

December 21, 2018

Name of the Company: Tokyo Electron Limited
Name of the Representative: Toshiki Kawai
President & CEO
(Representative Director)
(Code No.8035; The First Section of the Tokyo Stock Exchange)
Person to contact: Tatsuya Aso
Vice President of General Affairs Dept.
(Tel: 03-5561-7000)

Notice of Partial Revision of Tokyo Electron Corporate Governance Guidelines

Tokyo Electron Ltd. (TEL) announces that Tokyo Electron Corporate Governance Guidelines (hereinafter, Guidelines) have been revised.

The details are as follows:

1. Revision of the Guidelines

In order to become a truly global company that realizes sustainable growth, TEL strives to strengthen its management and technology base to establish a global level of profitability. Furthermore, TEL believes that it is important to build a governance structure to achieve this. The Guidelines provide a governance framework that will contribute to the achievement of this aspiration.

Based on the revised purpose of the "Corporate Governance Code" revised in June 2018, TEL reviewed the policy on its approach at the Board of Directors and revised the Guidelines.

2. Disclosure of the Guidelines

The Guidelines have been posted on TEL's website as follows:

【Tokyo Electron Website】

<https://www.tel.com/about/cg/>

Tokyo Electron Corporate Governance Guidelines

Contents

Section I Principles

1. Basic Views on Corporate Governance
2. Corporate Principles
3. Building a Relationship of Trust with Stakeholders for TEL's Sustainable Growth
4. Business Policies
5. Medium-term Management Plan
6. Basic Strategy for Capital Policy

Section II Cooperation with Stakeholders

1. Appropriate Cooperation with Shareholders
 - (1) Securing the rights of shareholders
 - (2) Exercise of rights at general shareholder meetings
 - (3) Ensuring appropriate information disclosure and transparency
 - (4) Constructive dialogue with shareholders
 - (5) Policy on cross-shareholdings
 - (6) Policy on anti-takeover measures
 - (7) Capital policy that may harm shareholder interests
 - (8) Related party transactions
2. Appropriate Cooperation with Stakeholders Other Than Shareholders
 - (1) Establishment of the Code of Ethics of the Tokyo Electron Group and actions for ensuring compliance of it
 - (2) Positive actions for sustainability issues
 - (3) Ensuring diversity
 - (4) Roles of corporate pension funds as asset owner

Section III Governance Structure

1. Basic View on Governance that will Lead to Sustainable Growth for TEL
2. Structure for Achieving Growth-Oriented Governance Directed at Sustainable Growth
 - (1) A Board of Directors that supports appropriate risk-taking by executive management
 - (2) Establishment of the Nomination Committee and Compensation Committee
 - (3) Establishment of CSS (Corporate Senior Staff) to achieve Growth-Oriented governance for the Group
3. Board of Directors
 - (1) Role and responsibilities of the Board of Directors
 - (2) View on overall balance of knowledge, experience, and skills in the Board of Directors, its diversity and size
 - (3) Nominations for Corporate Director and CEO
 - (4) Planning directed at developing a successor to the CEO and other executive management
 - (5) Fair evaluation of the executive management, including the CEO
 - (6) Director and CEO compensation
 - (7) Initiatives directed at stimulating debate in the Board of Directors
 - (8) Corporate Director training
 - (9) Evaluating the effectiveness of Board of Directors
4. Audit & Supervisory Board
 - (1) Composition of the Audit & Supervisory Board
 - (2) Cooperation with Audit & Supervisory Board Members and executive management, the Internal Audit Department, and the Accounting Auditors
 - (3) Effectiveness of the Audit by Audit & Supervisory Board members
5. Internal Controls and Risk Management (Basic Policy on Internal Controls)
6. Relationship to the Accounting Auditors

(Appendix)

Reasons for Appointing the CEO, Individual Corporate Directors and Audit & Supervisory Board Members; Status of Concurrent Duties at Other Listed Companies

Tokyo Electron Corporate Governance Guidelines

Section I Principles

1. Basic Views on Corporate Governance (Principle 3.1.i, 3.1.ii)

In view of Tokyo Electron's corporate philosophy that we strive to contribute to the development of a dream-inspiring society through our leading-edge technologies and reliable service and support, Tokyo Electron(TEL) believes improving corporate governance is important for achieving success in global competition, realizing sustainable growth, and increasing corporate value over the mid to long term.

To reinforce our corporate governance, TEL will build a structure for utilizing to the maximum the worldwide resources TEL possesses, strengthen our business and technological bases, and put in place a framework that will enable us to establish earning power at a global level.

Moreover, TEL believes that continuing to be a company replete with dreams and vitality will form the foundation that will support the motivation of our employees and the sustainable growth of TEL.

These guidelines provide a governance framework that will contribute to the achievement of this aspiration.

2. Corporate Principles (Principles 2.1, 3.1.1)

TEL's corporate principles are comprised of four elements:¹the Corporate Philosophy, Management Policies, CSR Policy and TEL Values. These elements encompass the values TEL holds as important in our mission as a company and specific behaviors for achieving it.



Corporate Philosophy

We strive to contribute to the development of a dream-inspiring society through our leading-edge technologies and reliable service and support.

Management Policies

1. Profit is Essential

The TEL Group aims to contribute to the development of society and industry and to the enhancement of corporate value while continually pursuing profit.

2. Scope of Business

The TEL Group leads markets by providing high-quality products in leading-edge technology fields with a focus on electronics.

3. Growth Philosophy

We will tirelessly take on the challenges of technological innovation to achieve continuous growth through business expansion and market creation.

4. Quality and Service

The TEL Group strives to understand the true needs to achieve customer satisfaction and secure customer trust while continuously improving quality and service.

5. Employees

The TEL Group's Employees both create and fulfill company values, performing their work with creativity, a sense of responsibility, and a commitment to teamwork.

¹ For details of the four elements of the corporate principles : <https://www.tel.com/about/ptc/>

6. Organizations

The TEL Group builds optimal organizations that maximize corporate value in which all employees can realize their full potential.

7. Safety, Health and the Environment

The TEL Group gives the highest consideration to the safety and health of every person connected with our business activities as well as to the global environment.

8. Social Responsibility

Feeling a strong sense of corporate social responsibility, we strive to gain the esteem of society and to be a company where employees are proud to work.

CSR Policy

The CSR operations of TEL are initiatives that realize TEL's Corporate Philosophy. TEL pursue sustainable operations from the viewpoints of corporate governance, legal and regulatory compliance, and business ethics while creating new value through our products and services. Based on these efforts, we implement CSR activities to help address social issues. TEL will continue to pursue CSR activities to build stakeholder trust, improve corporate value and, by doing so, promote the growth of a sustainable and dream-inspiring society.

TEL Values

The TEL Values together constitute a code of conduct that encapsulates the driving force of growth and important values of TEL, and are practiced by Corporate Directors, Audit and Supervisory Board Members and all employees of TEL.

Pride	We take pride in providing high-value products and services.
Challenge	We accept the challenge of going beyond what others are doing in pursuing our goal of becoming number one globally.
Ownership	We will keep ownership in mind as we think things through, and engage in thorough implementation in order to achieve our goals.
Teamwork	We respect each other's individuality and we place a high priority on teamwork.
Awareness	We must have awareness and accept responsibility for our behavior as respectful members of society.

