

May 10, 2019

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Name of the Representative:	Toshiki Kawai President & CEO (Representative Director) (Code No.8035; The First Section of the Tokyo Stock Exchange)
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### **Issuance of Subscription Rights for Stock-linked Compensation**

Tokyo Electron Limited (TEL) announced that, at the Board Meeting held today, a decision was made to submit a proposal at TEL's 56<sup>th</sup> Annual General Meeting of Shareholders (scheduled to be held on June 18, 2019) entrusting TEL's Board of Directors with the determination of subscription requirements for subscription rights issued for the purpose of implementing stock-linked compensation. This issuance is based on the provisions of Article 236, Article 238, and Article 239 of the Companies Act.

#### **1. The reason for the necessity of issuing subscription rights according to particularly advantageous conditions**

In the past, TEL and its subsidiaries have actively introduced incentive systems such as compensation that is linked to business performance and share subscription rights. TEL has implemented its executive compensation system to link executive compensation more closely to its stock prices, consolidated net income and shareholder value, while tying that compensation to efforts to enhance the transparency of management and corporate competitiveness.

The TEL Group's executive compensation system is consist of fixed basic compensation, annual performance-linked compensation, and medium-term performance-linked compensation. The TEL Group has turned part of executive compensation into performance-linked compensation and has clearly correlated it to its net income attributable to owners of the parent and consolidated ROE (consolidated Return on Equity), thus increasing the compensation's linkage to consolidated financial results and stock prices.

Part of the annual performance-linked compensation is non-monetary (stock-based compensation) in order for executives to have incentives for share prices to rise through better business performance and to share the risks of share price fluctuations with shareholders. We will issue share subscription rights with a set strike price of one yen per share based on the financial results in the fiscal year

ended March 2019, which will have the same effect.

Annual performance-linked compensation consists of a cash compensation and stock-based compensation; the composition is roughly 1:1 for Corporate Directors of TEL. Annual performance-linked compensation for executive officers and senior employees of TEL, as well as Corporate Directors, executive officers, and senior employees of subsidiaries of TEL taking into consideration differences of responsibilities with the Corporate Directors of TEL, the cash compensation and stock-based compensation ratio is set roughly 2 to 1.

## **2. Content and maximum number of subscription rights for which it is possible to determine subscription requirements based on a resolution of this General Meeting of Shareholders**

### **Subscription rights as stock compensation for TEL corporate directors**

(Overview of issued subscription rights)

- (1) People eligible for the allotment of subscription rights

TEL corporate directors (excluding outside directors)

- (2) Number and type of shares to be issued for subscription rights

TEL common stocks up to 115,800 shares

If the Company implements a share split or share consolidation, the number of subject shares shall be adjusted according to the formula below; provided, however, that this adjustment will be made only with respect to the number of shares subject to subscription rights not yet exercised at the time of splitting or consolidation. In this calculation, any fraction of a share smaller than one share will be disregarded.

Adjusted number of shares = Number of shares before adjustment × Split or consolidation ratio

In addition, if the number of shares to be issued needs to be adjusted for any reason, TEL will adjust the number of shares to be issued as appropriate in a reasonable scope according to a resolution of a meeting of the Board of Directors.

- (3) Aggregate number of subscription rights

Up to 1,158

(The number of shares to be issued for one subscription right is 100 shares. However, in the event that the number of shares is adjusted as determined in (2) above, this number will be similarly adjusted.)

- (4) Payment amount for subscription rights

Gratis

- (5) Value of assets required for the exercise of subscription rights

The value of assets required to exercise one subscription right shall be the amount determined by multiplying 1 yen per share in payment by the number of shares to be issued for one subscription right

as determined in (3) above.

(6) Exercise period for subscription rights

The period in which subscription rights may be exercised is from the first date of the next month after three years have passed since the date of allotment, until the last date of the previous month after 20 years have passed since the date of allotment.

(7) Matters regarding increase in capital and capital reserves upon issuance of shares through exercising of subscription rights

- (i) The amount of increased capital due to issuing of shares through exercising of subscription rights shall be half of the maximum amount of increase in capital as calculated according to the provisions of Paragraph 1 of Article 17 of the Company Calculation Regulations, and fractions under 1 yen resulting from calculations shall be rounded up.
- (ii) The amount of increased capital due to issuing of shares through exercising of subscription rights shall be the amount of increased capital stipulated in (i) , subtracted from the maximum amount of increase in capital stated in (i).

