

Message from the Chairman of the Board

Pursuing Effective Governance to Increase Shareholder Value

Since the publication of Japan's Corporate Governance Code and the Ito Review, interest has been steadily rising in such topics as board composition and management effectiveness. Corporate governance is the foundation for realizing Tokyo Electron's goal of increasing corporate value over the short, medium and long terms. Since Tokyo Electron's initial listing on the Tokyo Stock Exchange in 1980, informed by Japanese and global standards, we have constantly pursued excellence in corporate governance.

Tokyo Electron uses the Audit & Supervisory Board System. This enables both quick decision making leveraging the insight of our executive directors and effective oversight provided by our non-executive directors, outside directors and the Audit & Supervisory Board. In this way, we achieve a healthy balance of aggressive management and careful supervision in corporate governance.

New initiatives in fiscal 2018, the year ended March 31, 2018, included setting up a meeting to discuss Tokyo Electron's medium- to long-term growth strategies to complement the regular meetings of the Board of Directors. At this meeting, internal and external directors and Audit & Supervisory Board members engaged in vigorous discussion. Furthermore, we welcomed a new outside director in June 2018, bringing the total number of outside directors and Audit & Supervisory Board members to six and further increasing the diversity of the Board of Directors. The new outside director, Mr. Michio Sasaki, brings insight and management experience at Keyence, a corporation well known for being highly profitable, and I am sure he will contribute greatly at Tokyo Electron. Through such efforts to deepen and bring additional perspectives to the discussions held at Board of Directors meetings, we hope to continue to enhance the Board's effectiveness. In addition, to solidify the Company's foundation for growth, we have strengthened our efforts to develop future leaders. Our Human Resource Department and the Nomination Committee jointly formulate succession plans for the CEO and ranking executive officers, while the Board of Directors oversees the implementation and examination of such plans.

To grow sustainably in the semiconductor and electronics industries, it is essential to rapidly develop innovative technologies and high-value-added products and to offer these to customers alongside high-quality service. The production equipment market is approaching a new growth phase, reflecting the increased use of IoT technologies and big data. As the chairman of the Board of Directors, I will continue working to build an effective corporate governance system and ensure the Board operates effectively in order to further enhance shareholder value.



Tetsuo Tsuneishi
Chairman of the Board



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 and the diversity expected of both executive directors and independent directors. The current Board of Directors consists of 12 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, six out of the 17 participants in the Board of Directors meetings, including the Audit & Supervisory Board members, are outside members, consisting of three 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.

Nominations for Director and CEO

Tokyo Electron has established a Nomination Committee to ensure fairness and efficacy 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. The Nomination Committee is composed of four directors and Audit & Supervisory Board members, including at least one outside Audit & Supervisory Board member; the CEO is not a member of the committee. The authority to propose the election or dismissal of the CEO or directors is entrusted to the Nomination Committee.

Director and CEO Compensation

Tokyo Electron's compensation policy prioritizes the following considerations.

- (1) Globally competitive composition and levels of compensation
- (2) Correspondence with short-term performance, sustainable growth and medium- and long-term increases in corporate value
- (3) Assuring management transparency and fairness as well as the appropriateness of compensation

In line with this policy, Tokyo Electron has adopted a director and executive officer compensation system that is closely linked to performance and shareholder value. The compensation of directors currently comprises a fixed basic wage and an annual performance-linked bonus. However, to realize further growth by better linking director compensation to medium-term corporate performance, Tokyo Electron has introduced a new, medium-term performance-linked compensation scheme from the year ending March 31, 2019.

To ensure management transparency and fairness as well as the appropriateness of compensation, Tokyo Electron maintains a Compensation Committee, which comprises three or more directors and includes at least one outside director. The Compensation Committee conducts an analysis of industry compensation levels and systems in and outside

Japan. Based on this analysis, the committee proposes a policy and system for the compensation of the Board of Directors and executive officers as well as individual compensation amounts for the representative directors.

In order to better link factors that increase corporate value and shareholder value to compensation, Tokyo 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 annual 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, annual performance-linked compensation consists of monetary compensation and share-based compensation (stock options); the ratio of these two components 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 a three-year vesting period from the date of allotment before the options may be exercised.

The medium-term performance-linked compensation comprises share-based compensation (performance shares) and is aimed at using shareholdings to align the perspectives of directors with those of shareholders and incentivize directors to increase corporate value. Medium-term performance-linked compensation is based on reference amounts calculated based on each director's position and duties. Compensation payouts vary from 0% to 150% of said reference amounts according to the attainment level of performance targets over the relevant three-year term. The operating margin, ROE and other performance indicators are used to appropriately link medium-term enhancement of corporate value with director compensation amounts.

Evaluation of the Effectiveness of the Board of Directors

Each year, based on a question-based evaluation survey filled out by the Board of Directors and Audit & Supervisory Board members, the Board of the Directors analyzes and evaluates its own effectiveness through discussions, mainly involving the outside directors and outside Audit & Supervisory Board members, as well as separate discussions involving the entire Board of Directors. The board then discloses a summary of the results.

Does Tokyo Electron have these major components of corporate governance?