3 . Building a Relationship of Trust with Stakeholders for TEL's Sustainable Growth² **(General Principle 2, Principle 3.1.i)**

With the understanding that the support of our stakeholders is vital for TEL, TEL will build a relationship of trust with our stakeholders to achieve sustainable growth and create corporate value over the mid to long term based on the following views.

➤ Shareholders and investors

To fulfill our fiduciary responsibility to shareholders and investors, TEL will endeavor to increase shareholder value by improving the profitability and capital efficiency.

² For details on TEL's relationship with our stakeholders:
<https://www.tel.com/csr/materiality/>

- **Customers**
Based on the customer-oriented principle, TEL will provide products and services with high added value through our expertise in providing creative proposals that integrate innovative technological know-how and diverse technologies.
- **Employees**
Employees are the foundation of corporate development. TEL aims to continue to be a company replete with dreams and vitality, where each and every employee has creativity, a sense of responsibility and passion, and where diverse human resources can demonstrate their abilities to the fullest.
- **Business Partners**
TEL will build on our expertise in the manufacture of advanced, high-quality products underpinned by a relationship of ongoing trust with our Business Partners.
- **Communities**
TEL will endeavor to resolve social issues that surround its business operations through growth in our business, and will contribute to the development of a dream-inspiring society.

4. Business Policies (Principle 3.1.i)

As a company that began as a trade company specializing in technology, TEL perceived at an early stage changes in the environment and quickly responded to such changes. This involved making the transition to becoming a manufacturer with development production functions and building a global sales and support framework. In this way, TEL has provided products and services with high added value in world markets. Moreover, TEL has maintained growth through taking the lead in original technology in semiconductor production equipment and related areas using its original technology, among others, where innovations in technology will generate new value, and high earnings can be expected.

The driving forces of our company are comprised of the belief that the customer comes first, which has been part of our corporate culture since the founding of TEL, a high level of technical expertise capable of achieving technical innovation, and the challenging spirit of our employees, who are capable of flexibly and rapidly adapting to changes in the environment.

With the aim of becoming a leading world corporation, TEL will continue our efforts in the future in business creation where TEL will apply leading-edge technologies TEL has cultivated over the years in growth areas based on electronics technology which value creation through technical innovation can be expected.

5. Medium-term Management Plan (Principle 3.1.i)

Tokyo Electron Limited (“TEL”) Group is aiming for sustained growth in corporate value through a management base with global-standard strength. As the semiconductor and FPD (Flat Panel Display) industry has entered a new growth stage on the expansion of new applications that support social infrastructure such as AI and IoT, business development in TEL group’s focus areas is making good progress.

In light of these circumstances, TEL group has established a new financial model backgrounded by expected growth in semiconductor and production equipment markets. TEL group is aiming to increase sales and generate profit beyond market growth rate through stronger competitiveness of products and further enhance profitability.

➤ **Medium-term Vision**

The TEL Group aims to be a real global company generating high added-value and profits in Semiconductor and FPD industries through innovative technologies and groundbreaking solutions with integrated diverse technologies.

➤ **Financial model (toward FY2021)**

Our group will raise management efficiency and secure even higher profitability and resistance to market shifts. TEL are aiming for a world class operating margin of over 30% in the medium- to long-term.

Wafer Fab Equipment Market size	\$55B	\$62B
Sales	¥1,500B	¥1,700B
Operating margin	26.5%	28%
ROE (Return on Equity)	30% - 35%	

➤ **Principal initiatives to achieve the financial model going forward**

- Promote development of technologies that leverage TEL Group's comprehensive strengths
- Promote early stage joint development and evaluation with customers
- Increase productivity and added-value using data and AI
- Respond to growing China business
- Increase earnings in field solutions business
- Promote efficiency through launch of business innovation project
- Implement medium-term incentive plan

6. Basic Strategy for Capital Policy (Principle 1.3)

Based on the business strategy and business plans stated above, TEL's objective in our capital policy is as follows.

➤ **View regarding capital efficiency**

While securing and generating resources necessary for growth investment, TEL will make continuous positive efforts to provide returns to shareholders and keep appropriate balance sheet management with a view of medium- to long-term growth. Specifically, TEL will endeavor to improve return on equity (ROE) by further improving operating income to sales and capital efficiency and make efforts to expand cash flow.

➤ **Shareholder Return Policy**

Our dividend policy is to link dividend payments to business performance on an ongoing basis and a payout ratio is around 50% based on consolidated net income attributable to owners of parent. However, the amount of annual dividend per share shall not be less than 150 yen. TEL will review our dividend policy if TEL does not generate net income for two consecutive fiscal years. TEL will flexibly consider share buybacks.

Section II Cooperation with Stakeholders

1. Appropriate Cooperation with Shareholders

TEL believes that cooperation with various stakeholders of TEL is indispensable for the sustainable growth of TEL. In particular, appropriate cooperation with shareholders as the providers of capital is important in the discipline of corporate governance. TEL will endeavor to engage in appropriate cooperation with shareholders to ensure that their rights are effectively secured and can be exercised with ease.

(1) Securing the rights of shareholders (Principle 1.1, Supplementary Principle 1.1.2, 1.1.3)

TEL will take appropriate measures to fully secure shareholders' rights including their voting rights at general shareholder meetings. Moreover, the board will put in place a framework for appropriately fulfilling our corporate governance role and responsibilities. In addition, the board will make adequate consideration for ensuring equality in regard to the rights of minority shareholders.

(2) Exercise of rights at general shareholder meetings (Principle 1.2)

TEL recognizes that general shareholder meetings are an opportunity for constructive dialogue with shareholders and, takes measures to ensure that shareholders can appropriately exercise their shareholder rights at the general shareholder meeting.

Date of the general shareholder meeting	<ul style="list-style-type: none">When setting the date for holding the general shareholder meeting, TEL avoids as much as possible days where the holding of a number of other general shareholder meetings is expected.
Date for sending the convocation notice	<ul style="list-style-type: none">TEL endeavors to send out the convocation notice for general shareholder meetings early enough to give shareholders sufficient time to consider the agenda. Therefore, TEL forwards notices to shareholders at least three weeks prior to the date of the general shareholder meeting.
Provision of materials	<ul style="list-style-type: none">Before sending out the convocation notice, TEL discloses details of the notice on the website of Tokyo Stock Exchange and TEL.The English translation of the convocation notice is disclosed in the same manner at least three weeks prior to the date of the general shareholder meeting.As necessary, TEL also discloses on our website supplementary information on proposals, etc. to enable shareholders to make appropriate decisions at the general shareholder meeting.
Exercise of voting rights	<ul style="list-style-type: none">Through the introduction of electronic voting and the use of an electronic voting platform, TEL provides opportunities to enable all shareholders including institutional and foreign shareholders to exercise their voting rights with ease. When an institutional investor who holds shares in the name of a trust bank, etc. expresses an interest in advance of the general shareholder meeting in attending the general shareholder meeting or exercising voting rights, TEL will give consideration to the investor's wish to the extent possible after consulting with the trust bank, etc.

