

Tokyo Electron's Growth and Corporate Governance



Tetsuro Higashi
Chairman of the Board

The Great East Japan Earthquake that occurred in March 2011 caused us to induce great concern among our shareholders. With your support, however, as of June 2011 we have restored Tokyo Electron's development and production functions to largely the same condition as before the disaster. We are confident we will be fully prepared to meet growing demand from our customers. I wish to extend my gratitude for the encouragement and support of all stakeholders. In addition, all of the Company's employees and executive officers are strongly determined to rebuild from the disaster and harbor strong ambitions to make Tokyo Electron an even stronger company. I myself once again feel proud of the strong resolve of the Company's employees and their high level of awareness in these respects.

The electronics industry in which the Company operates has given birth to a steady stream of technological innovation for more than half a century. This technological innovation in turn has generated new demand, spurring significant growth in the industry as a whole. Going forward, the electronics industry still offers significant scope for technological innovation. The industry's markets are set to further permeate every aspect of daily life, from advanced information and communications technology fields, to the automobile, healthcare-related and energy sectors. At the

same time, the electronics industry harbors huge growth potential as it expands to every region around the world. I believe that Tokyo Electron must remain a company that possesses "aspirations and vitality" and stay in the vanguard of the times by generating further technological innovation.

As chairman, I put particular emphasis on the following points when considering corporate governance. First, as company management is entrusted to us by the shareholders, it is extremely important for us to maximize corporate value over the medium and long terms. On the other hand, the second point is that I believe a corporation is an organic living structure which is formed by the Company's employees, and that it must therefore be a truly worthwhile, vibrant organization from the standpoint of the employees. In this sense, I believe that the essence of corporate governance lies in management's continuous efforts to develop systems and measures that ensure that the company remains attractive to both shareholders and employees.

From these perspectives, I intend to actively provide timely advice in support of the current execution system and the Company overall.

CORPORATE GOVERNANCE

Against a backdrop of ongoing business globalization, Tokyo Electron maintains a management philosophy that puts emphasis on maximizing corporate value and enhancing shareholder satisfaction.

To this end, the Company is striving to strengthen corporate governance through a variety of measures. The Company is building a highly effective corporate governance structure, and upgrading and strengthening its internal control systems and risk management system. Efforts in this regard are founded on the following three basic principles.

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 statutory auditor system based on the Company Law, and furthermore has established its own Nomination Committee and Compensation Committee to increase the transparency and objectivity of management. Also, Tokyo Electron has adopted the executive officer system to separate the business execution function from the Board of Directors. Moreover, Tokyo Electron has been disclosing the individual remunerations of

representative directors since 1999 in recognition of the importance of managerial transparency for shareholders.

The Board of Directors

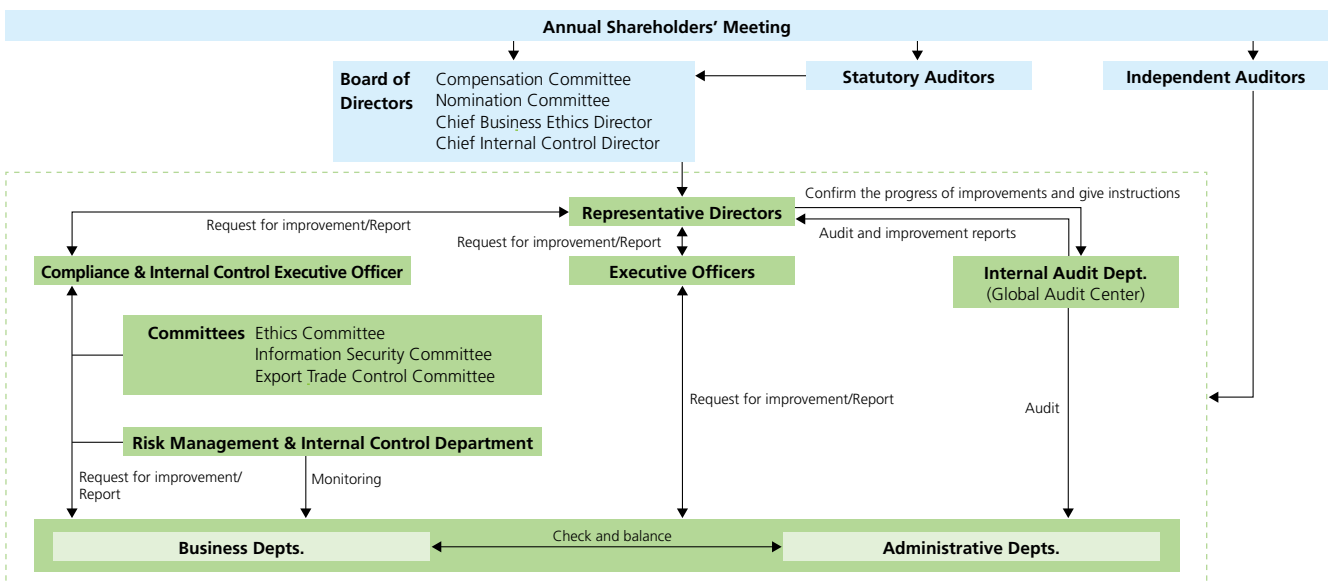
The Board of Directors consists of 15 directors, two of whom are external directors. In principle, the Board of Directors meets once a month, with additional meetings if necessary. (During fiscal 2011, the Board of Directors met on 11 occasions.) In order to ensure that the Company can respond quickly to changing business conditions, and to more clearly define management accountability, the term of office for directors is set at one year. Furthermore, there are two committees whose activities are intended to improve corporate governance: the Compensation Committee and the Nomination Committee.

