Interview With the Chairman

Tetsuro Higashi, Chairman of the Board

Question: Tokyo Electron was one of the first companies in Japan to introduce stronger systems of corporate governance. Can you describe the background to these measures?

Answer: Since Tokyo Electron was established, the company has eagerly tried to learn the corporate cultures of Europe and the U.S., and has adopted their positive features in its management. When I took over as president, in 1996, the hubristic period of Japan's boom years, in the late 1980s, had passed and the weaknesses of Japanese corporations were being exposed, while U.S. corporations were again reviving, demonstrating their global leadership. I was extremely interested in determining what made American corporations strong. In particular, I realized that the use of ROE and ROA as key management benchmarks, and emphasis on free cash flow were central elements in maximizing corporate value among U.S. corporations. And I was also aware that they fundamentally had a philosophy of "emphasizing shareholder value," and in order to fulfill this philosophy they made efforts to strengthen corporate governance. I decided that the management of Tokyo Electron should try to capture this essential characteristic and use it to establish a globally admired company.

Question: What did you place importance on when you introduced corporate governance at Tokyo Electron?

Answer: One of the key issues was how to deal with the realities of Japanese corporate culture and the management environment, and ensure that management is emphasizing shareholder value. I talked with a top executive in a U.S. corporation, whom I knew well, about this issue. He explained that one factor that helps to ensure that shareholder value is emphasized is the fact that, in U.S. corporations, most members of the Board of Directors are outside directors. The "inside" directors are usually limited to just one or two individuals who have made their way through the ranks to become CEO or CFO. Then, on the Board, they have various committees—the Nomination Committee, the Compensation Committee, the Auditing Committee and so on. When I asked this U.S. executive whether he thought it would be possible to implement this sort of corporate governance structure in a Japanese company, he replied "Whether directors are taken from the company or brought in from outside is not an essential issue. The question is, either you want to make the Board's operations easier for you, or you want to place greater importance on the transparency of the Board's operations in order to introduce differing opinions, even though you might face difficulties dealing with them. Which course do you think will contribute to maximizing shareholder value? This is the point at which you should decide your course." This then was the answer I got from him. I concluded that there was no reason to blindly imitate the structure of a Western company. Rather, we needed to adopt a system that is truly practical.

Question: What are the distinguishing features of Tokyo Electron's system of corporate governance?

Answer: There are a number of features that stand out. First, we use a statutory auditor system; however, the Nomination Committee and Compensation Committee are incorporated into the Board of Directors. These committees make proposals to the full Board, which considers them and makes a final decision. The representative directors (the chairman and the President & CEO) do not take part in either of these committees, since there is a risk that their participation might result in an unbalanced power structure in the committee and detract from fair decision-making processes. We have also based the benchmarks for both shareholder dividends and management bonuses on net income for the period, and have linked employee bonuses to operating income. In this way, we help to ensure that the goals of management and the employees are closely aligned to the interests of shareholders. Thus, all three groups benefit to a similar degree from any increase in corporate value. These incentives also ensure that countries and the society in which we operate benefit from Tokyo Electron's success, via increased tax revenues.

Question: Since 1999, Tokyo Electron has been disclosing the individual compensation of representative directors. What was the basis for this move?

Answer: Corporate value is based on the value accumulated by the company over a period of many years, as well as the company's potential to create additional value in the medium and long term. Ultimately, the corporate value is evaluated and expressed as an appropriate share price in the stock market. In the short term there are a number of problems which interfere with share valuations, but I believe that in the long term, and on the whole, share prices provide an accurate indication of corporate value. The question is, how does one go about evaluating the performance of corporate top management, and who should be responsible for making this evaluation. Employees are evaluated by their immediate superiors, but in the case of top management, it is the shareholders who are directly responsible. The company operations are decided by top management, who are entrusted with this task by shareholders. Therefore, it is the shareholders who should evaluate top executives' performance from the standpoint of how well they can increase corporate value. As the direct representative of shareholders, the Compensation Committee takes on this duty, and based on the proposals of the Compensation Committee, the Board of Directors finally decides the representatives' compensation. By disclosing these compensation amounts in a clear manner, I think that the Compensation Committee and the Board of Directors merely fulfill their representative roles to shareholders. Some people think that it is sufficient to simply disclose the total amount paid to the directors, but since the top executives are the ones who have the ultimate authority and responsibility, we believe that it is best to provide an individual breakdown of each one's remuneration. One of the most important issues in maintaining effective corporate governance, in my view, is to maintain a certain tension between those being evaluated and those making the evaluation.