(3) Ensuring appropriate information disclosure and transparency (Principle 3)

TEL discloses information believed to be effective in facilitating an adequate understanding of TEL by stakeholders in a timely and appropriate manner, in compliance with rules for the timely disclosure. The dissemination of company information takes place through disclosure to public institutions, the publication of press releases and various reports, and the use of TEL website. TEL also makes efforts to facilitate prompt, appropriate communication. For example, as contact points where two-way exchanges of opinions are possible, TEL appoints an IR department responsible for responding to investors and a PR group in the General Affairs Department responsible for communicating with the media.

TEL also makes adequate efforts to provide non-financial information through, for example, annual reports and sustainability reports.

(4) Constructive dialogue with shareholders (Principle 5.1)

To promote TEL's sustainable growth and increase corporate value over the mid to long term, TEL will make efforts to engage in constructive dialogue with investors including shareholders on a regular basis. The following is our policy for establishing a framework and initiatives for promoting such dialogue.

Policy for Establishing a Framework and Initiatives for Promoting Constructive Dialogue with Shareholders

1) Basic view (Supplementary Principle 5.1.1)

TEL will endeavor to provide opportunities for constructive dialogue with a larger number of investors around the world, which will contribute to TEL's sustainable growth and growth in corporate value over the mid to long term.

Furthermore, TEL thinks it important that the CEO and Representative Director himself engage in direct dialogue within a reasonable and possible scope.

2) Dialogue with shareholders in general (Supplementary Principle 5.1.2(i))

The IR Department, a department under the direct control of the CEO, is responsible for dialogue with investors including shareholders, and the CEO is responsible for overseeing this. When there is an individual request from an investor, the CEO or a corporate director in charge will engage in dialogue as necessary.

3) Measures to ensure positive cooperation between internal departments to support dialogue (Supplementary Principle 5.1.2(ii))

In response to opinions and requests, etc. of shareholders, the IR Department will assume the core role in assisting the realization of constructive dialogue with shareholders through positive cooperation with relevant departments such as the business, marketing and corporate administration divisions.

4) Measures to promote opportunities for dialogue aside from individual meetings (Supplementary Principle 5.1.2(iii))

TEL will provide opportunities for shareholders to engage in dialogue through business briefing sessions including quarterly results briefings and teleconferences, as well as opportunities to participate in overseas road shows, conferences sponsored by securities companies in Japan and overseas, and inspection tours of TEL's factories. Moreover, TEL will endeavor to transmit company information through various means including our annual reports, fact book and TEL website.

5) Measures to relay shareholder views (Supplementary Principle 5.1.2(iv))

The IR Department will regularly provide reports to the CEO, Representative Director and corporate director in charge and engage in discussion with them regarding investors' views and questions obtained through individual meetings, to ensure that these resources are being utilized to increase business and corporate value. Moreover, the CEO and others will provide reports to and engage in discussion with the board in regard to important matters.

6) Control of insider information (Supplementary Principle 5.1.2(v))

TEL will appropriately manage important corporate information and disclose them in a fair, equitable and timely manner. Moreover, TEL will establish internal rules to prevent insider trading and thoroughly familiarize employees with these. In addition, every quarter TEL will establish the period from the bookclosing date until the announcement of financial results as a period during which officers and employees of TEL are prohibited from buying and selling company shares.

7) Identifying shareholder ownership structure (Supplementary Principle 5.1.3)

TEL will endeavor to identify our shareholder ownership structure by periodically investigating shareholding conditions of beneficiary shareholders and using these in constructive dialogue with investors.

8) Establishing and disclosing business strategy and business plan (Principle 5.2)

In formulating management strategies and management plans, TEL strives to realize capital efficiency exceeding the cost of shareholders' equity, focusing on the balance with business stability, although TEL is aware of its cost of shareholders' equity as a comprehensive indicator reflecting fluctuations in the business environment and expectations from shareholders. TEL articulates our earnings plans and basic objectives regarding our capital policy, and along with indicating targets for profitability and capital efficiency such as net sales, gross profit margin, operating margin, net profit, and return on equity (ROE), will provide explanations to shareholders in a manner that is easy to understand about specific measures it intends to take to achieve our plans and target.

(5) Policy on cross-shareholdings (Principle 1.4)**1) Policy concerning cross-shareholding of listed shares**

TEL does not hold crossheld shares in principle. Only when TEL believes there to be a strong rationale for holding such shares in our relationship with an issuer will TEL hold the shares of another company, such as investing in a client with which it has a technical alliance or investing in a client for the purpose of stable procurement. Furthermore, since TEL first received capital subscription from a certain company at the time of our founding, TEL has been receiving advice from that company from an objective perspective over the long term from our viewpoint as a shareholder. TEL believes there is a strong rationale for holding the shares of this company.

The executive management regularly verifies the rationale of holding shares of another company and provides a report to the board. In the verification of the rationale, each holding is scrutinized in regard to whether it is providing benefits in keeping with the purposes of the holding, including maintaining relations over the mid to long term, stable procurement, and/or maintaining technical alliances. TEL also sets criteria that become a trigger for consideration of selling such shares.

On the basis of this policy, TEL has already sold its holdings in five of the eight listed stocks that were held at the time these Guidelines were established.

2) Policy on the exercise of voting rights in relation to cross-shareholdings

When TEL exercises our voting rights for shares TEL holds, as a shareholder it carefully considers proposal details, engages in dialogue with the issuer as necessary and makes decisions regarding proposals from the viewpoint of increasing corporate value of TEL and the issuer over the mid to long term. TEL will cast an opposing vote on any proposal it believes may harm shareholder value.

(6) Policy on anti-takeover measures (Principle 1.5)

TEL has not introduced any so-called anti-takeover measures.

(7) Capital policy that may harm shareholder interests (Principle 1.6)

With respect to capital policy that results in the change of control or in significant dilution, TEL conscientiously examines the necessity and rationale of such measures to ensure they do not unduly harm shareholders' interests. Moreover, TEL provides adequate explanation to shareholders and follows appropriate procedures.

(8) Related party transactions (Principle 1.7)

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.

2. Appropriate Cooperation with Stakeholders Other Than Shareholders

Appropriate cooperation with stakeholders other than shareholders is also essential for the sustainable growth of TEL. TEL believes that respecting the rights and position of stakeholders and fostering a climate that conforms with corporate ethics will promote the development of society and the economy as a whole and, in turn, will establish the foundation for the further growth of our company's business.

(1) Establishment of the Code of Ethics of the Tokyo Electron Group and actions for ensuring compliance of it (Principle 2.2, Supplementary Principle 2.2)

TEL maintains corporate ethics and compliance with laws and regulations by TEL Group as a whole at a high standard. Giving primary importance to acting in compliance with laws and international rules, TEL has established the Code of Ethics of the Tokyo Electron Group³ and makes efforts to ensure all employees are familiar with this.

Moreover, TEL appoints a Chief Business Ethics Director from among Corporate Directors who is responsible for ethics and has established an ethics committee as a steering organization for promoting corporate ethics throughout TEL.

Furthermore, TEL has established a set of TEL Values (see Section I No. 2) which summarizes intrinsic values that act as a driving force in TEL's growth and which serves as a code of conduct that all Corporate Directors, Audit & Supervisory Board Members, and employees must practice.

(2) Positive actions for sustainability issues (Principle 2.3, Supplementary Principle 2.3.1)

To realize sustainable growth and an improvement in corporate value over the mid to long term, TEL must engage in proactive and positive initiatives to deal with social issues related to sustainability such as human rights, and environmental issues.