Compensation Committee: This committee proposes the remuneration to be paid to representative directors at the Board meeting for approval.

Nomination Committee: This committee nominates candidates for directors to be selected at the annual shareholders' meeting, and nominates a candidate for CEO to be selected by the Board, which it submits at the Board meeting for approval.

Each of these committees is composed of members of the Board of Directors, excluding the representative directors, or statutory auditors.

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



The Board of Statutory Auditors

The Company has four statutory auditors, two of whom are external auditors. The statutory auditors not only attend meetings of the Board of Directors, the Management Meeting and other important business meetings, but also conduct operations audits and accounting audits, and evaluate risk management, in addition to auditing the performance of duties by directors. During fiscal 2011, the board of statutory auditors met six times.

The Executive Officer System

In order to further clarify the roles of the Board of Directors and executives in charge of business operations, Tokyo Electron has adopted the executive officer system. This system promotes fast decision-making and the quick establishment and execution of business strategies.

Compensation for Corporate Directors and Statutory Auditors

The Company has introduced incentive systems, such as business results-based compensation and stock options linked to share prices. As regards business results-based compensation, effective from fiscal 2011, the Company revised its executive compensation system to link compensation more precisely to the elements of maximizing corporate value and enhancing shareholder value. To achieve this, Tokyo Electron has added ROE as an extra evaluation yardstick to the conventional one of net income.

1. The compensation for corporate directors is composed of two elements: a fixed monthly salary, and performance-linked annual compensation which is linked to earnings performance.
2. The total amount of performance-linked compensation for corporate directors is calculated by assessing the degree of achievement of ROE as well as net income, and is also adjusted to allow for any other important management targets designated for the period under review, for any special losses that occurred, and for any other special factors that should be considered. This compensation is split between cash bonuses and stock-based compensation at a ratio of roughly one to one having been changed from the previous ratio of two to one. As a result, the ratio of stock-based compensation increased. This change was made to allow corporate directors to share in both the benefits and the risks experienced by shareholders. The amount of performance-linked compensation is set at a maximum of a multiple of five times the annual fixed compensation. The stock-based compensation takes the form of new stock warrant contracts with an exercise price of one yen per share. The restricted period on exercising stock options is set at three years.

3. The earnings-linked compensation of external directors does not include stock-based compensation.
4. In order to ensure that statutory auditors maintain full independence from management pressures, the compensation of statutory auditors consists of a fixed monthly salary only.
5. Retirement allowances for corporate directors and statutory auditors were abolished at the end of fiscal 2005, as part of the revisions to Tokyo Electron's compensation system for executives.

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 basic policy for internal control systems in the Tokyo Electron Group decided by the Board of Directors. The Company is also implementing internal controls over financial reporting based on the Financial Instruments and Exchange Law.

Internal Control Systems

To strengthen the internal control and risk management systems of the entire Tokyo Electron Group more effectively, Tokyo Electron appointed a Chief Internal Control Director and a Compliance & Internal Control Executive Officer. Under them, the Company established the Risk Management & Internal Control Department, which evaluates and analyzes the risks which could affect the Group, and works to reduce 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 evaluating the effectiveness of internal control systems. When necessary, the Global Audit Center also provides guidance to operating divisions.

