

## Corporate governance

### Basic view on governance that will lead to sustainable growth for TEL

TEL declares in its medium-term vision that we are determined to become “a real global company generating high added-value and profits through innovative technologies and groundbreaking solutions with diverse integrated technologies.” Given that over 80% of our sales now come from overseas, TEL regards building a governance system as essential to becoming a real global company that achieves sustainable growth.

To that end, TEL has built a framework to maximize the use of its worldwide resources and works to incorporate a wide range of opinions. In addition to strengthening its management platform and technology base, TEL maintains a governance structure that will enable it to attain world-class profitability.

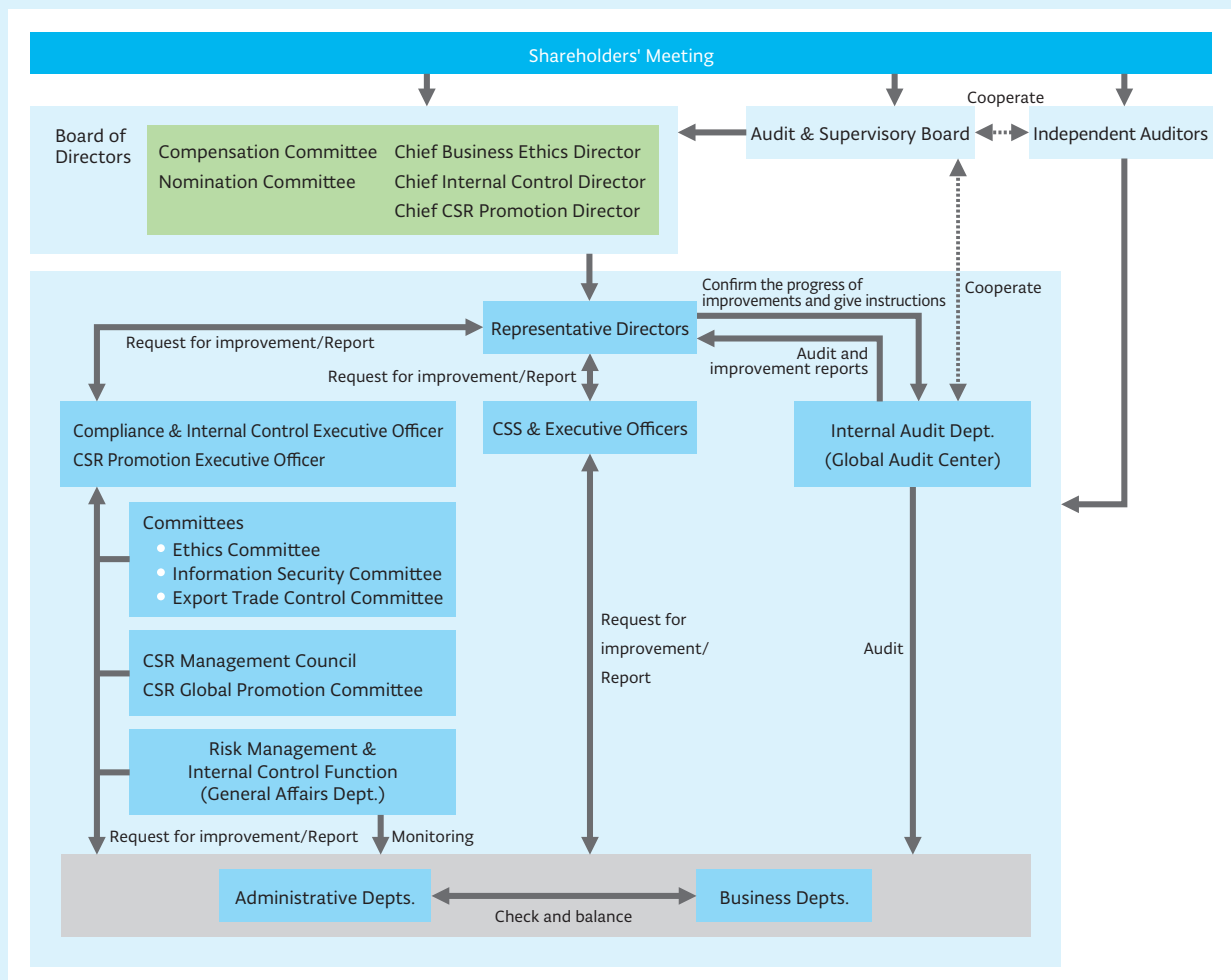
### The corporate governance framework

TEL 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.

