

Corporate Governance

Against a backdrop of ongoing business globalization, Tokyo Electron maintains a management philosophy that places emphasis on improving corporate value for its shareholders and all other stakeholders. To this end, the Company considers it important to strengthen corporate governance. In line with the following three basic principles, the Company works to maintain a highly effective, optimized corporate governance structure while upgrading and strengthening its internal control systems and risk management system.

Tokyo Electron's Basic Principles of Corporate Governance

1. Ensure the transparency and soundness of business operations
2. Facilitate quick decision-making and the efficient execution of business operations
3. Disclose information in a timely and suitable manner

The Corporate Governance Framework

Tokyo Electron uses the audit & supervisory board system based on the Companies Act, and furthermore has established its own Compensation Committee* and Nomination Committee** to increase the transparency and objectivity of management. The members of these committees are directors and audit & supervisory board members, excluding the representative directors. Also, to more clearly define the roles of the Board of Directors and the executive body and to facilitate quick decision-making, Tokyo Electron has adopted the executive officer system since 2003. Moreover, Tokyo Electron has been disclosing the individual remuneration of representative directors since 1999 in recognition of the importance of managerial transparency for shareholders.

* Compensation Committee: This committee makes recommendations to the Board of Directors on the director remuneration system, as well as representative director remuneration itself.

** Nomination Committee: This committee nominates director- and CEO-candidates, and submits them to the Board of Directors for approval.

The Board of Directors

The Board of Directors consists of nine directors, two of whom are outside directors. In principle, the Board of Directors meets once a month. During fiscal 2014, the Board of Directors met on 13 occasions. In order to ensure that the Company can respond quickly to changing business conditions, and to more clearly define management accountability, the term of office for directors is set at one year.

The Audit & Supervisory Board

The Company has four audit & supervisory board members, three of whom are outside audit & supervisory board members. The audit & supervisory board members not only attend meetings of the Board of Directors, the Top Management Conference and other important business meetings, but also conduct operations audits and accounting audits by directors. During fiscal 2014, the audit & supervisory board met seven times.

Outside Directors and Outside Audit & Supervisory Board Members

From the viewpoint of objectively ensuring the effectiveness of the decision-making of the Board of Directors, Tokyo Electron has appointed two outside directors to the Board: Mr. Hiroshi Inoue, who is Chairman of the Board at Tokyo Broadcasting System Holdings, Inc., and Mr. Masahiro Sakane, who is Councilor at Komatsu Ltd. Additionally, to objectively ensure the reasonableness of the audits, Tokyo Electron has appointed three outside audit & supervisory board members: Mr. Mikio Akaishi, Mr. Takatoshi Yamamoto and Mr. Ryuji Sakai, who is an attorney at law of Nagashima Ohno & Tsunematsu. Mr. Mikio Akaishi conducts audits of the Tokyo Electron Group as a full-time audit & supervisory board member.

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 2005, as part of the revisions to Tokyo Electron's executive compensation program.

Internal Control and Risk Management System

In order to enhance corporate value and ensure that all business activities are carried out responsibly and in the interests of all stakeholders,

Tokyo Electron is taking steps to strengthen its internal control systems and make them more effective. The Company is implementing practical measures in line with the Fundamental Policies Concerning Internal Controls within the Tokyo Electron Group decided by the Board of Directors. The Company is also implementing measures for the Internal Controls Over Financial Reporting, based on the Financial Instruments and Exchange Act.

Internal Control Systems

To more effectively strengthen the internal control and risk management systems of the entire Tokyo Electron Group, Tokyo Electron appointed a Chief Internal Control Director and a Compliance & Internal Control Executive Officer. Under them, the Company established a dedicated risk management and internal control function within the General Affairs Department, which evaluates and analyzes the risks which could affect the Group, and works to reduce these risks by promoting the necessary measures. Tokyo Electron has also established the Information Security Committee and the Export Trade Control Committee to further strengthen the management of confidential information and the export compliance system.

Internal Audit Department (Global Audit Center)

The Global Audit Center oversees the internal auditing activities of the entire Tokyo Electron Group. The Center is responsible for auditing the business activities of the Group's domestic and overseas bases as well as their compliance and systems, and for evaluating the effectiveness of internal control systems. As necessary, the Global Audit Center also provides guidance to operating divisions.

Coordination Between Audit & Supervisory Board Members and Internal Audit Department

The audit & supervisory board members coordinate with the Global Audit Center, a department responsible for internal auditing activities, primarily by attending its report meetings.

Coordination Between Audit & Supervisory Board Members and Independent Auditors

The audit & supervisory board members receive audit plans for the fiscal year from the independent auditors, as well as explanations regarding auditing methods and particular areas of focus, among other matters. The independent auditors audit the year-end financial statements and review the quarterly financial statements, and report the results of their audits to the audit & supervisory board members.

The Company provides KPMG AZSA LLC, its independent auditors, with all necessary information and data to ensure that it can conduct its audits during the fiscal year promptly and correctly.