Based on this approach, through communication with stakeholders, TEL will accurately acknowledge latent risks and opportunities in our business activities, and will identify important issues in social responsibilities⁴ that it should address. TEL will regularly verify the potential for the manifestation of specific risks and important issues, as well as their level of priority, and reflect them in our business activities.

TEL intends to enhance our ability to voice our convictions by becoming a real global company and through its business, contributes to the resolution of industrial and social issues and the achievement of SDGs which the United Nations has adopted, and contributes to the creation of a sustainable society.

³ For details on the Code of Ethics of the Tokyo Electron Group:
<https://www.tel.com/about/compliance/>

⁴ For details on important issues in social responsibility that TEL should address:
<https://www.tel.com/csr/materiality/>

(3) Ensuring diversity (Principle 2.4)

For TEL to become a real global company that generates high added value and profits through our innovative technical know-how and expertise in original proposals, it must continue to be a company replete with dreams and vitality where a variety of talents can fully demonstrate their abilities. The employees are TEL's most vital and important driving force. In addition, TEL are promoting the diversity of personnel including the active participation of women inside the company, and TEL will also try to foster female employees who are expected to be executive candidates. To make TEL a workplace where a variety of talents works in an energetic and active capacity, TEL has established the following human resource policy.

1. Respect for Human Rights

We respect the character and individuality of each person and strive to create work environments without any infringement of human rights.

2. Diverse Workforce

We strive to respect and understand differences in values arising from gender, nationality, age, race, creed, religion, and other attributes and to be a corporation where a diverse range of employees can work to their full potential.

3. Human Resource Development

We believe that each employee is the source of value creation and support the development of skills by employees.

4. Employee Assessment and Treatment

We provide opportunities to those employees with the enthusiasm for personal growth and engage in fair evaluation of skills and employee treatment so that employees with significant results can be rewarded.

5. Occupational Safety and Health

We place the highest priority on ensuring the safety and health of employees and maintain environments such that employees can work safely at our workplaces and local residents feel a sense of reassurance.

6. Work-Life Balance

We implement measures to enable employees to achieve a good work-life balance.

(4) Roles of corporate pension funds as asset owner (Principle 2.6)

Tokyo Electron Pension Fund defines its basic policy as preserving the beneficiary interests of its participants, recipients and others. It also stipulates the roles and responsibilities of related parties who implement the policy, as well as management policies.

The Asset Management Committee, which has responsibility for managing the pension fund, is composed of persons with expertise from the personnel, accounting, and finance departments. It also receives assessments and advice concerning asset allocation and selection of investment management institutions from external experts.

The Asset Management Committee receives reports from investment management institutions concerning the performance of the pension fund, the results of the exercise of voting rights and stewardship activities, and carries out monitoring the activities against the investment management institutions. As of the end of FY2017, there was no under funding in TEL's defined-benefit corporate pension fund.

Section III Governance Structure

1. Basic View on Governance that will Lead to Sustainable Growth for TEL

TEL upholds the Medium-term vision of being a real global company that generates high added value and profits in Semiconductor and FPD industries through our ability to present original proposals that integrates innovative technological capabilities and an extensive array of technologies. In an environment where over 80% of our sales come from overseas sales, TEL regards building governance as essential in order to become a real global company that achieves success in global competition achieves sustainable growth.

To that end, TEL has built a framework to maximize use of worldwide resources, and has worked to incorporate a wide range of opinions to strengthen our management platform and technology base, establishing a governance structure capable of ensuring that TEL attains global-level earnings power.

2. Structure for Achieving Growth-Oriented Governance Directed at Sustainable Growth

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

(1) A Board of Directors that supports appropriate risk-taking by executive management [Principle 4.2]

Setting the strategic direction of the TEL Group is recognized as the main role of the Board of Directors. It engages in constructive debate of management strategy, management plans, and other matters that have been debated by CSS (Corporate Senior Staff), and serves as the venue for supervising progress on the Medium-term Management Plan and other matters. (See 3., below, for further details.)

(2) Establishment of the Nomination Committee and Compensation Committee [Principle 3.1.iii and iv, Principle 4.10]

The Nomination Committee and the Compensation Committee have been established within the Board of Directors to enable objective evaluation of the performance of executive management and Corporate Directors. The Nomination Committee nominates candidates for CEO and Corporate Director, and the Compensation Committee engages in active discussion of the system for director compensation. Appropriate involvement and advice are also obtained from Independent Directors.

The existence of these two committees ensures fairness of corporate management and facilitates sound Growth-Oriented governance of TEL.

Nomination Committee

Purpose: To ensure a fair and effective Board of Directors composition through the nomination of candidates for CEO and Corporate Director.

Role: To nominate candidates for the Board of Directors to be elected by the General Shareholder Meeting and candidates for CEO to be elected by the Board of Directors and propose these to the Board of Directors.

Compensation Committee

Purpose: To ensure transparency, and fairness in management and adequacy of compensation through the compensation system.

Role: To propose the policy and the system for compensation received by Corporate Directors and executive officers of the TEL Group, as well as individual compensation amounts for the Representative Directors.

(3) Establishment of CSS (Corporate Senior Staff) to achieve Growth-Oriented governance for the Group

CSS(Corporate Senior Staff) was established as one effective mechanism for making maximum use of worldwide resources owned by TEL.

CSS (Corporate Senior Staff)

A team to support the CEO and other management is necessary to formulate an optimal global strategy. CSS (Corporate Senior Staff) analyzes, considers, and formulates solutions to important strategic problems rapidly from a company-wide perspective or from a wide range of perspectives of the areas supervised by each CSS member.

The debate of strategy in CSS(Corporate Senior Staff) can generate powerful management momentum by fostering common understanding among CSS members based on a fundamental understanding of the management issues, and through sharing of progress on strategy execution based on management indicators. CSS(Corporate Senior Staff) debates corporate strategy from a global, cross-organizational perspective and a mid to long-term management perspective, without being encumbered by short-term perspectives focused primarily on the division where each member is in charge.

This enables swift response to changes in the business environment and external environment as well as an efficient, powerful decision-making and execution of strategy, necessary to generate high added value and profit through the ability to present original proposals.

3. Board of Directors

(1) Role and responsibilities of the Board of Directors 【Principle 4.1】

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

The Board of Directors establishes the vision and strategy TEL should target in order to be successful in global competition by setting forth the Corporate Philosophy, Management Policies and other Corporate Principles; presenting the long-term strategic vision; and determining the Medium-term Management Plan and capital policy.

② Making major operational decisions based on strategic direction 【Supplementary Principle 4.1.1】

Proactive risk-taking and a risk management structure to support it are essential for being successful in global competition and achieving sustainable growth. The Board of Directors incorporates a wide range of opinions that stem from the extensive knowledge and experience of Independent Directors and Audit & Supervisory Board Members in addition to Executive Directors who are well-versed in the business, making major operational decisions that are of particular importance to the business. Major operational decisions of particular importance refers to matters that have a major impact on such as TEL Group performance and financial status and mid to long-term growth and corporate value, including approval of the Medium-term Management Plan, policies on shareholder return, corporate reorganization and Merger & Acquisition, and similar matters. The criteria for determining the importance of matters for referral to the Board of Directors are continually revised in light of the environment surrounding TEL, and in light of the provisions of the Companies Act.