Based on this organizational structure, TEL has also established systems that will facilitate growth-oriented governance directed at sustainable growth for TEL including the following:

- The Board of Directors, whose role is to make major operational decisions and play a supervisory role in the execution of those
- The Nomination Committee and Compensation Committee to ensure fair, effective, and transparent management
- The Corporate Senior Staff (CSS) to formulate and advance company strategy

### Corporate Governance Framework, Internal Control System and Risk Management System



---

## 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 opinions even when they are 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.

In the TEL Board of Directors meetings, proactive, frank opinions are indeed continually presented, not only by internal Corporate Directors, but also by independent directors and Audit & Supervisory Board members, enabling active debates thereby.

## View on overall balance of knowledge, experience, and skills in the Board of Directors, its diversity

### Policy on election of Executive Directors

Executive Directors of TEL are required to have superior executional abilities underpinned by experience, insight, and a track record in management, high sensitivity to all possible risks, being able to properly analyze and judge matters, and frankly state the opinion that they believe to be correct during debates.

Moreover, in electing Executive Directors, consideration is given to achieving a balance of Corporate Directors who are well-versed in each division of TEL, including:

- Sales and Service
- Manufacturing
- R&D
- Corporate Administration

and other divisions, to the extent possible in order to ensure constructive debate in Board of Directors meetings born out of a broad range of backgrounds and knowledge. The current Executive Directors have been elected in a manner that has achieved such balance.

The role of Executive Directors does not end with referring and explaining proposals as the representative of each division. They also contribute to active debate, proper decision-making, and supervision of execution through objective, constructive opinions coming from different perspectives of each Corporate Director.

### Policy on election of Independent Directors and Audit & Supervisory Board Members

By stating their unreserved opinions from an independent perspective, independent directors and outside Audit & Supervisory Board members guide Board of Directors debates in the proper direction for success in global competition that does not follow the same line of discussion proposed by internal Corporate Directors.

To achieve our previously stated goals, independent directors and outside Audit & Supervisory Board members shall consist of people who offer a good balance of the following qualities:

- Knowledge of global business
- Broad insight into related industries
- An extensive network of personal contacts
- Objectivity from social, capital market, and other perspectives
- Knowledge of finance and accounting
- Broad legal knowledge

The reason for Appointing the CEO, individual Corporate Directors and Audit & Supervisory Board members; status of concurrent duties at other listed companies, are found in the Appendix of the following document:

[URL](http://www.tel.com/ir/policy/cg/document/index_02.pdf) [http://www.tel.com/ir/policy/cg/document/index\\_02.pdf](http://www.tel.com/ir/policy/cg/document/index_02.pdf)

## Corporate governance

---

### Size of the Board of Directors, number of Independent Directors and criteria for independence

TEL considers it essential to maintain a Board of Directors with the appropriate size to ensure high quality, active debate and the diversity expected of both executive directors and independent directors. The number of Corporate Directors shall therefore be the appropriate number for the operating environment at the time, considering a good balance in terms of knowledge, experience, and skills. There is a maximum of 18 directors established in the Articles of Incorporation.

The current Board of Directors consists of 11 Corporate Directors, and TEL believes this to be the appropriate, well-balanced size at the present time.

### Number of Independent Directors and criteria for independence

TEL 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, 5 of the 16 participants in the Board of Directors meetings, including the Audit & Supervisory Board members, are outside members, consisting of two independent directors and three outside Audit & Supervisory Board members. TEL believes that the current Board of Directors meetings achieve an appropriate sense of productive tension and constructive debate due to the combined presence of executive directors, essential for making operational decisions, and outside members, who provide objectivity. TEL actively considers candidates equipped with the knowledge and character that TEL thinks will contribute to sustainable growth for TEL for independent directors and other outside members.

