

Message from the Chairman of the Board



Steadily Enhancing Board Effectiveness

Four years have passed since the introduction of Japan's Corporate Governance Code, and governance reforms are beginning to extend beyond form and into substance. Tokyo Electron has strengthened its corporate governance, as this is the foundation supporting our efforts to attain world-class profitability and increase corporate value over the short, medium and long terms. Using the Audit & Supervisory Board System, Tokyo Electron achieves an effective balance of aggressive management and careful oversight. We seek to continually enhance corporate governance, adapting to the changing business environment and requirements of society.

In fiscal 2019, the year ended March 31, 2019, to further improve the effectiveness of our corporate governance and enhance our corporate value, we continued the practice inaugurated in fiscal 2018 of holding an off-site meeting as an opportunity for our directors and Audit & Supervisory Board members to discuss important matters other than Board of Directors meeting agenda items. At this two-day meeting, we exchanged views on Tokyo Electron's vision of becoming a truly global company, renewing our shared understanding of the Company's long-term direction in an effort to make corporate governance more effective. In addition, the directors and Audit & Supervisory Board members actively debated measures necessary to achieve the goals of the medium-term management plan as well as initiatives related to ESG issues and the Sustainable Development Goals that will improve corporate value. We engaged in fruitful discussion on how the Board of Directors and Audit & Supervisory Board, which oversee the execution of such measures, can function best, including the optimal composition of internal and outside members. The meeting thus enabled us to set a course to address a range of important issues.

We welcomed a new outside director in June 2019, the first woman to serve on the Board. As a result, six of 16 current directors and Audit & Supervisory Board members are independent outside members. The new outside director, Ms. Makiko Eda, brings global insight fostered by experience living overseas as well as many years of experience working in marketing for a major American semiconductor manufacturer. As Chief Representative Officer at World Economic Forum Japan, she possesses broad-ranging knowledge of sustainable global economic growth and related challenges. I am sure that she will put her knowledge of the semiconductor industry, corporate management and economics to great use at Tokyo Electron. Our other outside directors, Mr. Charles Ditmars Lake II, who is an executive at an American life insurance company, and Mr. Michio Sasaki, who served for many years as president of Keyence, a corporation well known for being highly profitable, also provide us with tremendous advice and suggestions based on their deep insight. The diverse values and perspectives of all of our directors and Audit & Supervisory Board members contribute to highly productive discussion, further enhancing the effectiveness of the Board of Directors.

As we enter a new era of IoT, AI and big data, the semiconductor and FPD markets continue to expand. As chairman, I am working to ensure the Board of Directors can take decisive action and sustainably enhance corporate value in a dynamic business environment.

Tetsuo Tsuneishi
Representative Director
Chairman of the Board

■ Corporate Governance

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; a robust balance of knowledge, experience and skills among both executive directors and independent directors; and diversity, including gender and nationality. The current Board of Directors consists of 11 directors, including one woman and one foreign national, 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 16 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 essential for making operational decisions due to the combined presence of executive directors, who are highly knowledgeable about Tokyo Electron's businesses, 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 director or 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.

In addition, to develop the next generation of management and executive human resources, the Nomination Committee carefully surveys and analyzes the status of the successor pool, then reports to the Board of Directors, which provides appropriate supervision to ensure that adequate time and resources are being devoted to implementing the successor development plan.

■ Director and CEO Compensation

Tokyo Electron's compensation policy prioritizes the following considerations.

- (1) Globally competitive compensation levels and systems that can secure excellent management human resources
- (2) Strong correspondence with short-term performance and medium- and long-term increases in corporate value aimed at sustainable growth
- (3) Assuring transparency and fairness in the process of determining compensation 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, annual performance-linked compensation and medium-term performance-linked compensation. Outside directors receive only a fixed basic wage and an annual performance-linked cash bonus.

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 (excluding the representative directors) or Audit & Supervisory Board members and includes at least one outside director. The Compensation Committee utilizes advice from external experts and conducts an analysis of compensation at high-tech companies 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 that will be globally competitive and optimally suited to the Company as well as individual compensation amounts for the representative directors.

In principle, annual performance-linked compensation consists of monetary compensation and stock option share-based compensation; the ratio of these two components is roughly 1:1 for directors. Stock options are awarded 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.

