

Corporate Governance

We are strengthening the corporate governance framework to increase corporate value for all stakeholders.

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.

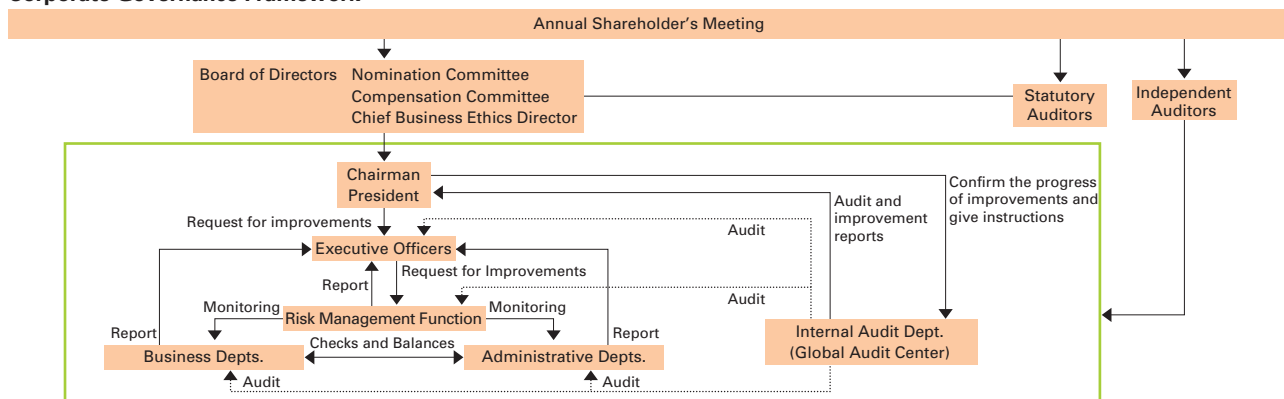
Measures Concerning Corporate Governance Framework

We regard 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

We have 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

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each, excluding the Chairman & CEO and the President & COO.

Internal Controls and Risk Management

All activities at the Tokyo Electron Group 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 controls 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.

Remuneration for Directors, Executive Officers and Statutory Auditors

Part of the remuneration for directors and executive officers of TEL 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 corporate 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.

Remuneration for directors and statutory auditors

(Millions of yen)

Remuneration	Amount
Amount paid to internal directors	360
Amount paid to external directors	10
Amount paid to internal statutory auditors	51
Amount paid to external statutory auditors	26

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