TEL also ensures the independence of independent directors and independent Audit & Supervisory Board members through separately specified independence requirements for outside directors and outside Audit & Supervisory Board members, in addition to the requirements under the Japanese Companies Act.

Details on independence requirements for outside director and outside Audit & Supervisory Board members can be found in the following document:

**URL** [http://www.tel.com/ir/policy/cg/document/index\\_03.pdf](http://www.tel.com/ir/policy/cg/document/index_03.pdf)

### Nomination of Corporate Directors and the CEO

TEL has established a Nomination Committee to ensure fairness and efficiency in management. No Representative Directors, including the CEO, is a member of the Nomination Committee. The authority to propose election or dismissal of the CEO or Corporate Directors is entrusted to a Nomination Committee member who is not a Representative Director.

### Ensuring the independence of the Nomination Committee

The Nomination Committee shall consist of three or more Corporate Directors or Audit & Supervisory Board members. In order to ensure the independence of those members, Representative Directors may not be elected to the Nomination Committee. Moreover, the Nomination Committee recommends Nomination Committee members for the next period and the Board of Directors elects the members based on those recommendations. This method achieves a high degree of independence and fairness in the election of candidates and ensures the authority of the CEO and other Representative Directors does not extend to the management of the Nomination Committee.

The term of Nomination Committee members shall be one year. Re-election up to a maximum of four years is permitted.

### Ensuring fairness in evaluation

TEL takes the following steps to ensure fair and highly transparent evaluation of the executive management, including the CEO.

- ① Executive Directors bear the responsibility of achieving performance goals for the division where they are in charge based on the budget and Medium-Term Management Plan. The degree to which that is achieved is an important factor in personnel evaluations for performance-linked compensation.
- ② The formula for calculating the performance-linked compensation of the CEO is determined by the Board of Directors, based on the proposal of the Compensation Committee. It is decided fairly and in a highly transparent manner.
- ③ In nominating candidates for Executive Director, the Nomination Committee will evaluate the appropriateness of the candidate based on past performance, including an evaluation of performance on assigned duties, and considering his or her personality, including the character and dignity, as a manager. They then determine whether or not he or she is capable of shouldering those responsibilities.

---

## Compensation

### Policy on compensation

TEL aims to strengthen its global competitiveness and increase management transparency by adopting a director and executive officer compensation system that is closely linked to performance and shareholder value. The compensation of directors and executive officers comprises a fixed monthly wage and an annual performance-linked bonus.

### Role of the Compensation Committee

The Compensation Committee, which comprises three or more directors, including at least one outside director, performs an analysis of industry wage levels inside and outside of Japan, accounting for both monetary and non-monetary aspects of the total compensation package. Based on this comprehensive analysis, the committee proposes a policy and system for director compensation to the Board of Directors. The proposal includes specific amounts for individual compensation, including the CEO's bonus.

### Formula for calculating compensation

In order to better link factors that increase corporate and shareholder value to compensation, TEL has designated the actual net income attributable to owners of the parent company and ROE (Return on Equity) for the current period as the main calculation benchmarks in the performance-linked compensation system for the CEO and other Corporate Directors. These are adjusted, as necessary, for extraordinary income/losses and other special factors.

In principle, performance-linked compensation consists of monetary compensation and share-based compensation. The composition is roughly 1:1 for Corporate Directors, and single year performance is appropriately reflected in the performance-linked compensation of the CEO and other Corporate Directors. Share-based compensation is awarded in the form of stock options with the exercise price set at one yen per share, and the restriction that they may not be exercised for three years from the date of allotment.

## Evaluating the effectiveness of the Board of Directors

Based on an evaluation survey filled out by the Board of Directors and Audit & Supervisory Board members, the Board of Directors discusses, analyzes, and evaluates its own effectiveness, and discloses a summary of the results from the end of the current fiscal year.

