

# 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 shareholders' 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 a board of directors with twelve members, including two external directors. We have adopted the statutory auditor system, due to our belief 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 executives who oversee business operations. The compensation of directors is determined by a Compensation Committee that is composed of some of the board of directors. The Nomination Committee, which is composed of three directors other than the president, selects candidates for director for submission to the annual shareholders' meeting and a candidate to be elected as president by the board of directors. Through these measures we are constantly working on improving corporate governance. 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 speedy 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 accomplish this, a director has been named as Chief Business Ethics Director, to oversee ethics, and ethics standards have been established and measures are taken to see that these standards are strictly observed.

Reflecting the even greater importance we now place on internal control and risk management systems, we have upgraded the internal audit functions of the Global Audit Center. We have also added to the General Affairs Department crisis management functions, such as 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.

### ■ Other Corporate Governance Units

Compensation for each of the three representative directors is disclosed in our "Notice of Annual General Meeting of Shareholders." This action is based on our belief that management transparency is vital to conducting shareholder-oriented management. At the annual shareholders' meeting held in June 2002, the term of office for directors was shortened from two years to one. This revision enables us to respond quickly to changes in our business environment as well as to further clarify management accountability.

## COMPENSATION FOR DIRECTORS, EXECUTIVE OFFICERS AND STATUTORY AUDITORS

Beginning with the fiscal year that ended in March 2005, retirement allowances were eliminated from the compensation of directors, statutory auditors and executive officers. This action was aimed at achieving further gains in corporate value and management transparency. Along with this revision, a part of the compensation for directors, statutory auditors and executive officers was linked to operating results, with an upper limit of 3% of consolidated net income. As a result, there is now clearly a higher correlation between consolidated net income and the portion of result-linked compensation.

### Compensation for directors and statutory auditors

Amount paid to internal directors	¥297 million
Amount paid to external directors	¥7 million
Amount paid to internal statutory auditors	¥46 million
Amount paid to external statutory auditors	¥26 million

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

### Compensation for auditing

Amount paid for audit	¥45 million
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Note: The above amount is paid in accordance with an audit contract between the Company and KPMG AZSA & Co.

Diagram of the corporate governance, internal control system and risk management system