The strategy determined by the Board of Directors and CSS(Corporate Senior Staff) is implemented expeditiously by the executive officers responsible for each division.

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.

(2) View on overall balance of knowledge, experience, and skills in the Board of Directors, its diversity and size

① Policy on election of Executive Directors [Supplementary Principle 3.1.iv and v, 4.11.1]

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.

② Policy on election of Independent Directors and Outside Audit & Supervisory Board Members [Principle 4.7, Supplementary Principle 3.1. iv and v, 4.11.1]

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. **[Principle 3.1.v, Supplementary Principle 4.11.2]**

③ Size and diversity of the Board of Directors 【Supplementary Principle 4.11.1】

TEL considers it essential to maintain a Board of Directors with the appropriate size to ensure high quality, active debate, and in addition, to have a good balance of knowledge, experience and skills as well as the diversity (including gender and international aspects) 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 12 Corporate Directors, including one Corporate Director of foreign nationality, and TEL believes this to be the appropriate size for achieving a well-balanced composition of directors at the present time.

Although at this time, there are no female Corporate Directors or Audit & Supervisory Board Members appointed, regarding to candidates for the Board of Directors and Audit & Supervisory Board Members, TEL will make continuous efforts to appoint a variety of personnel, in the aspect of gender and international, who have the combination of knowledge, experience and skills expected of them.

④ Number of Independent Directors and criteria for independence 【Principle 4.8, 4.9】

TEL regards the active expression of opinions, not only by Independent Directors, but also by Audit & Supervisory Board Members, as the cornerstone that supports sound decision-making of the Board of Directors. Currently, 6 of the 17 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. 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 the company 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 Requirements⁵ for Outside Directors and Outside Audit & Supervisory Board Members, in addition to the requirements under the Japanese Companies Act.

(3) Nominations for Corporate Director and CEO 【Principle 3.1.iv, Supplementary Principle 4.3.2, 4.3.3】

TEL has established a Nomination Committee to ensure fairness and efficiency in management. The Nomination Committee Rules stipulate that the CEO is not a member of the Nomination Committee. The authority to propose election or dismissal of the CEO and Corporate Directors is entrusted to Nomination Committee members.

Furthermore, the Nomination Committee formulates the Nomination Committee Activity Guidelines to enable it to conduct activities every year based on the same standards. These guidelines define the required qualities and eligibility of the CEO and Corporate Directors, and the trigger for investigation for dismissal of the CEO, and efforts are made to ensure the objectivity, timeliness, and transparency of the procedures for appointment and dismissal.

For Corporate Directors, the eligibility and qualities that are considered to be required are:

- Judgement and qualities that contribute to an increase in corporate value in the short, medium and long term
- Skills, character, dignity, and insight appropriate for management
- Fairness, popularity, personality

⁵ For details on Independence Requirements for Outside Directors and Outside Audit & Supervisory Board Members: https://www.tel.com/about/cms-file/cg_02_en.pdf

- Ethical views appropriate to a global company
- Sensitivity and ability to understand risk

For the CEO, in addition to the required qualities and eligibility of Corporate Directors listed above, TEL considers the following to be requirements: the capability to be the driving force of the Group as a whole, strong leadership with the ability to execute, and a high level of management ability.

Regarding dismissal of a CEO, in situations such as when doubts arise concerning these qualities and eligibility based on the Nomination Committee Activity Guidelines, the Nomination Committee will conduct a review.

① **Role of the Nomination Committee**

- 1) The Nomination Committee nominates candidates for Corporate Director to be elected by the General Shareholder Meeting and proposes these to the Board of Directors.
- 2) The Nomination Committee nominates Representative Director candidates for the Chief Executive Officer (CEO) to be elected by the Board of Directors, and proposes these to the Board of Directors.
- 3) The Nomination Committee refers to TEL's Independence Requirements when making proposals from among the Corporate Directors and candidates for Corporate Director to the Board of Directors; note that these requirements were established based on the requirements for Independent Directors set forth by the Tokyo Stock Exchange.

② **Ensuring the independence of the Nomination Committee** 【Supplementary Principle 4.10.1】

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, CEO 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 does not extend to the management of the Nomination Committee.

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

Furthermore, in FY2019, three Corporate Directors and one Independent Outside Audit & Supervisory Board Member are serving as the four members of the Nomination Committee. The Independent Outside Audit & Supervisory Board Member currently serving as a member of the Nomination Committee is considered to be qualified to serve as a member of the Nomination Committee due to qualities such as long years of familiarity with the business of the Company and company personnel who could be candidates for leadership, along with having broad insight in the field of capital markets and business management.

③ **Procedure for proposing nominated candidates** 【Principle 3.1.iv, Supplementary Principle, 4.10.1】

(Proposal of candidates for CEO and candidates for internal Corporate Director)

When proposing candidates from inside TEL, the Nomination Committee will independently select multiple candidates for nomination from a pool of suitable candidates, and will screen them through interviews with the candidates and relevant people inside and outside of TEL, and other means. The Nomination Committee will then propose candidates who possess the above-listed eligibility and required qualities for a CEO and Corporate Directors to the Board of Directors as candidates for CEO or Corporate Director for the next period, after having exchanged opinions with Outside Directors in advance and having engaged in other careful consideration.

(Proposal of candidates for Outside Director)

When proposing candidates from outside of TEL, the Nomination Committee will consider people from the pool of candidates who are appropriate because they have the knowledge and background to contribute to the Board of Directors, and other points stated in the proposal of candidates who possess the required eligibility and qualities for internal Corporate Director noted above. They will propose candidates for Outside Director to the Board of Directors after also taking the opinions of the currently appointed Outside Directors into consideration.

The respective personal networks of members of the Board of Directors, including Outside directors and Outside Audit & Supervisory Board Members will be used in electing candidates, not the personal networks of the Nomination Committee members alone.

(Proposal of candidates for Audit & Supervisory Board Member)

Nominees for Audit & Supervisory Board Member are not subject to nomination by the Nomination Committee. When electing candidates for Audit & Supervisory Board Member, the Audit & Supervisory Board will consider candidates recommended by the Audit & Supervisory Board and from executive management and consider those persons deemed appropriate because they have the knowledge and background to contribute to TEL. Finally, after consented by the Audit & Supervisory Board, candidates for Audit & Supervisory Board Member are proposed to the Board of Directors, and a proposal is then made to the general shareholder meeting.

(4) Planning directed at developing a successor to the CEO and other executive management [Supplementary Principle 4.1.3]

The CEO and Representative Directors will play the primary role in continually anticipating candidates for succession, primarily from among executive officers, and working to develop such candidates in order to develop human resources who will assume management of operations in the next generation to support the sustainable growth of TEL.

The CEO and Representative Directors continually evaluate the skills, character, dignity, and insight of successor candidates from multiple perspectives in the course of performing day-to-day duties, and continually support education of the candidates through assignment, training, and other opportunities. They will use CSS(Corporate Senior Staff), internal seminars for select leaders, and other resources for a pool of promising human resources.

Based on the TEL newly formulated succession plan, a pool of candidates for the next generation of management personnel is formed, and the abilities and readiness of the successor candidates is confirmed.

