

CORPORATE GOVERNANCE

The Assurance of Transparency Generates Dynamism



Tetsuro Higashi
Chairman of the Board

The business environment in Japan in fiscal 2012 was extremely difficult because of the Great East Japan Earthquake, power shortages stemming from the accident at the Fukushima nuclear power plants, supply chain disruption resulting from the flooding in Thailand, and yen appreciation triggered by the financial crisis in Greece. Nevertheless, as mentioned elsewhere in this annual report, Tokyo Electron was able to make important strategic moves, including commencing operations of a new Miyagi plant, and other new manufacturing and development bases that hold the key to the Company's future growth and market penetration of its new

products. I am deeply grateful for the earnest support and understanding of our shareholders and other stakeholders, which made this progress possible.

Many uncertainties continue to weigh on the worldwide economic situation, and the future outlook remains unclear. However, I believe that it is at just such a time that it is critically important for a company to clearly set forth policies and measures for corporate value enhancement from a medium- to long-term perspective, articulate a vision for the future, and maintain and strengthen management transparency and soundness. To that end, the Company must function as a

dynamic organization, with the Board of Directors, the organization entrusted with management of the Company by the shareholders, the executive body, which is responsible for the execution of business, and the individual employees who execute business on the front lines, each brimming with vision and vitality to create a bright future.

It is also essential that communication among these three levels of the organization be prompt and highly transparent. Moreover, the management and business policies generated by these three organizational levels must win wide-ranging acceptance and generate expectations from our customers and society at large.

Dynamic growth can be ensured only when a company enhances the governance I have described above. As a global supplier, the Company should gain the trust and meet the expectations of our shareholders and all other stakeholders worldwide by maintaining and strengthening our highly transparent management activities. In this light, I continue to offer support, encouragement, and advice to the Company's executive body and employees. I look forward to your continued understanding and support.

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Against a backdrop of ongoing business globalization, Tokyo Electron maintains a management philosophy that puts emphasis on improving corporate value for its shareholders and all other stakeholders. To this end, the Company considers it is important to strengthen corporate governance. In line with the following three basic principles, the Company is building a highly effective corporate governance structure, and upgrading and strengthening its internal control systems and risk management system.

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 Companies Act, and furthermore has established its own Compensation Committee and Nomination Committee to increase the transparency and objectivity of management. Also, Tokyo Electron

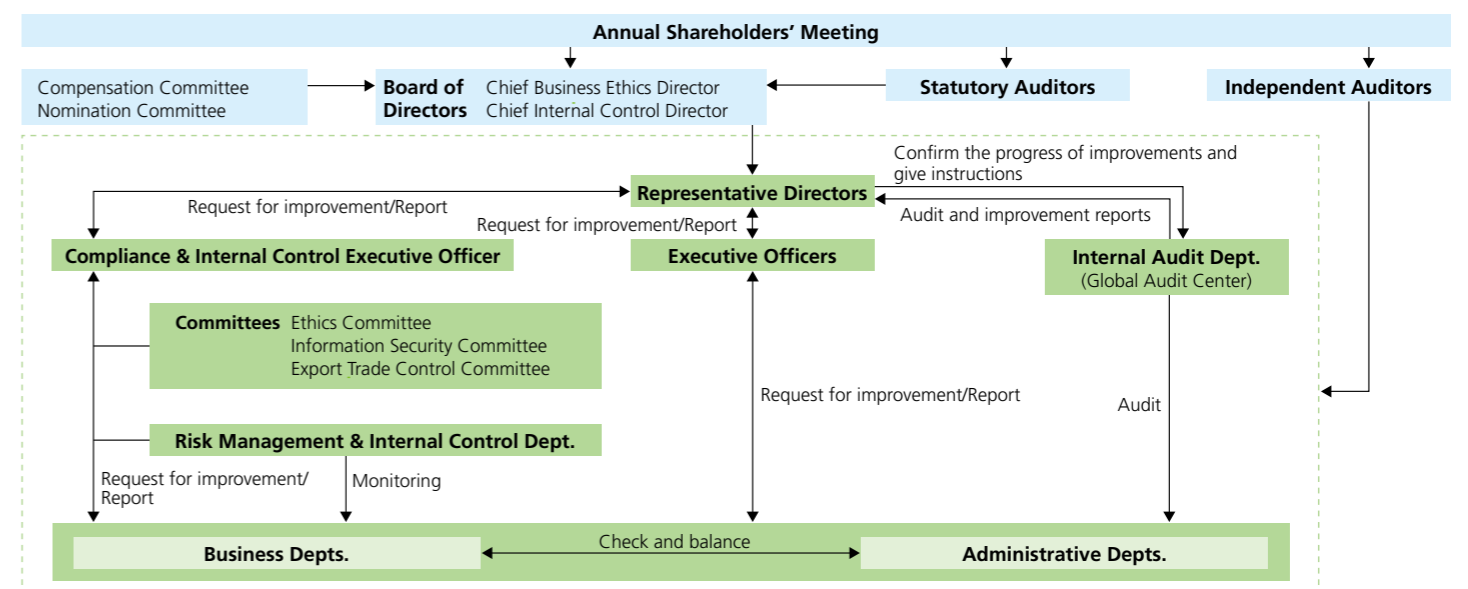
has adopted the executive officer system to separate the business execution function from the Board of Directors. Moreover, Tokyo Electron has been disclosing the individual remunerations of representative directors since 1999 in recognition of the importance of managerial transparency for shareholders.