Question: What sort of management style do you think Tokyo Electron should cultivate?

Answer: As the company management is entrusted to us by the shareholders, it is extremely important for us to strive to maximize corporate value. But, I also have another point of view. I believe a corporation is an organic living structure which is formed by the company's employees, and where each member should be motivated and energetic in their work. If the company fails to be an aggregation of employees who are full of aspirations and vitality, then over the medium and long term it will never be able to maximize its corporate value. It might sound a bit too idealistic, but I want employees and shareholders to share the same dream, and management should always endeavor to help everyone realize this. From this point of view, I will move back and forth between the employee's focused standpoint and shareholder's broader standpoint. In this manner, I will do my best to support the new management team by providing appropriate advice in a timely manner.

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 inside the Board of Directors 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 12 directors, two of whom are external directors.

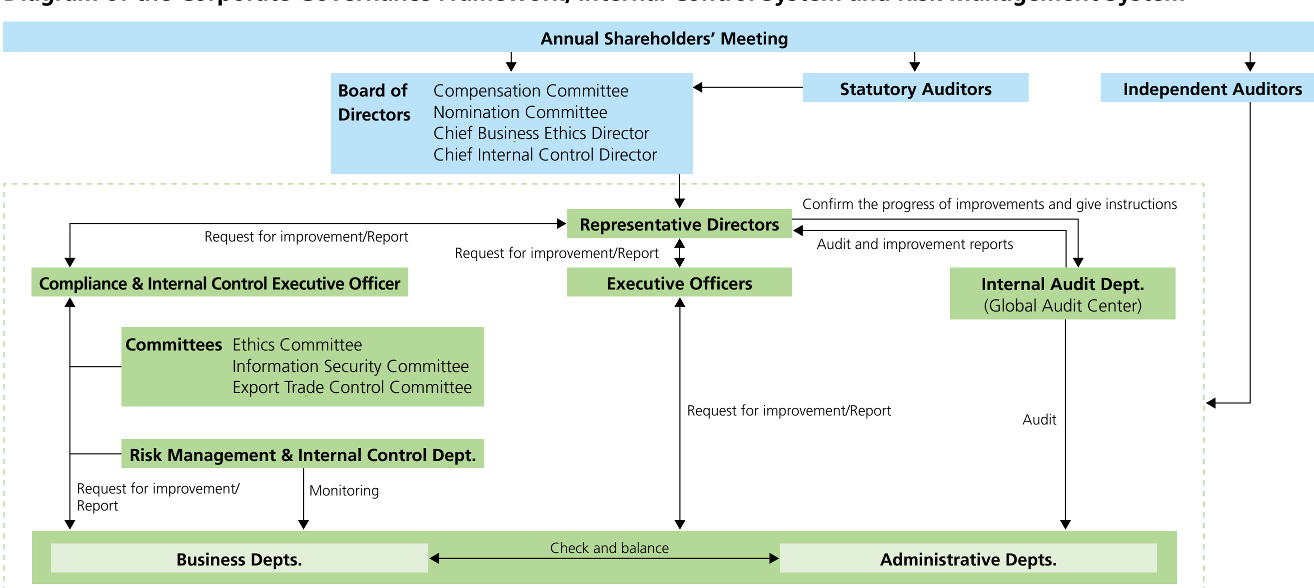
In principle, the Board of Directors meets once a month, with additional meetings if necessary. (During fiscal 2010, the Board of Directors met on 12 occasions.) In order to ensure that the Company can respond quickly to changing business conditions, and to more clearly define management accountability, the term of office for directors is set at one year.

The Board of Directors has two committees: the Compensation Committee and the Nomination Committee, whose activities are intended to improve corporate governance. The Compensation Committee proposes the remuneration to be paid to representative directors at the Board meeting for approval. The Nomination 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 (the Chairman and the President & CEO).

The Board of Statutory Auditors

The Company has four statutory auditors, two of whom are outside 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 2010, the board of statutory auditors met seven times.

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



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.

Remuneration for Directors, Executive Officers and Statutory Auditors

The Company and the Tokyo Electron Group (excluding listed companies) have introduced incentive systems, such as business results-based remuneration, and stock options linked to share prices. Effective from fiscal 2006, the Company revised its executive remuneration system to link remuneration more closely to financial performance and shareholder value and also improve management transparency and its competitive strength.