**URL** [http://www.tel.com/news/2016/0512\\_006.htm](http://www.tel.com/news/2016/0512_006.htm)

## On transactions among related parties

TEL requires Corporate Directors or Audit & Supervisory Board members to obtain the approval of the board when engaging in transactions with TEL or transactions that are in conflict with the interests of TEL and the Corporate Directors or Audit & Supervisory Board Members. This includes engagement in competing business with TEL. Moreover, after such transactions take place, a report must be presented to the board regarding material matters concerning such transactions.

In addition, irrespective of whether a transaction is between a Corporate Director or Audit & Supervisory Board member, or a relative of them and TEL, TEL undertakes regular annual investigations.

Furthermore, in regard to transactions between TEL and shareholders, there are no major shareholders (defined as a shareholder with at least 10% of voting rights) in TEL. If a major shareholder emerges, TEL will undertake procedures to ensure appropriateness of transactions according to the previously stated policies.

## Composition and roles of the Audit & Supervisory Board

### Composition of the Audit & Supervisory Board

The Audit & Supervisory Board currently consists of five members and includes three outside Audit & Supervisory Board members. Three members, including one outside member, 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. TEL thus believes its Audit & Supervisory Board members are able to perform the auditing functions effectively.

## Internal control and risk management

---

### Basic stance

In order to enhance the Tokyo Electron Group's corporate value and remain accountable for our actions to our stakeholders, we are making efforts to strengthen effective internal control. This involves implementing practical measures that are in line with the Fundamental Policies concerning Internal Controls within the Tokyo Electron Group, set out by Tokyo Electron's Board of Directors. We are also annually evaluating our internal control over financial reporting based on the Financial Instruments and Exchange Act of Japan.

### Risk management system

To more effectively strengthen the internal control and risk management systems of the entire Group, Tokyo Electron has established a dedicated risk management and internal control function within the General Affairs Department of the corporate headquarters. This function manages and reduces risks through appropriate measures, such as by analyzing the risks that could affect the Group, and instructing responsible departments to conduct self-assessments of major identified risks. The function also regularly reports the status of risk management activities to the Audit & Supervisory Board Members and the Board of Directors.

In fiscal year 2016, the Group thoroughly reevaluated the material risks surrounding its operating environment in order to improve the effectiveness of its risk management. Based on this reevaluation, the Group is redefining material risks and clarifying each risk owner to enhance the efficacy of its risk management framework.

### Auditing by internal audit department

The Global Audit Center of the corporate headquarters is the Group's internal audit department. This Center is responsible for auditing business activities, compliance and systems at domestic and overseas Group companies and business units (BUs) in accordance with each fiscal year's auditing plan. The Center also annually evaluates the effectiveness of the Group's internal control over financial reporting based on the Financial Instruments and Exchange Act of Japan.

At operating divisions where issues have been identified through audits and assessments, the Center monitors progress and provides necessary guidance for improvement.

### Business continuity management

Since 2012, the Group has been improving its Business Continuity Plan (BCP) for large-scale earthquakes. The BCP is being updated at the headquarters, local offices and plants so that it will work effectively in the event of a disaster, facilitating early recovery and alternate production.

In fiscal year 2016, the Group focused on revising the manuals and plans, as well as on implementing BCP drills and employee education.

In addition, emphasis has been placed on improving early emergency response with top priority given to securing employee safety, including stockpiling emergency supplies (including food and drinking water), and reinforcing essential infrastructure.

As a result of these preparedness initiatives, we were able to smoothly implement the BCP to respond quickly to the Kumamoto Earthquake in April 2016.

### Information security management

To ensure appropriate management and safe and effective use of information assets, the Group has established a framework for preventing information leakage under the Tokyo Electron Group Information Security Policy and the Regulation for Management of Technical and Business Information. These rules have been disseminated globally throughout the Group companies and are updated whenever necessary.

In order to strengthen information security, the Group is enhancing training and education for all of its executives and employees worldwide. These programs ensure that they can protect technical and business data and abide by the IT security rules.

Additionally, we have established a system for reporting both actual and potential cases (incidents) of information leakage. Such reports are critical in making quick responses, and their analysis can offer valuable insights into improving Group-wide measures to prevent leakage.