The Board of Directors

The Board of Directors consists of 14 directors, two of whom are outside directors. In principle, the Board of Directors meets once a month, with additional meetings if necessary. (During fiscal 2012, 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.

Furthermore, Tokyo Electron has set up two committees whose activities are intended to ensure the transparency of management: the Compensation Committee and the Nomination Committee. The members of both these committees are directors and statutory auditors, excluding the representative directors.

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



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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.

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 Top Management Conference 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 2012, the board of statutory auditors met seven times.

Outside Directors and Outside Auditors

From the viewpoint of objectively ensuring the effectiveness of the decision-making of the Board of Directors, Tokyo Electron has appointed two outside directors to the Board: Mr. Hiroshi Inoue, who is Chairman of the Board, Tokyo Broadcasting System Holdings, Inc., and Mr. Masahiro Sakane, who is Chairman of the Board, Komatsu Ltd. From the viewpoint of objectively ensuring the reasonableness of the audits, Tokyo Electron has appointed two outside auditors: Mr. Togo Tajika, and Mr. Ryuji Sakai, who is a Partner at Nagashima Ohno & Tsunematsu. Mr. Togo Tajika conducts audits of the Tokyo Electron Group as a full-time company auditor.

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

Tokyo Electron has adopted the following executive compensation program with the intention of tying compensation more closely to financial results and shareholder value, raising corporate competitiveness, and enhancing management transparency.

1. The compensation for corporate directors consists of a monthly fixed remuneration and a performance-linked compensation.
2. The performance-linked compensation system for corporate directors is designed to align compensation more clearly with financial results and increases in shareholder value. It takes into account consolidated return on equity (ROE) and consolidated net income, two performance indicators of consolidated business results. Necessary adjustments are then made when there are special factors that should be taken into account, such as principal performance indicators for the term under review, including profits and losses, and so on. Performance-linked compensation comprises cash bonuses and stock-based compensation. The ratio of cash bonuses to stock-based compensation has generally been one to one. Stock-based compensation consists of granting share subscription rights with a set strike price of one yen per share and setting unexercisable period for three years. Performance-linked compensation is limited to five times the fixed compensation.
3. The performance-linked compensation of outside directors does not include stock-based compensation.
4. The compensation for statutory auditors consists only of a monthly fixed remuneration, to maintain independence from management.
5. Retirement allowances systems for corporate directors and statutory auditors have been abolished in and after the end of fiscal 2005, as part of the revisions to Tokyo Electron's executive compensation program.

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 Fundamental Policies Concerning Internal Controls within the Tokyo Electron Group decided by the Board of Directors. The Company is also implementing measures for the Internal Controls Over Financial Reporting, based on the Financial Instruments and Exchange Act.

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 Global Audit Center, a department responsible for internal auditing activities, primarily by attending its report meetings, which were held 13 times during fiscal 2012.

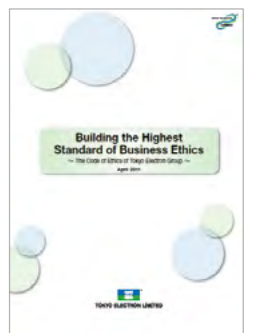
Coordination Between Statutory Auditors and Independent Auditors

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 auditors, with all necessary information and data to ensure that it can conduct its audits during the fiscal year promptly and correctly.

Compliance

Trust from stakeholders is the cornerstone of business activities. In order to maintain trust, it is necessary to continuously act in rigorous conformity to business ethics and compliance. In line with the Fundamental Policies Concerning Internal Controls within the Tokyo Electron Group, all Group executives and employees are required to maintain high standards of ethics and to act with a clear awareness of compliance.



Code of Ethics of the Tokyo Electron Group

Code of Ethics, Chief Business Ethics Director and Ethics Committee

In 1998, Tokyo Electron formulated the "Code of Ethics of the Tokyo Electron Group" 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 Group. The Code and its Q&A section are published in Japanese, English, Korean and Chinese editions, and the Company distributes it to all Group executives and employees, including those overseas. Moreover, the Code is appropriately reviewed and revised in response to changes in the environment and societal demands. The most recent revision of the Code and Q&A was in April 2011.

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Compliance & Internal Control Executive Officer

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 the Compliance Regulations setting out basic compliance-related requirements in line with the Code. 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

In the event that an employee becomes aware of any activity which may violate laws, regulations or principles of business ethics, the Group operates an internal reporting system that

employees may use to report their concerns. The entire Group has established an ethics hotline and a compliance hotline, and this reporting system is also in place at each overseas base. In all cases, this system ensures that 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 Act, 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.



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 100% owned by 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
Outside directors	Yes	Two of the 14 directors are outside directors
Outside auditors	Yes	Two of the four 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 outside directors and auditors
Retirement allowance system for executives	No	
Anti-takeover measures	No	