

CORPORATE GOVERNANCE

Fundamental Policy Concerning Corporate Governance

Reflecting the ongoing globalization of management practices, our fundamental policy is to strictly observe standards for corporate ethics and comply with laws and regulations. We are also dedicated to establishing and reinforcing internal control and risk management systems, and to maintaining the transparency and objectivity of our business activities. The primary objective of this policy is to conduct management that prioritizes the creation of corporate value for the benefit of shareholders and all other stakeholders.

Measures Concerning Corporate Governance Framework

Tokyo Electron regards the strengthening of corporate governance as vital to increasing its corporate value and shareholder satisfaction. For this purpose, we concentrate on three aspects of corporate governance: 1) ensuring the transparency and soundness of business operations; 2) facilitating quick decision-making and the efficient execution of business operations; and 3) building an effective system for the timely and suitable disclosure of information.

The Corporate Governance Framework

Tokyo Electron has 11 directors, including two external directors. We have adopted the statutory auditor system, as we believe that statutory auditors are an effective means of conducting management that reflects the interests of shareholders. Accordingly, we have four statutory auditors, two of whom are from outside the company. In addition, we have separated the roles of the directors and the executive officers who oversee business operations. Additionally, we have established two committees on the board of directors. A Compensation Committee determines the remuneration paid to the Chairman & CEO and to the President & COO. The Nomination Committee selects candidates for directorships for submission to the annual shareholders' meeting, and a candidate to be elected as president by the board of directors. Through these measures we constantly work to improve corporate governance. The Compensation Committee and the Nomination Committee both have three members each, excluding the Chairman & CEO and the President & COO.

Tokyo Electron discloses the remuneration paid to each of the representative directors, since the Company regards the transparency of management to its shareholders as essential from the standpoint of an emphasis on shareholders. The annual meeting of the shareholders held in June 2002 reduced the term of office of Tokyo Electron directors from two years to one, in order to speed up responsiveness to the changing operating environment and to establish a framework for clearly defining directors' responsibilities. In April 2003, we adopted the executive officer system to further clarify the roles of the board of directors and executives in

charge of business operations. This system facilitates the quick establishment and execution of business strategies.

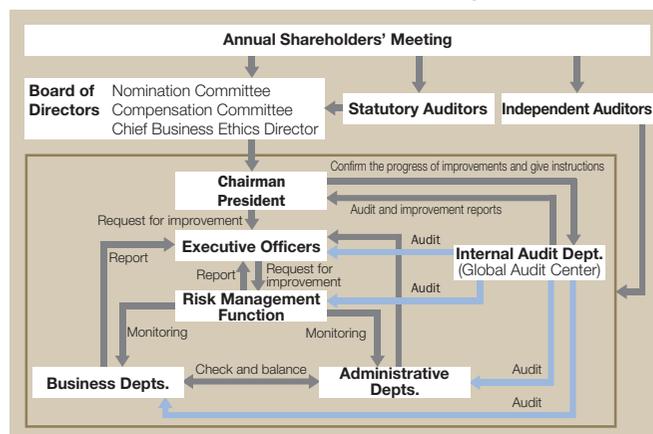
Internal Controls and Risk Management

All activities at Tokyo Electron are based on adherence to the highest standards of corporate ethics and compliance with laws, regulations and international rules. To oversee and ensure this, a director has been appointed Chief Business Ethics Director. Ethical standards have been established and measures are taken to see that these standards are strictly observed. Reflecting the fact that we now place even greater importance on internal control and risk management systems, we have upgraded the internal audit functions of the Global Audit Center. We have also added crisis management functions to the General Affairs Department, including measures involving business risk and operational risk. This department is responsible for establishing the necessary internal regulations for managing each category of risk, as well as for activities for training and raising employees' awareness of risk management.