(As of July 1, 2018)

Compensation Committee	Yes	Composed of directors, including outside directors and excluding representative directors, or Audit & Supervisory Board members
Nomination Committee	Yes	Composed of directors, excluding the CEO, or Audit & Supervisory Board members
Outside directors	Yes	Three of the 12 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
Annual performance-linked compensation system	Yes	
Medium-term performance-linked compensation scheme	Yes	Adopted in 2018
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	

Corporate Governance

At meetings of the Board of Directors, directors and Audit & Supervisory Board members actively engage in discussion based on their diverse viewpoints and experiences. Important items are examined in terms of risk, openly debated and considered carefully. In fiscal 2018, to complement Board of Directors meetings, Tokyo Electron held an off-site meeting focused on operational strategy and vision. Turning to the Board's internal committees, the Nomination Committee reported on initiatives based on succession plans, and the Compensation Committee made proposals to better link compensation with medium-term performance. Tokyo Electron thus believes that its Board of Directors is appropriately carrying out its role as defined in the Corporate Governance Guidelines, namely (1) Establishing management strategy and vision and (2) Making major operational decisions based on strategic direction. Accordingly, Tokyo Electron believes that the Board of Directors, including the Nomination Committee and Compensation Committee, is functioning effectively.

Going forward, to deepen its discussions of Tokyo Electron's medium- and long-term vision and growth strategy, in addition to items for resolution and reports, the Board of Directors will continue working to enrich the items brought up for discussion at its meetings. Furthermore, by providing ample opportunities for discussion and debate in which outside directors and outside Audit & Supervisory Board

members are the main participants, Tokyo Electron will strive to ensure appropriate, meaningful decision making based on highly diverse views. In addition, the Board of Directors will continue to consider its composition, including the ratio of outside members and diversity, such as that of gender and nationality.

Audit & Supervisory Board

The Audit & Supervisory Board currently consists of five members and includes three outside Audit & Supervisory Board 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.

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 also annually evaluate 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 unit within the General Affairs Department of the corporate headquarters. This unit analyzes the risks faced by the Group and identifies material risks. It then monitors the management of such risks while supporting and implementing risk management activities. The unit also regularly reports the status of risk management activities to the Audit & Supervisory Board members and the Board of Directors.

In fiscal 2018, the Group reassessed the material risks in its operating environment. For each risk determined to be material, the status of risk management at the responsible divisions was reconfirmed. Going forward, the Group will continue these initiatives 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. In addition, the Group's internal control over financial reporting based on the Financial Instruments and Exchange Act of Japan was evaluated as effective by the independent auditors in fiscal 2018.

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

Business Continuity Plans (BCPs)

The Tokyo Electron Group began building business continuity plans in 2003. After the Great East Japan Earthquake, the Group completely reworked these plans to be more effective and include provisions for restoring operations after crises, focusing on major business sites. As examples of specific initiatives, the Group has put considerable effort into such preparations for disasters as stockpiling emergency supplies (including food and drinking water), reinforcing essential infrastructure, rebuilding the safety confirmation system, creating manuals, and implementing drills and employee training. Furthermore, to meet its responsibilities as an equipment manufacturer, the Group pursues ongoing efforts to improve its BCPs, including taking steps to facilitate early recovery and alternate production.

When the Kumamoto Earthquake struck in April 2016, the Group was able to respond with speed and precision based on the BCP it had prepared. In addition, since fiscal 2018, the Group has been advancing seismic reinforcement construction at its major business sites.