In addition, TEL forms a pool of candidates for the next generation of management personnel based on the TEL Succession Plan. Under the supervision of the CEO, the abilities and readiness of the successor candidates are confirmed by the Top Management Review Meeting⁵ which assigns missions that lead to the accumulation of knowledge and experience including important challenges related to Group management, and then checks their performance.

In addition, the Board of Directors will supervise appropriately that the Successor Development Plan is proceeding systematically with sufficient time and resources, through measures such as holding discussions at the Board of Directors based on reports from the Nomination Committee concerning its analysis of the development status of the successor pool.

While the CEO will be involved in promoting the development of management levels eligible to become successor candidates, the CEO will not be involved in nominating specific candidates from the pool of successor candidates.

⁵ The Top Management Review Meeting: The meeting is attended by Representative Directors, members of the Nomination Committee, the executive officer in charge of human resources, and others, who are responsible for formulating training plans and selecting candidates for successors.

(5) Fair evaluation of the executive management, including the CEO **【Supplementary Principle 4.3.1】**

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 CEO, 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.

Moreover, the Nomination Committee has formulated the Nomination Committee Activity Guidelines that summarize CEO requirements up until appointment, such as eligibility and required qualities, as well as the trigger for investigation for dismissal, and these guidelines have been reported and shared with the Board of Directors. In the above manner, efforts have been made to increase the objectivity and transparency of the CEO selection and dismissal process.

(6) Director and CEO compensation **【Principle 3.1.iii, Supplementary Principle 4.2.1, 4.10.1】**

① Policy on compensation

The TEL Group emphasizes following points with regard to policies on compensation:

1. Composition and levels of compensation with global competitiveness
2. Link with business performance in the short term, sustainable growth, and medium-and-long term increase of corporate value
3. Securement of transparency and fairness in management and appropriateness of compensation

Based on the above policies, TEL has adapted a director compensation system that is closely linked to performance and shareholder value. This time, the proposal of introducing new medium-term performance-based compensation was approved and resolved as submitted at the 55th Annual General Meeting of Shareholders in order to better link director compensation to medium-term performance and thereby achieve further growth. As a result of this approval, director compensation will consist of fixed basic compensation, annual performance-linked compensation, and medium-term performance-linked compensation.

② Role of the Compensation Committee

In order to secure transparency and fairness in management and appropriateness of compensation through our compensation system, the Company has established the Compensation Committee, which is comprised of three or more Corporate Directors, including an Independent Outside Corporate Director. The Compensation Committee obtains advice with respect to a director compensation system from external experts on an ongoing basis, and analyzes and compares compensation levels and systems with companies in the industry inside and outside Japan. Based on this analysis, it makes proposals to the Board of Directors for the policy and the system for the compensation of Corporate Directors and executive officers, as well as individual compensation amounts for the Representative Directors. The Representative Directors do not attend the Compensation Committee meeting which proposes the individual compensation of Representative Directors.

③ Formula for calculating compensation

- Annual performance-linked compensation

In order to better link factors that increase corporate value and shareholder value to compensation, TEL has established a formula that multiplies the actual net income attributable to owners of the parent by a certain ratio. Taking into account the annual performance of consolidated ROE (Return on Equity), this is adjusted as necessary for extraordinary income/losses and other special factors in the annual performance-linked compensation system for the CEO. In this way, TEL uses a profit-sharing style method of calculating compensation that determines the level of annual performance-linked compensation linked to the actual net income attributable to the owners of the parent company. In addition, from FY2019, TEL plans to have the Compensation Committee assess the individual performance of Representative Directors and to reflect this in the individual annual performance-linked compensation amount.

In principle, annual performance-linked compensation for the CEO and other Corporate Directors consists of monetary compensation and stock-based compensation (Stock option). The composition is roughly 1:1 for Corporate Directors, and single year performance is appropriately reflected in the annual performance-linked compensation of the CEO and other Corporate Directors. Stock-based compensation (Stock option) 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.

- Medium-term performance-linked compensation

Medium-term performance-linked compensation consists of stock-based compensation (Performance share) with the objective of sharing a shareholder perspective by holding Company Shares and raising awareness towards enhancing corporate value. The payout rate varies between 0% and 150% according to performance goal achievement levels for the three-year covered period, relative to a base amount calculated based on the position and responsibilities of each Corporate Director. In order to properly link director compensation amounts on medium-term corporate value improvements, we use the consolidated operating margin, consolidated ROE, and the like as performance indicators.

TEL have introduced incentive plans linked to medium-term performance similar to the plan for Corporate Directors at TEL, for executive officers, senior employees and mid-level employees of TEL, as well as Directors, executive officers, senior employees and mid-level employees of subsidiaries in Japan and abroad.

④ Structure of compensation

The compensation for Corporate Directors (excluding Outside Directors), executive officers and senior employees of TEL, as well as Directors, executive officers and senior employees of subsidiaries of TEL consists of fixed basic compensation, annual performance-linked compensation and medium-term performance-linked compensation as the following table.

In principle, annual performance-linked compensation consists of monetary compensation and stock-based compensation (Stock option). The composition is roughly 1:1 for Corporate Directors. On the other hand, the composition is roughly 2:1 for executive officers and senior employees of TEL, as well as Directors, executive officers and senior employees of subsidiaries of TEL.

For Outside Directors, compensation consists of fixed basic compensation and annual performance-linked compensation (cash bonuses). For Audit & Supervisory Board Members, compensation consists only of fixed basic compensation.

	Fixed basic compensation	Annual performance-linked compensation		Medium-term performance-linked compensation
		Cash bonuses	Stock-based compensation (Stock option)	Stock-based compensation (Performance share)
Corporate Directors (excluding outside Directors)	○	○	○	○
Outside Directors	○	○	—	—
Audit & Supervisory Board Members	○	—	—	—
Executive officers and senior employees of TEL, as well as Directors, executive officers and senior employees of subsidiaries of TEL	○	○	○	○

(7) Initiatives directed at stimulating debate in the Board of Directors 【Principle 4.8, 4.12, Supplementary Principle 4.12.1, et al.】

The Board of Directors ensures that it has adequate time for deliberation and meets nine times per year. The General Affairs Department functions as the administrative office for the Board of Directors Meeting. The meeting is run as follows to ensure smooth meeting management and to stimulate debate.

Moreover, focused discussions on topics related to management strategy and vision are conducted in offsite meetings held at venues away from the regular meeting place of the Board of Directors.

- Secure the appropriate amount of time for debate and strive to increase the attendance rate for all Corporate Directors and Audit & Supervisory Board Members, including Outside members, by setting an annual schedule for Board of Directors meetings.
- Distribute materials concerning agenda items to be discussed to attendees of Board of Directors meeting in advance of the Board of Directors meeting. Also provide prior explanation in a timely manner to Outside Directors and Outside Audit & Supervisory Board Members from the administrative office.
- Strive to provide sufficient information to and dialog with Independent Directors and Audit & Supervisory Board Members by establishing a venue for the exchange of opinions between TEL executive management and Independent Directors and Audit & Supervisory Board

(8) Corporate Director training 【Principle 4.14, Supplementary Principle 4.14.1, 4.14.2】

TEL provides Corporate Directors and Audit & Supervisory Board Members with opportunities to gain further knowledge and engage in appropriate study as needed. Proper explanations of the TEL's business, financial status, organization and other aspects are also provided to new Outside Directors and Outside Audit & Supervisory Board Members when they assume the office.