Coordination Between Statutory Auditors and Internal Audit Department

The statutory auditors coordinate with the department responsible for internal auditing activities primarily by attending the Global Audit Center's report meetings, which were held 13 times during fiscal 2011.

Coordination Between Statutory Auditors and Independent Auditors

The statutory auditors 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 statutory auditors.

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

Compliance

Trust is the cornerstone of Tokyo Electron's business foundation. The fundamental requirements for maintaining trust are rigorous conformity to ethical standards and compliance with the law, by individual employees and by each of our organizations. In line with the basic policy for internal control systems in the Tokyo Electron Group, all Group employees are required to maintain high standards of ethics and to act with a clear awareness of compliance.

Ethical Standards, Chief Business Ethics Director and Ethics Committee

In 1998, the Company formulated the "Tokyo Electron Code of Ethics" (revised in April 2011) 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 Company. The Tokyo Electron Code of Ethics prescribes a common code of behavior for all employees of Tokyo Electron and the Group, and the Company distributes it to all Group employees, including those overseas.



Tokyo Electron Code of Ethics

Tokyo Electron Code of Ethics

Compliance/Internal Control Executive Officer

Since April 2009, 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 compliance regulations setting out basic compliance-related requirements in line with its code of ethics. 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 these rules 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: Hotline

In the event that an employee becomes aware of any activity which may violate laws, regulations or principles of business ethics, the Company operates an internal reporting system (Hotline) that employees may use to report their concerns. Strict confidentiality is maintained to protect the whistleblower and ensure that they are not subject to any disadvantage or repercussions.

Disclosure Policy

Tokyo Electron is committed to disclosing information about the Company in a fair, prompt and accurate manner, to ensure that all stakeholders, including shareholders and other investors, can obtain an accurate, in-depth understanding of the Company and its activities, and evaluate the Company's corporate value appropriately. The Company also solicits feedback from its stakeholders as part of its information disclosure activities, and uses the feedback as a point of reference to guide corporate management.

Information Disclosure Standards

- Tokyo Electron complies fully with the Financial Instruments and Exchange Law, and the Tokyo Stock Exchange's listing regulations pertaining to marketable securities.

- Even when the information is not subject to the listing regulations pertaining to marketable securities, the Company discloses the information proactively, in a fair, prompt and accurate manner if the information is deemed useful in providing stakeholders with an accurate understanding of the Company.

Disclosure Practices

- If it is subject to the marketable securities listing regulations (material information), Tokyo Electron will release information simultaneously in a press release and via the Tokyo Stock Exchange's "Timely Disclosure Network" (TDnet), and will post the information on its website as soon as possible, following the official announcement.
- Even when it does not fall into the category of "material information," the Company will voluntarily disclose information which may be of interest to stakeholders in a fair, accurate, and easy-to-understand manner, either on its website or in printed form, through various means of communication.
- Tokyo Electron conducts meetings to discuss its financial results with securities analysts and investors; these meetings are also open to members of the press. The Company makes audio recordings of its fiscal year-end and mid-term financial results meetings, and posts these recordings on the Company's website. All of the documents distributed at its quarterly financial results meetings are also posted on the website.
- To ensure that foreign investors have fair and equal access to the information, the Company strives to disclose all information simultaneously in Japanese and English. However, due to the

time required for translation, there may be cases where the posting of English information to the website is delayed slightly.

Shareholder Measures

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 Investor Communications Japan Inc. (ICJ). To supplement the above shareholder meeting-related initiatives, Tokyo Electron's website carries notices, resolutions and presentation materials of shareholders' meetings. An English version of the Notice of Annual General Meeting of Shareholders is also provided.



Tokyo Electron is a constituent
of the FTSE4Good Global Index.

FTSE4Good

Since September 2003, Tokyo Electron has been chosen for the FTSE4Good Global Index, which is a CSR index provided by the FTSE Group. The FTSE Group is a world leading index firm, a joint venture between the Financial Times newspaper and the London Stock Exchange.

Does Tokyo Electron have these major components of corporate governance?

Compensation Committee	Yes	Composed of directors, excluding representative directors, or statutory auditors
Nomination Committee	Yes	Composed of directors, excluding representative directors, or statutory auditors
External directors	Yes	Two of the 15 directors are external directors
External auditors	Yes	Two of the four statutory auditors are external auditors
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 external directors and auditors
Retirement benefits system for executives	No	
Anti-takeover measures	No	