In order to incentivize the CEO and other directors to improve corporate performance, Tokyo Electron has designated the net income attributable to owners of the parent and return on equity (ROE) for the current period, which are indicators related to profit, as the main benchmarks for calculating their annual performance-linked compensation.

The medium-term performance-linked compensation utilizes performance shares (share-based compensation) with the aim of using shareholdings to align the perspectives of directors with those of shareholders and incentivize directors to increase corporate value. The number of Tokyo Electron shares issued to directors is calculated based on each director's position and duties and varies from 0% to 150% according to the attainment of performance targets over the relevant three-year term.

In the determination of medium-term performance-linked compensation, the operating margin is used as an indicator of profitability and ROE as an indicator of capital efficiency to assess the attainment of performance targets and appropriately link such compensation with medium-term enhancement of corporate value.

Does Tokyo Electron have these major components of corporate governance?

(As of July 1, 2019)

Compensation Committee	Yes	Composed of directors, including outside directors and excluding representative directors, or Audit & Supervisory Board members
Nomination Committee	Yes	Composed of directors or Audit & Supervisory Board members, excluding the CEO and including at least one outside director or Audit & Supervisory Board member
Outside directors	Yes	Three of the 11 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

Corporate Governance

■ Evaluation of the Effectiveness of the Board of Directors

To evaluate the Board of Directors, including the Nomination Committee and Compensation Committee, Tokyo Electron conducts a question-based survey of all directors and Audit & Supervisory Board members as well as interviews with some of these individuals.

In fiscal 2019, Tokyo Electron hired a third-party institution to provide advice on the drafting of the survey, hold the interviews, and compile and analyze the results. Using the compiled data and analysis, the outside directors and outside Audit & Supervisory Board members held discussions of the Board of Director's effectiveness. These findings were then shared with and discussed by the entire Board of Directors, which evaluated its effectiveness and disclosed a summary of the results.

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. To complement Board of Directors meetings, Tokyo Electron held an off-site meeting focused on operational strategy, vision and governance.

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, the Board of Directors will strive to increase its diversity, including gender and nationality, and create more opportunities to discuss Tokyo Electron's medium- and long-term vision and growth strategy. The Board will also examine ways to reinforce Group governance systems, including those overseas, and the proper division of roles and authority between the Board of Directors and executive bodies. Furthermore, the Board regards the effective operation of the successor development plan and provision of value to society in areas related to ESG issues and the United Nations' Sustainable Development Goals (SDGs) as important management priorities that it will continue to discuss.

■ 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.

■ Risk Management

■ Approach to Risk Management

Reflecting changes in society and the business environment, the risks facing businesses are growing increasingly complex and diverse. Tokyo Electron considers understanding and appropriately addressing the risks that it may face in its businesses, as well as their impacts, to be a crucial factor to sustainable corporate growth.

■ Risk Management System

In order to promote more effective risk management, Tokyo Electron carries out enterprise risk management through a body established within the General Affairs Department at its headquarters. This body supervises risk management, analyzing a wide range of risks arising in business activities (such as compliance risk, human resource and labor risk, and business continuity risks) to identify key risks. It then monitors the management of these risks by the respective departments responsible and supports their risk management activities. The status of these activities is regularly reported to the Board of Directors and the Audit & Supervisory Board.

■ Auditing by the Internal Audit Department

The Global Audit Center serves as the internal audit department for the entire Group and implements audits based on the audit plan. Based on the results of these audits, the Center then gives instructions for making improvements as needed, follows up on progress toward these improvements and provides support. The Group's internal control over financial reporting in fiscal 2019 was evaluated as effective by the independent auditors.

■ Risk Management Initiatives

Each year, we set priority management targets and strive to steadily reduce risk. In fiscal 2019, we reinforced measures in the following areas.

■ Compliance

We appointed people responsible for compliance at key overseas bases and established a system whereby they report the progress of compliance-related activities to the Group headquarters each month. In addition, compliance risk audits are conducted through systematic visits to overseas subsidiaries.

■ Business Continuity Plans (BCPs)

Tokyo Electron is improving its plans based on lessons from past disasters and is surveying the earthquake risks at its overseas locations. We are also working, on an ongoing basis, to establish alternate production structures within our network and to develop multiple sources of important parts.