(9) Evaluating the effectiveness of Board of Directors 【Supplementary principle 4.11.3】

The results of audits by the Audit & Supervisory Board concerning the performance of duties by Corporate Directors are reported in a Board of Directors. In addition to that, the Board of Directors performs our own analysis and evaluation, debates the effectiveness of the Board of Directors based on an evaluation survey filled out by each Corporate Director and Audit & Supervisory Board Member from the end of the current fiscal year, and discloses a summary of the results each year. In regard to issues that are recognized as a result of analysis and evaluation, the Board of Directors will endeavor to deepen discussion and make timely improvements. As part of the deliberations about the evaluation of the effectiveness of the Board of Directors, we conduct deliberations and exchanged opinions with Outside Directors and Outside Audit & Supervisory Board Members as the primary participants.

4. Audit & Supervisory Board 【Principle 4.4, Supplementary Principle 3.2.2】

(1) Composition of the 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. Each of the Audit & Supervisory Board Members attends Board of Directors meetings and other important meetings, auditing the performance of duties by Corporate Directors. They also determine audit policy and the division of duties among Audit & Supervisory Board Members in Audit & Supervisory Board meetings, and endeavor to perform effective audits by investigating conduct of operations by the TEL Group, among other matters.

(2) Cooperation with Audit & Supervisory Board Members and executive management, the Internal Audit Department, and the Accounting Auditors 【Supplementary Principle 4.13.3, 3.2.2】

- ① Cooperation with executive management: Regular meetings with Representative Directors are held. Audit & Supervisory Board Members also attend management meetings and other important operational meetings, and engage in dialogs with executive management as appropriate.
- ② Cooperation with the Internal Audit Department: Full-time Audit & Supervisor Board Members take the lead on cooperation through Audit Center reports, etc.
- ③ Cooperation with Accounting Auditors: All Audit & Supervisory Board Members, including Outside Audit & Supervisory Board Members, receive the audit plan for the current period from the Accounting Auditors, receive an explanation of a summary of the auditing methods and key audit points, etc., receive reports about reviews Accounting Auditors, and audit results from the Accounting Auditors quarterly and at fiscal year-end.
- ④ If the Independent Accounting Auditors discover irregularities and request an appropriate response, or identify inadequacies or concerns, they will report these to the executive officer in charge and the Audit & Supervisory Board Members as necessary, and the executive officer in charge will take the lead on investigating and correcting the problem and reporting the results of that.

(3) Effectiveness of Audit by the Audit & Supervisory Board Members 【Principle 4.11】

TEL currently collects information through onsite surveys through assignment of two full-time Audit & Supervisory Board Members. Proper coordination between the Internal Audit Department and the Independent Auditors is also sought, and a structure that enables Audit & Supervisory Board Members to obtain sufficient information necessary for audits has been established.

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; hence, TEL believes that audit by Audit & Supervisory Board Members of the TEL Group functions effectively.

5. Internal Controls and Risk Management (Basic Policy on Internal Controls) [Supplementary Principle 4.3.4, Supplementary Principle 4.13.3, 2.5, et al.]

The TEL Group endeavors to strengthen effective internal controls to enhance corporate value and maintain accountability in actions with respect to stakeholders.

- TEL has appointed a Corporate Director in charge of Internal Control and takes concrete action based on the Basic Policy on Internal Controls set forth by the Board of Directors. TEL also implements measures for Internal Controls on Financial Reporting pursuant to the Financial Instruments and Exchange Act.
- In order to strive to further boost compliance awareness and implementation throughout TEL group, the Legal Department operates as the main department overseeing compliance within TEL and is working to further strengthen the compliance system, under the oversight of the executive officer in charge of internal control and compliance.
- In order to effectively strengthen the overall risk management structure for the TEL Group, under the oversight of the executive officer in charge of internal control and compliance, the function of risk management is assumed respectively by the general affairs department.
 - This organization is responsible for the following:
 - Analyzing risks surrounding the TEL Group
 - Instructing to conduct performing self-assessments by the division in charge in regard to major risks that have been identified
 - Mitigating and managing risks
 - Reporting on the status of risk management activities to Audit & Supervisory Board Members and the Board of Directors on a regular basis
- The TEL Group has established two internal-reporting contact offices, an ethics hotline and a compliance hotline, that employees can use to report concerns related to any activity which may violate laws, regulations, or principles of business ethics. Internal-reporting contact offices are also in place at each overseas base. In addition, a new outside internal-reporting contact office was established in Japan, and a new dedicated reporting office was established for suppliers to report compliance violations by the TEL Group as means of receiving information directly from partners.
- The division in charge of the internal reporting system for the TEL Group regularly reports on the status of internal reporting to TEL Audit & Supervisory Board Members, and thereby maintains independence from management. The anonymity of reporters is also guaranteed regardless of the reporting route, and TEL promises that reporters will not experience any repercussions.

6. Relationship to the Accounting Auditors [Supplementary Principle 3.2.1, 3.2.2]

TEL secures sufficient time to ensure proper audits by the Accounting Auditors; in addition regular meetings are held between the CEO, executive officers in charge, and the Accounting Auditors.

Furthermore, not only does the Audit & Supervisory Board receive briefings from the Accounting Auditors in accordance with the “Criteria for Evaluation and Selection of Accounting Auditors by the Audit & Supervisory Board” (as separately established by the Audit & Supervisory Board itself), but it also evaluates the performance of the Accounting Auditors through interviews with the TEL Accounting Department to gather opinions on the performance of audits by the Accounting Auditors and other matters. The evaluation checks the Accounting Auditors for appropriate quality control, their independence and expertise, and the validity and efficiency of audits, as well as the effectiveness of their communication with the Audit & Supervisory Board Members, executive management and the Internal Audit Department, among others.

Appendix**Reasons for Appointing the CEO, Individual Corporate Directors and Audit & Supervisory Board Members; Status of Concurrent Duties at Other Listed Companies****[Principle 3.1.v, Supplementary Principle 4.11.2]**

Representative Director, Chairman of the Board Tetsuo Tsuneishi	Other than his involvement in the semiconductor manufacturing equipment business of the Company, Mr. Tsuneishi has been involved in management in a wide range of fields from IR, legal and business strategies, and is equipped with ample experiences and a proven track record. With the expectation of utilizing these experiences and track record in bolstering the decision making function of the board of directors, we nominate him as a corporate director. (Status of Concurrent Duties at Other Listed Companies) Corporate Director, Tokyo Electron Device Ltd.
Representative Director, President & CEO Toshiki Kawai	Having conducted global sales of semiconductor manufacturing equipment and performing management duties in multiple business units in this business, Mr. Kawai possesses ample experiences and record of achievement. We nominate him as a corporate director and the CEO with the expectation of leveraging these experiences and achievement in decision-making concerning the Group management policies at the board of directors.
Corporate Director Hirofumi Kitayama	Mr. Kitayama has been involved in management duties in manufacturing and technology development among other fields within the Company and Group companies, and has ample experiences and record of achievement. With the expectation of utilizing these experiences and achievement in bolstering the decision making function of the board of directors, we nominate him as a corporate director.
Corporate Director Masami Akimoto	Through involvement in management in a Group manufacturing company, Mr. Akimoto has contributed to producing many high value added products, and has ample experiences and record of achievement in the manufacturing and development field. With the expectation of utilizing these experiences and achievement in bolstering the decision making function of the board of directors, we nominate him as a corporate director.
Corporate Director, Tetsuro Hori	Mr. Hori has performed duties in the legal, intellectual property, corporate strategy and finance areas as well as in management, and possesses ample experiences and a proven track record in these fields. With the expectation of utilizing these experiences and achievement in bolstering the decision making function of the board of directors, we nominate him as a corporate director.
Corporate Director Sadao Sasaki	Mr. Sasaki has performed management duties in marketing as well as technological development and development for semiconductor manufacturing equipment in the Company and a Group manufacturing company, and possesses ample experiences and record of achievement. With the expectation of utilizing these experiences and achievement in bolstering the decision making function of the board of directors, we nominate him as a corporate director.