# Compliance

## Basic stance

Stakeholder trust 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.

Theme	Goals for fiscal year 2016	Results for fiscal year 2016
Ethics and compliance management	<ul style="list-style-type: none"> <li>Rework and reinforce the management system.</li> </ul>	<ul style="list-style-type: none"> <li>Conducted a review of the current management system, and enhanced cooperation between the Ethics Committee and the compliance department.</li> </ul>
TEL's Code of Ethics	<ul style="list-style-type: none"> <li>Make the Code of Ethics conform more to social changes.</li> </ul>	<ul style="list-style-type: none"> <li>Check conformity with the EICC Code of Conduct.</li> <li>Formulate an improvement plan based on the review.</li> </ul>
	<ul style="list-style-type: none"> <li>Check conformity with the EICC Code of Conduct.</li> <li>Review TEL's Code of Ethics.</li> </ul>	<ul style="list-style-type: none"> <li>Checked conformity with the EICC Code of Conduct, and began a partial revision of TEL's Code of Ethics to increase conformity with the EICC Code of Conduct.</li> </ul>

## Business ethics

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, TEL appointed a Chief Business Ethics Director and established the Ethics Committee, which is responsible for promoting business ethics awareness throughout the Tokyo Electron Group. The Ethics Committee comprises the Chief Business Ethics Director, the Ethics Committee Chairman, and presidents of major Group companies in and outside Japan. The members meet semiannually, report on ethics related issues facing each company, and discuss measures to further improve ethical behavior and compliance.

The Code of Ethics is reviewed in response to changes in the expectations of society. In January 2015, an anti-corruption statement was added to its introduction based on Principle 10 of the UN Global Compact, which concerns working against corruption including extortion and bribery. In fiscal 2016, the Group reviewed its Code of Ethics in response to the Code of Conduct of the EICC, an electronic industry CSR consortium that the Group joined in June 2015.

The Tokyo Electron Group's Code of Ethics and its Q&A section are published in Japanese, English, Korean and Chinese and disclosed on the intranet to enable all Group executives and employees, including those overseas, to view them at any time. The Code of Ethics is also publicly accessible from the corporate website.

**URL** [http://www.tel.com/environment/corp\\_governance/compliance/ethical.htm](http://www.tel.com/environment/corp_governance/compliance/ethical.htm)

## Compliance system

Tokyo Electron has appointed a Compliance & Internal Control Executive Officer from among its executive officers to raise awareness of compliance across the Group and further improve Group-wide compliance. TEL has also drawn up the Compliance Regulations, setting out basic compliance-related requirements in line with the Code of Ethics. The Compliance Regulations are intended

to ensure that all individuals who take part in the business activities of the Tokyo Electron Group clearly understand the pertinent laws and regulations, international standards and internal company rules, and consistently apply these rules in all of their activities.

## Compliance education

Through the Group's e-learning system, we provide standard web-based training programs covering the basics of compliance, export-related compliance, protection of personal information, the Act for Subcontracting and other topics. All executives and employees are required to complete this training. In addition, other web-based programs tailored to specific positions and job roles are also available, including those on insider trading and the Social Security and Tax Number System.

We also have a quiz-based business ethics compliance education course for all Group executives and employees. Updated yearly, the quiz is intended to maintain compliance awareness throughout the Group and disseminate the latest information.

In addition to these web-based courses, we organized in-house seminars in fiscal year 2016 for Corporate Directors and domestic Group company presidents on the subjects of compliance and internal control.

## Internal reporting system

The Tokyo Electron Group has an internal reporting system that employees can use to report any activity suspected of being in breach of laws, regulations or business ethics principles. An ethics hotline and a compliance hotline have been established to receive reports from all Group companies, and each overseas location also has its own reporting system. In all instances, the system ensures that whistleblowers remain anonymous and are protected from any disadvantage or repercussions.

There were no reports or cases of non-compliance with laws, regulations, or principles of ethics in fiscal year 2016 that could have had a material impact on the Group's business or local communities.