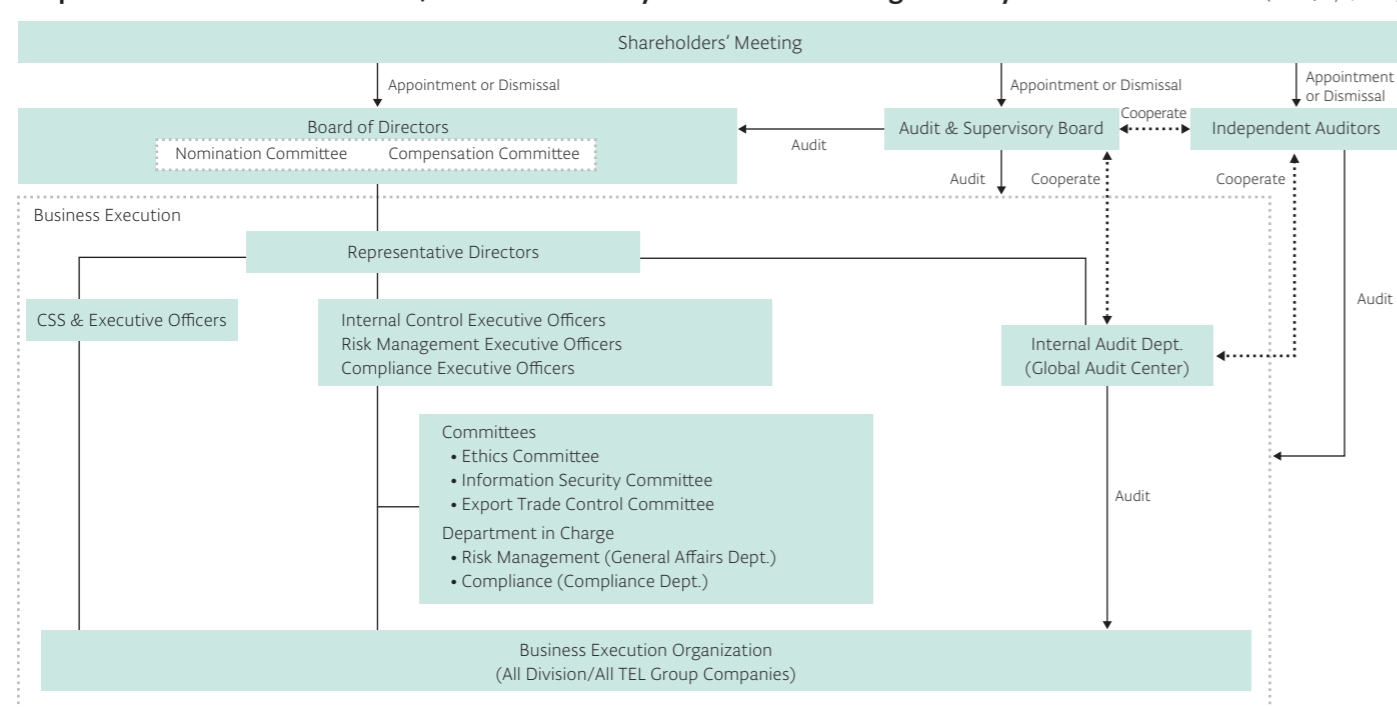
■ Mental Health, Long Work Hours, and Harassment

Tokyo Electron carries out mental health-related measures based on employee stress checks and multiple seminars aimed at helping managers look after their employees. In addition, we have introduced a mechanism to monitor excessive work hours that lead to health risks. Tokyo Electron also holds harassment prevention seminars led by lawyers. The Ethics Committee Chairman and Human Resource Department provide messaging about changing mindsets and behaviors.

■ Management of Confidential Information

The Human Resources Department and the Intellectual Property Department cooperate to strengthen measures to prevent leaks of confidential information, particularly targeting employees who leave the Company to ensure the proper return and destruction of confidential information. We also take thoroughgoing steps to ensure that mid-career hires do not divulge confidential information about their previous employers. We use a combination of industry-leading security systems, provide security training for employees, and work to protect our information from the sabotage of our servers or computers as well as data theft, data manipulation and other forms of cyber attack. The information security environment, including cyber attack methods, is changing constantly. To stay ahead of these changes, Tokyo Electron is constantly gathering information and formulating and implementing necessary countermeasures on a global basis.