Information Security Management

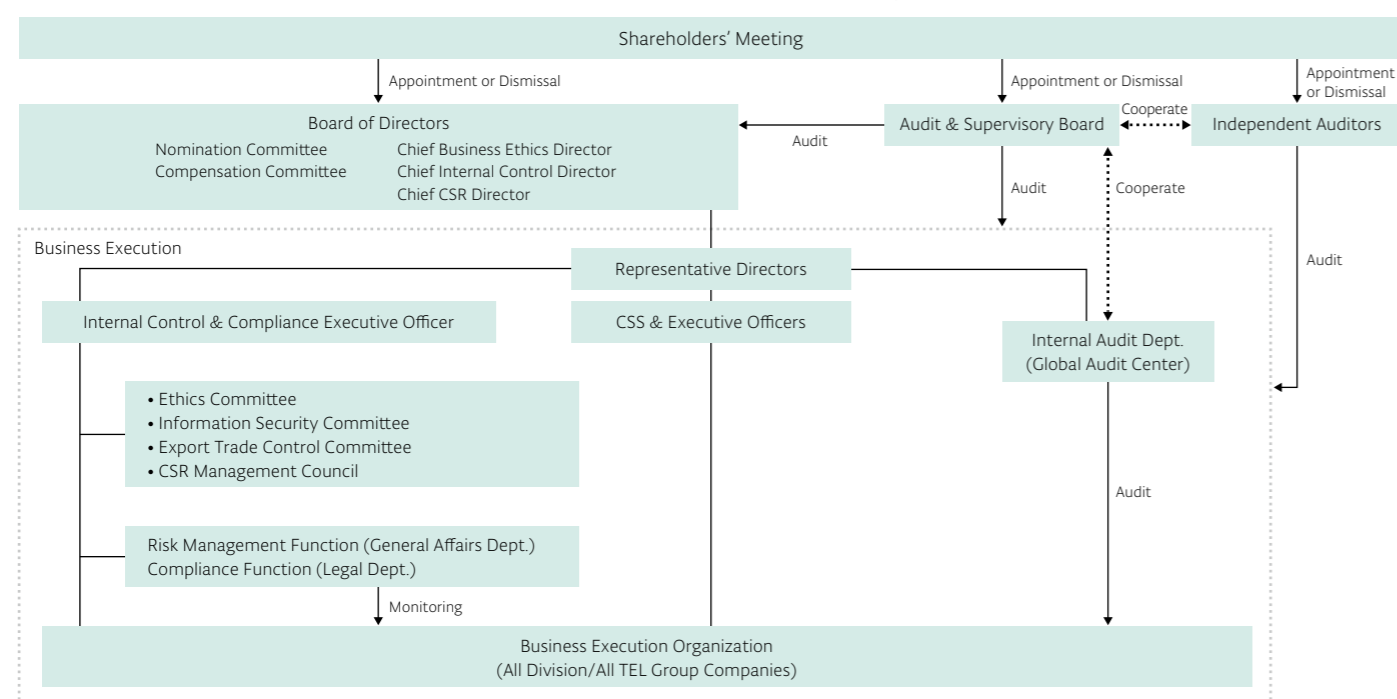
To ensure the appropriate management of information assets, the Group has an information management framework centered on its Information Security Committee, which is composed of representatives from departments across the Group.

Rules concerning the handling and protection of such sensitive information as trade secrets and personal information are formulated based on the Information Security Committee's policy and applied throughout the Group. An e-learning system is used to educate and promote awareness of these rules among Group employees and executives.

Additionally, the Group has a reporting system for both actual and potential cases (jointly referred to as "incidents") of information leakage. Reported incidents are quickly settled and then analyzed. Based on such analyses, recurrence prevention measures are implemented throughout the Group.

In order to mitigate emerging cyber security threats, the Group examines and undertakes rational countermeasures as necessary. The Group also has in place systems to detect targeted threats that utilize social engineering as well as a supervisory framework to prevent damage.

Corporate Governance Framework, Internal Control System and Risk Management System (As of July 1, 2018)



Corporate Governance

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 executives 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 as a set of 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 United Nations Global Compact, which concerns working against corruption including extortion and bribery. In August 2016, the Group revised the Code of Ethics in light of social changes and the Code of Conduct of the RBA¹.

The Tokyo Electron Group's Code of Ethics and related explanations and Q&A sections 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.

¹ RBA is a registered trademark of the Responsible Business Alliance.

 The Code of Ethics of the Tokyo Electron Group
www.tel.com/about/compliance

Compliance System

Tokyo Electron has appointed an Internal Control & Compliance Executive Officer from among its executive officers to raise awareness of compliance across the Group

and further improve Group-wide compliance. Each Group company has also drawn up its own 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 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 these programs. 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 an online quiz-based business ethics and compliance education course, launched in fiscal 2014, for all Group executives and employees. Updated yearly, the quiz is intended to maintain compliance awareness throughout the Group and disseminate the latest information.

Furthermore, in fiscal 2018, we implemented a test to check employee understanding of compliance, including anti-corruption and anti-bribery issues, in response to increased enforcement of anti-corruption law around the world. To deepen understanding of these topics, we held in-person training for department vice presidents and similar level managers that focused on preventing corruption and bribes to foreign government officials as well as in-person training for Corporate Directors and executive officers that focused on the management of overseas subsidiaries.

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. 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 fiscal 2018, to further facilitate reporting, the Group set up an external reporting hotline as well as hotlines for reporting

from business partners. 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 2018 that could have had a material impact on the Group's business or local communities.

Promoting Dialog with Investors

Basic Stance

Tokyo Electron endeavors to provide opportunities for constructive dialog with growing numbers of investors around the world 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 and medium-term management plan briefings 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

Third-Party Recognition

Tokyo Electron has been selected for inclusion in world-leading environmental, social and governance (ESG) investment indices.

In fiscal 2018, Tokyo Electron was once again selected for inclusion in the DJSI¹ Asia Pacific 2017, the FTSE4Good² Global Index and MSCI World ESG Leaders Index. The Company was also selected for the FTSE Blossom Japan Index and MSCI Japan ESG Select Leaders Index, two ESG indices selected by Japan's Government Pension Investment Fund (GPIF).

¹ DJSI (Dow Jones Sustainability Indices): ESG investment indices developed by U.S.-based S&P Dow Jones Indices LLC and Switzerland-based RobecoSAM AG. The Asia Pacific index covers companies in that region.

² FTSE4Good: An index related to environmental performance and corporate social responsibility developed by the U.K.-based FTSE Group

MEMBER OF
Dow Jones
Sustainability Indices
In Collaboration with RobecoSAM

 FTSE4Good

MSCI 2018 Constituent
MSCI ESG
Leaders Indexes