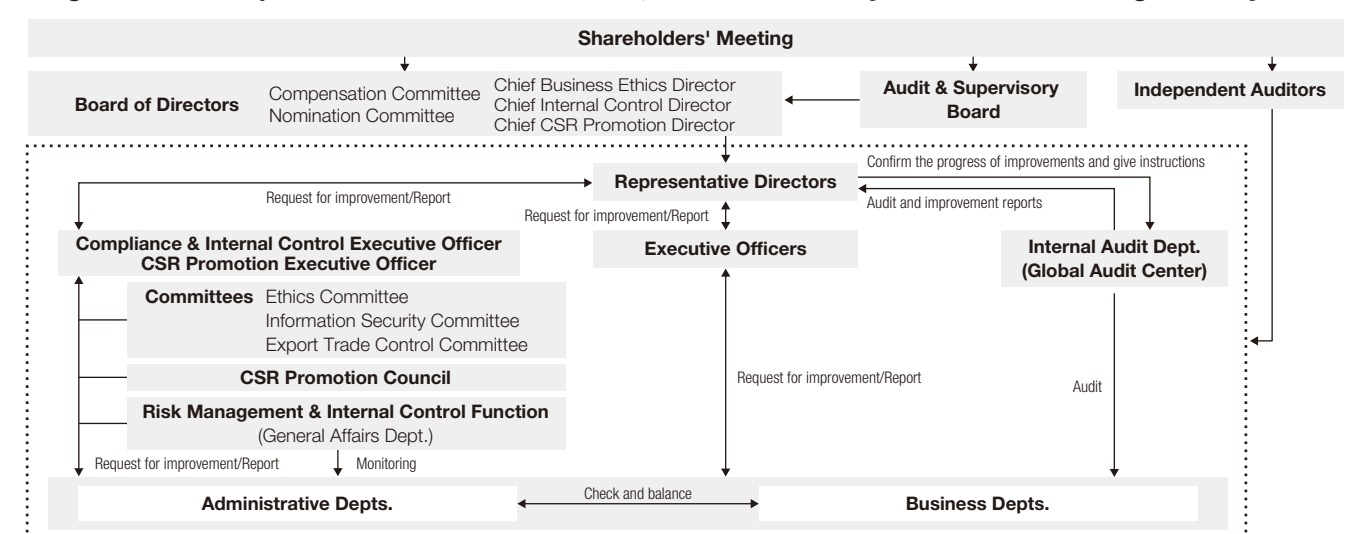
Compliance

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.

Code of Ethics, Chief Business Ethics Director and Ethics Committee

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 Group. The Code and its Q&A section are published in Japanese, English, Korean and Chinese editions, and the Company distributes it to all Group executives and employees, including those overseas. Moreover, the Code is appropriately reviewed and revised in response to changes in the environment and societal demands.

Diagram of the Corporate Governance Framework, Internal Control System and Risk Management System



Corporate Governance

■ Compliance & Internal Control Executive Officer

Tokyo Electron has appointed a Compliance & Internal Control Executive Officer from among the executive officers to raise awareness of compliance across the Group and further improve its implementation.

■ Framework for Thorough Implementation of Compliance

Tokyo Electron has 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 business activities for the Group clearly understand the pertinent laws, regulations, international standards and internal company rules, and continuously apply them in all of their activities. The Company also conducts web-based training programs for employees, makes information on compliance issues available to employees via the Company intranet, and takes other steps to promote broad awareness of compliance throughout the Company.

■ Internal Reporting System

In the event that an employee becomes aware of any activity which may violate laws, regulations or principles of business ethics, the Group operates an internal reporting system that employees can use to report their concerns. The entire Group has established an ethics hotline and a compliance hotline, and this reporting system is also in place at each overseas base. In all cases, this system ensures that strict confidentiality is maintained to protect the whistleblower and ensure that they are not subject to any disadvantage or repercussions.

CSR (Corporate Social Responsibility)

The Tokyo Electron Group regards ensuring workplace safety, the safe use of its products and the health of everyone associated with the Group's activities as fundamental to fulfilling its corporate social responsibility (CSR). To further promote CSR initiatives, the Group has established a CSR Policy as well as dedicated CSR promotion structure.

■ CSR Policy

In 2013, Tokyo Electron adopted a CSR Policy based on the Company's Corporate Philosophy and Management Policies, codifying its basic stance and values with regard to CSR activities and con-

cretely stating its corporate social responsibility and policies. By understanding its duties as a good corporate citizen and earnestly responding to the demands of society, the Tokyo Electron Group seeks to contribute to society and create hope for the future.

■ CSR Promotion Council, Chief CSR Promotion Director, CSR Promotion Executive Officer

In 2014, the Group established the CSR Promotion Council to formulate and review CSR promotion plans and indicators, and newly appointed a Chief CSR Promotion Director, to oversee the meeting. Under the leadership of the CSR Promotion Executive Officer, the Group is working to further enhance CSR activities.

Shareholders' Meeting

Tokyo Electron mails a Notice of Annual General Meeting of Shareholders to shareholders more than three weeks in advance of the meeting, as one of its measures to vitalize these meetings and to promote smooth and efficient voting. It also sets the date of the Company's meeting to avoid days on which many such meetings are concentrated. In addition, shareholders are free to cast their votes via the Internet. Moreover, 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 notices, resolutions, and voting results of shareholders' meetings.

Does Tokyo Electron have these major components of corporate governance?

Compensation Committee	Yes	Composed of directors, excluding representative directors, or audit & supervisory board members
Nomination Committee	Yes	Composed of directors, excluding representative directors, or audit & supervisory board members
Outside directors	Yes	Two of the 9 directors are outside directors
Outside audit & supervisory board members	Yes	Three of the four audit & supervisory board members are outside audit & supervisory board members
Executive officer system	Yes	
Disclosure of individual remunerations of representative directors	Yes	Disclosed since 1999
Performance-linked compensation system	Yes	
Stock options system	Yes	Does not apply to outside directors and audit & supervisory board members
Retirement allowance system for executives	No	
Anti-takeover measures	No	

Constituent of the
FTSE4Good Global Index



FTSE4Good

Tokyo Electron has been a constituent of the FTSE4Good Global Index since September 2003. The FTSE4Good Global Index is a social responsibility investment (SRI) index provided by the FTSE Group, a world-leading index firm wholly owned by the London Stock Exchange.