Corporate Governance Framework, Internal Control System and Risk Management System (As of July 1, 2019)



■ Corporate Governance

Corporate Governance

■ Compliance

■ Approach to Compliance

Stakeholder trust is essential to business activities. In order to maintain this trust, it is essential to continuously ensure compliance and enhance corporate ethics. The Fundamental Policies concerning Internal Controls within the Tokyo Electron Group and the Code of Ethics of the Tokyo Electron Group (Code of Ethics) stipulate that all Group executives and employees must comply with laws and regulations and act with high ethical standards and a strong awareness of compliance.

■ Compliance Systems and Initiatives

■ Compliance System

Tokyo Electron has built a structure to implement its compliance program globally. Under the head of the Legal, Compliance Division, compliance representatives have been newly appointed at major overseas bases to create a system for direct reporting through the chain of command to the Legal, Compliance Division. The Company has restructured its compliance system. Specifically, compliance-related issues are immediately reported by the head of the Legal, Compliance Division to the CEO, Board of Directors, and the Audit & Supervisory Board so that they can be addressed quickly and effectively.

■ Corporate Ethics

Tokyo Electron has established the Code of Ethics as a standard of conduct by which employees and executives should abide. To ensure awareness of this code, we distribute it in the form of booklets in Japanese and four other languages to all employees. Tokyo Electron revises its Code of Ethics as needed, in response to changes to external and internal conditions. In addition, an Ethics Committee has been established to support and supervise the activities of Group companies in Japan and overseas aimed at more effectively promoting and raising awareness of compliance and corporate ethics. Furthermore, directors and senior executives sign an oath to uphold the Code of Ethics and comply with corruption-related laws every year.

■ Compliance Regulations

Based on its Code of Ethics, each Group company in Japan and abroad has established its own compliance regulations to ensure that every individual taking part in the business activities of the Group clearly understands the pertinent laws, regulations and internal company rules, and consistently applies these in all of their activities.

■ Compliance Education

Tokyo Electron conducts online education and face-to-face training on topics including corporate ethics and the basics of compliance, export compliance, insider trading prevention, the Act for Subcontracting, and the prevention of harassment. Depending on the topic, this education is implemented for specific levels or across the board. We also implement ongoing testing to check the degree of understanding among employees. From fiscal 2020, we will deploy a more comprehensive, systematic education program, advancing multilingual support in an effort to foster compliance awareness and reinforce behavior-oriented awareness-building activities among all Group employees.

■ Internal Reporting System

As a means for employees to provide information outside the chain of command about behavior that may be in violation of laws or corporate ethics, we have established a hotline (organized around the tenets of confidentiality, anonymity, and prohibition of retribution) to receive internal reports. In addition, we established an external contact point for employees and another contact point specifically for suppliers and third parties. Each overseas location has its own internal reporting hotline, and we are building a unified internal reporting system for all overseas bases.

As a result of these initiatives, in fiscal 2019 there were no reports or cases of noncompliance with laws, regulations, or the Code of Ethics that could have had a material impact on the Tokyo Electron 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 2019, following from the previous fiscal year, Tokyo Electron was again selected as a constituent stock under indices including DJSI¹ Asia Pacific 2018, FTSE4Good,² FTSE Blossom Japan Index, MSCI World ESG Leaders Index,³ and MSCI Japan ESG Select Leaders Index.⁴

¹ DJSI (Dow Jones Sustainability Index): 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 UK-based FTSE Group

³ MSCI World ESG Leaders Index: Companies that have high ESG performance are selected from the MSCI Global Sustainability Index, an ESG investment index developed by Morgan Stanley Capital International (MSCI)

⁴ MSCI Japan ESG Select Leaders Index: The MSCI Japan ESG Select Leaders Index is an index constructed from companies that have high ESG performance selected from its parent index (MSCI Japan IMI Top 500 Index: Top 500 securities based on free float-adjusted market capitalization). The index targets 50% of the free float-adjusted market capitalization within each GICS sector of the parent index.

MEMBER OF
Dow Jones
Sustainability Indices
In Collaboration with RobecoSAM


FTSE4Good

MSCI

2018 Constituent
MSCI ESG
Leaders Indexes



For details on Tokyo Electron's ESG-related initiatives, please refer to our Sustainability Report 2019.