The Global Audit Center, an organization that reports directly to the President, is responsible for conducting audits of the Group's domestic and overseas bases. The Group's internal control system works to ensure that the Group's management and other policies are shared, communicates information, evaluates risks and the effectiveness of business activities based on risk evaluation, and, if necessary, provides guidance to operating divisions. The Global Audit Center also reports the results of its audits to management on a monthly basis, and holds meetings to promote exchanges of information with the statutory auditors and to report its findings.

Statutory auditors, most of whom are full time auditors, attend meetings of the board of directors, Management Committee, and

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



all other important meetings, and conduct operations audits, accounting audits and risk evaluation, in addition to auditing the performance of duties by directors.

Tokyo Electron has engaged KPMG AZSA & Co. as its independent auditor. The Company provides this independent auditor with all required information and data to ensure that it can conduct its audits with speed and precision. The names of the certified public accountants and the number of years they have continuously audited the Company's financial statements are as follows: Tsutomu Takahashi (one year) and Kentaro Onishi (two years). Five certified public accountants, six junior CPAs and one other person assisted the above auditors during their audit.

Responsibilities of External Directors and External Statutory Auditors

External director Hiroshi Inoue is the President of Tokyo Broadcasting System, Inc. He was elected as an external director with the intent of obtaining his objective opinion on decisions of the board of directors, in light of his experience and insight as a corporate manager.

External director Yasuhiro Tsunemi was involved in research studies of society, technology and the economy as chief researcher of a private-sector think tank. With his wide-ranging insight, he was elected as an external director to objectively secure the effectiveness of the decisions of the board of directors.

External statutory auditor Togo Tajika has extensive experience in overseas operations, having worked overseas for another corporation. He was elected as an external statutory auditor to bring an objective eye to the effectiveness of audits.

External statutory auditor Hiroshi Maeda is an attorney in the Nishimura & Partners law firm. He was also elected as an external statutory auditor to bring an objective eye to the effectiveness of audits.

Remuneration for Directors, Executive Officers and Statutory Auditors

The Company and its subsidiaries (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 consolidated net income and shareholder value and also improve management transparency and its competitive strength.

Under the new system, retirement allowances for directors, statutory auditors and executive officers, part of their fixed remuneration, were abolished at the end of fiscal 2005. In addition, executive remuneration will be more closely linked to consolidated results and stock prices by clearly tying the portion of remuneration that is linked to business performance to consolidated net income. The new

system consists of fixed monthly remuneration, annual cash bonuses linked to business performance, and stock options.

Part of the remuneration for directors and executive officers of the Company and its subsidiaries is linked to operating results, with an upper limit of 3% of consolidated net income. The remuneration is split between annual cash bonuses and stock option-based remuneration at a ratio of almost two to one. We believe that this system incentivizes officers to improve the Company's performance and share price because they share with shareholders the risk of a decrease as well as the benefits of higher earnings and a higher share price.

The Company discloses remuneration paid to each of the representative directors and the aggregate remuneration paid to directors and statutory auditors in its business report. Moreover, the aggregate remuneration paid to internal and external directors and internal and external statutory auditors, respectively, is disclosed in the securities report.

Remuneration for directors and statutory auditors

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| Amount paid to internal directors | ¥360 million |
| Amount paid to external directors | ¥10 million |
| Amount paid to internal statutory auditors | ¥51 million |
| Amount paid to external statutory auditors | ¥26 million |

Note: The above amounts do not include annual bonuses and retirement allowances paid to directors.

Remuneration for auditing

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| Amount paid for audit | ¥49 million |
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Note: The above amount is paid in accordance with an audit contract between the Company and KPMG AZSA & Co.

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. Shareholders are also free to cast their votes via the Internet. Tokyo Electron also 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 web site 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 holds quarterly results presentation meetings for analysts and institutional investors as a part of its IR program. The presentation materials used in these meetings can be viewed on the Company's web site. The Company backs up these activities by holding IR road shows three or four times a year. These road shows, led by the director responsible for IR, are provided for the convenience of overseas investors.