1. The remuneration for Company directors and executive officers is composed of two elements: a fixed monthly salary, and an annual bonus which is linked to earnings performance.
2. The total amount of performance-linked remuneration (annual bonuses) for directors and executive officers of the Group is set at a maximum of 3% of consolidated net income. This remuneration is split between cash bonuses and stock-based remuneration (stock options), at a ratio of roughly two to one. The stock-based remuneration takes the form of new stock warrant contracts with an exercise price of one yen per share. This is because current securities and exchange regulations in Japan make it difficult to introduce and implement direct share issuance, or the sort of transfer of restricted shares that are used in countries such as the United States. The restricted period on exercising stock options is set at three years.
3. The earnings-linked remuneration (annual bonuses) of external directors does not include stock options.
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 directors, statutory auditors and executive officers were abolished at the end of fiscal 2005, as part of the revisions to Tokyo Electron's remuneration system for executives.

Remuneration linked to corporate performance comprises a relatively large share of executives' total remuneration. The remuneration system gives executives a strong incentive to improve the Company's earnings performance and elevate the share price, since they share in both the benefits and the risks experienced by shareholders.

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 2010.

Coordination Between Statutory Auditors and Independent Auditors

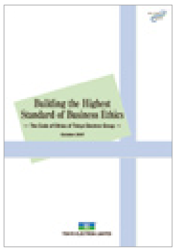
The statutory auditors receive audit plans for the fiscal year from the independent auditors, as well as explanations regarding auditing methods and particular areas of focus, among other matters. The independent auditors audit the year-end financial statements and review the quarterly financial statements,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

The Company provides KPMG AZSA & Co., 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


Tokyo Electron Code of Ethics

In 1998, the Company formulated the "Tokyo Electron Code of Ethics" (revised in June 2007) 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.

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.

Furthermore, 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.

FTSE4Good

Tokyo Electron is a constituent of the FTSE4Good Global Index.

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?

Nomination Committee	Yes	Composed of directors excluding representative directors (Chairman/CEO)
Compensation Committee	Yes	Composed of directors excluding representative directors (Chairman/CEO)
External directors	Yes	Two of the directors are external directors
Outside auditors	Yes	Two of the statutory auditors are outside 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
Directors' retirement benefits system	No	
Anti-takeover measures	No	

Message From External Directors

External Director
Hiroshi Inoue

Chairman of the Board,
Tokyo Broadcasting System Holdings, Inc.

External Director since 2006

I was appointed as an external director of Tokyo Electron in 2006. Since my background is in broadcasting, the culture of Tokyo Electron is completely new for me. I have developed a very strong respect for the management style of Tokyo Electron, its strong corporate governance and its dedication to constantly enhancing the value provided to all of its stakeholders. One of the things that I find most attractive about Tokyo Electron's corporate culture is its dynamism. Though the company is almost 50 years old, it retains a youthfulness and openness that I really admire. The intense and wide-ranging deliberations that take place at Board of Directors meetings are a far cry from the restrained and opaque style that is sometimes found in other companies. So long as it maintains this character, I believe that management decisions will continue to lead the company to a brighter future. I believe that I can also contribute to further enhancing the corporate value of Tokyo Electron.

External Director
Masahiro Sakane

Chairman of the Board, Komatsu Ltd.

External Director since 2008

I have always believed that the objective of corporate governance should be "to constantly seek ways to perpetuate growth in corporate value." I think that "corporate value" can be defined as the sum of all the trust earned from stakeholders and from society, and the trust is earned not only by a company fulfilling its promises, but also by it providing full disclosure of information. And I also think that the source of corporate value is derived from customers. I have been an external director of Tokyo Electron for two years now, and the impression I receive from the Board meetings I attend suggests that at Tokyo Electron fair and transparent management, which should be the basis for "earning trust", has been fully established. Indeed, I have learned a lot from the example set by Tokyo Electron, but I also think that I can contribute to the company in many respects. I take pride in the measures that have been taken to promote good corporate governance at Komatsu. While Tokyo Electron has given me opportunities to expand my horizons, I believe that I have experiences that can be instructive to the company, particularly in terms of overseeing a global corporate operation and "creating value through global competitiveness."