Corporate Director Tatsuya Nagakubo	Mr. Nagakubo has performed duties in the Company's Administration Division and through overseas postings, has promoted the global expansion of the Company, holding ample experiences and record of achievement. With the expectation of utilizing these experiences and achievement in bolstering the decision making function of the board of directors, we nominate him as a corporate director.
Corporate Director Kiyoshi Sunohara	Mr. Sunohara has promoted global sales of semiconductor manufacturing equipment and contributed to expanding the field services business under his helm, holding ample experience and record of achievement. With the expectation of utilizing these experiences and achievement in bolstering the decision making function of the board of directors, we nominate him as a corporate director.
Corporate Director, Corporate Advisor Tetsuro Higashi	Having served as chairman of the board and president of the Company, Mr. Higashi has ample experiences and record of achievement in management of the Group. Also, he has contributed to the industry through his tenure as chairman of the Semiconductor Equipment Association of Japan. With the expectation of utilizing these experiences and achievement in bolstering the decision making function of the board of directors, we nominate him as a corporate director. (Status of Concurrent Duties at Other Listed Companies) Outside Director, Seven & i Holdings Co., Ltd.
Outside Director <u>Independent</u> Hiroshi Inoue	Having served as chairman, etc. of the board of Tokyo Broadcasting System Holdings, Inc. and President of The Japan Commercial Broadcasters Association, Mr. Inoue possesses ample experiences and knowhow in corporate management. To receive advice and opinions on overall management of the Company from the perspective of ensuring objectivity and validity of decisions made by the Company's board of directors by utilizing these experiences and knowhow, we nominate him as an outside director.
Outside Director <u>Independent</u> Charles Ditmars Lake II	Serving as Chairman and Representative Director of Aflac Life Insurance Japan Ltd., and also as president at Aflac International, Incorporated, Mr. Charles Ditmars Lake II has a wealth of experiences and knowledge as a bridge of both corporate managements in Japan and U.S. We nominate him as an outside director, expecting him to provide opinions and advice regarding the Company's corporate management in general from the viewpoint of ensuring objectively the effectiveness of decision making at the board of directors by utilizing these experiences and knowledge. (Status of Concurrent Duties at Other Listed Companies) Chairman and Representative Director, Aflac Life Insurance Japan Ltd. ^{Note2} President, Aflac International, Incorporated ^{Note2} Outside Director, Japan Post Holdings Co., Ltd.

Outside Director Michio Sasaki	<u>Independent</u> Having served as President and Representative Director KEYENCE CORPORATION, Mr. Sasaki achieved substantial improvements of corporate value and high profitability, engaged in the global management of the company for many years, and possesses ample experience and insight as a corporate manager. To receive advice and opinions on overall management of the Company from the perspective of ensuring objectivity and validity of decisions made by the Company's board of directors by utilizing these experiences and knowhow, we nominate him as an outside director. (Status of Concurrent Duties at Other Listed Companies) Outside Director, ZUIKO CO., LTD. Outside Director, SHIFT, Inc.
Audit & Supervisory Board Member(Full time) Yoshiteru Harada	Mr. Harada has extensive experiences in operations and management, including supervision of the Administration Division of the TEL Group as a GM. He possesses considerable knowledge of finance and accounting. We nominate him as an Audit & Supervisory Board Member because TEL anticipates utilization of these experiences and expert knowledge to strengthen the audit function.
Audit & Supervisory Board Member(Full time) Yoshikazu Nunokawa	Mr. Nunokawa is equipped with ample experience in a wide range of fields in TEL including sales, finance and human resources, and through his career serving as vice president responsible for the administrative division of TEL Group companies, also possesses considerable amount of knowledge in finance and accounting. We nominate him as an Audit & Supervisory Board Member, with the expectation of utilizing these experiences and expertise in the enhancement of audit functions at TEL.
Outside Audit & Supervisory Board Member <u>Independent</u> Takatoshi Yamamoto	Mr. Yamamoto has extensive experiences as a securities analyst covering the electronics industry in Japan and the U.S.. He is also a Chartered Member of the Securities Analysts Association of Japan, holding considerable knowledge of finance and accounting. We nominate him as an Outside Audit & Supervisory Board Member to obtain an objective perspective of the appropriateness of audits by utilizing these experiences and insight. (Status of Concurrent Duties at Other Listed Companies) Outside Director, Hitachi, Ltd.
Outside Audit & Supervisory Board Member Ryuji Sakai	Mr. Sakai is a partner at Nagashima Ohno & Tsunematsu and possesses abundant experience and highly advanced knowledge as an attorney-at-law specializing in the Companies Act, M&As, and international transactions. We nominate him as an Outside Audit & Supervisory Board Member, with the expectation of utilizing these experiences and expertise to ensure objectively the appropriateness of audit activities. (Status of Concurrent Duties at Other Listed Companies) Outside Audit & Supervisory Board Member, Kobayashi Pharmaceutical Co. Ltd.

Outside Audit & Supervisory Board Member Independent Kyosuke Wagai	Having served as a certified public accountant at an auditing firm for a long time and also having held positions including executive board member of The Japanese Institute of Certified Public Accountants, Mr. Wagai possesses considerable amount of knowledge in finance and accounting. We nominate him as an outside Audit & Supervisory Board Member to obtain an objective perspective of the appropriateness of audits by utilizing these experiences and insight. (Status of Concurrent Duties at Other Listed Companies) Outside Audit & Supervisory Board Member, Mochida Pharmaceutical Co., Ltd.
---	---

(Note 1) TEL has notified the Tokyo Stock Exchange that Directors Hiroshi Inoue, Charles Ditmars Lake II and Michio Sasaki, and Audit & Supervisory Board Members Takatoshi Yamamoto and Kyosuke Wagai have been appointed as Independent Directors and Independent Audit & Supervisory Board Members, as they meet TEL's criteria for judging independence, "Independence Requirements for Outside Directors and Outside Audit & Supervisory Board Members"; these criteria that were established based on the requirements for Independent Standards set forth by the Tokyo Stock Exchange.

(Note 2) Aflac Life Insurance Japan Ltd. and Aflac International, Incorporated are unlisted companies, but as Director Charles Ditmars Lake II serves as their chairman and representative director and president, respectively, in Japan, this is mentioned here.