnings release conferences for securities analysts and institutional investors, IR conferences in and outside Japan, and individual meetings.

The spokespersons for the IR Department hold individual meetings with investors and periodically relay the opinions of investors at these events to the Chairman of the Board and CEO so that feedback can be of use in management.

## Shareholders’ Meeting

Tokyo Electron schedules its shareholders’ meeting to avoid days on which many such meetings are concentrated as part of its measures to vitalize 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.

For more details on our corporate governance, please refer to the Tokyo Electron Corporate Governance Guidelines.  
[www.tel.com/about/cg/](http://www.tel.com/about/cg/)

## Third-Party Recognition

Tokyo Electron has been selected for inclusion in world-leading environmental, social and governance (ESG) investment indices, including DJSI<sup>1</sup> Asia Pacific 2019, FTSE4Good Index,<sup>2</sup> FTSE Blossom Japan Index,<sup>3</sup> MSCI World ESG Leaders Indexes,<sup>4</sup> MSCI Japan ESG Select Leaders Index,<sup>5</sup> and MSCI Japan Empowering Women Index (WIN).<sup>6</sup>

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<sup>7</sup> administered jointly by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi. This year, the recognition was given not only to Tokyo Electron, but shared with all its domestic Group companies.

MEMBER OF  
**Dow Jones Sustainability Indices**  
In collaboration with 

  
FTSE4Good

**2020 MSCI ESG Leaders Indexes Constituent**<sup>8</sup>

**2020 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)**

<sup>1</sup> DJSI (Dow Jones Sustainability Indices): ESG investment indices operated by U.S.-based S&P Dow Jones Indices LLC. The DJSI Asia Pacific covers companies in that region.

<sup>2</sup> FTSE4Good Index: An index related to environmental performance and corporate social responsibility developed by the UK-based FTSE Russell

<sup>3</sup> FTSE Blossom Japan Index: An index that reflects the performance of Japanese companies that have demonstrated strong ESG practices

<sup>4</sup> MSCI World ESG Leaders Indexes: Companies that have high ESG performance are selected from the MSCI Global Sustainability Index, an ESG investment index developed by Morgan Stanley Capital International (MSCI)

<sup>5</sup> MSCI Japan ESG Select Leaders Index: An index featuring companies with high ESG performance selected from its parent index (MSCI Japan IMI Top 700 Index: Top 700 securities based on free float-adjusted market capitalization). The index targets 50% of the free float-adjusted market capitalization within each GICS® sector of the parent index.

<sup>6</sup> MSCI Japan Empowering Women Index (WIN): An index developed by MSCI featuring companies with excellent gender diversity selected from its parent index (MSCI Japan IMI Top 700 Index).

<sup>7</sup> White 500: A system for recognizing companies implementing especially outstanding health and productivity management based on initiatives to address local health issues or the health promotion initiatives of Nippon Kenko Kaigi. Based on the results of the Survey on Health and Productivity Management, the top 500 companies in the large enterprise category are designated as the White 500.

<sup>8</sup> Please check the link for the logo’s disclaimer. [www.tel.com/csr/review/](http://www.tel.com/csr/review/)



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