(8) Conditions for exercising subscription rights

- (i) Subscription rights may not be exercised for a unit of less than one.  
(The minimum number of subscription rights exercisable shall be one.)
- (ii) When exercising the Subscription Rights, the Optionee shall be a director, a statutory auditor, an employee, etc. of TEL, or subsidiary or affiliated company of TEL.
- (iii) Notwithstanding the preceding Paragraph, in the event of the death of the Optionee on or before the day prior to the start date of the Exercise Period the successor of the Optionee may succeed to and exercise the Subscription Rights within 1 year from the start date of the Exercise Period, or in the event of the death of the Optionee on or after the start date of the Exercise Period, the successor of the Optionee may succeed to and exercise the Subscription Rights within 1 year after the Optionee's death; provided, however, that the successor of the Optionee shall exercise the Subscription Rights by the end of the Exercise Period.
- (iv) Notwithstanding Paragraph (ii) of this Article, when the Optionee resigns (or retires) from the office of director, statutory auditor, an employee, etc. of TEL, or a subsidiary or affiliated company of TEL on or before the day prior to the start date of the Exercise Period (if the Optionee holds several offices at the same time or consecutively, this means when the Optionee resigns (or retires) from all offices, hereinafter the same shall apply), the Optionee may exercise the Subscription Rights within 1 year from the start date of the Exercise Period; or when the Optionee resigns (or retires) from the office of director, statutory auditor, an employee, etc. of TEL, or a subsidiary or affiliated company of TEL on or after the start date of the Exercise Period, the Optionee may exercise the Subscription Rights within 1 year from the date of resignation (or retirement); provided, however, that the Optionee shall exercise the Subscription Rights by the end of the Exercise Period.
- (v) Other conditions pertaining to the exercise of subscription rights include matters regarding

advertising subscription rights based on a resolution of a meeting of the Board of Directors, and the agreement for granting share subscription rights concluded thereof.

(9) Acquisition of subscription rights

If any of the proposals set forth in (i) through (iii) below is approved by TEL's general shareholders meeting (or approved by TEL's Board of Directors if the approval of the general shareholders meeting is not required), TEL may acquire the subscription rights without payment on a day to be determined separately by the Board of Directors.

- (i) A proposal approving a merger agreement causing TEL to cease to exist;
- (ii) A proposal approving a demerger agreement or demerger plan making TEL a demerging company; or
- (iii) A proposal approving a stock-for-stock exchange agreement making TEL a wholly-owned subsidiary or a stock-transfer plan making TEL a wholly-owned subsidiary.

(10) Restriction on acquisition of subscription rights by way of transfer

The acquisition of the subscription rights by way of a transfer requires approval being granted at a meeting of the Board of Directors of TEL.

(11) Policies decided regarding lapse of subscription rights due to restructuring and details regarding delivery of subscription rights from the restructuring company

In the event that a merger (limited to mergers in which TEL will cease to exist), absorption-type demerger or incorporation-type demerger (limited to demergers in which TEL will become the demerging company), stock-for-stock exchange, or stock-transfer (limited to exchanges/transfers in which TEL becomes the wholly-owned subsidiary; all of the above scenarios called "Organizational Restructuring" collectively) occurs, the share subscription rights of the joint stock company(ies) listed in Article 236, Paragraph 1, Items 8 (i) through 8 (ho) of the Companies Act (the "Restructuring Company") may be delivered to the Optionee who has the remaining subscription rights immediately prior to the effective date of the Organizational Restructure (the effective date of the absorption-type merger in the case of an absorption-type merger; the incorporation date of the company incorporated in the case of an incorporation-type merger; the effective date of the absorption-type demerger in the case of an absorption-type demerger; the incorporation date of the company incorporated in the case of an incorporation-type demerger; the effective date of the stock-for-stock exchange in the case of a stock-for-stock exchange; and the incorporation date of the wholly-owning parent company incorporated in the case of a stock-transfer). In the event the subscription rights of the Restructuring Company are to be delivered, the remaining subscription rights shall lapse, and the Restructuring Company shall issue new subscription rights. Delivery of the subscription rights of the Restructuring Company shall be subject to the following conditions in the absorption-type merger agreement, incorporation-type merger agreement, absorption-type demerger agreement, incorporation-type demerger agreement, stock-for-stock exchange agreement or stock-transfer agreement.

(i) Number of subscription rights to be granted

The same number of subscription rights as the number of remaining subscription rights held by the

Optionee shall be granted; provided, however, that the number of subscription rights may be adjusted to an appropriate number other than the number of remaining subscription rights depending on the number of subscription rights of the restructuring company provided in Item (3), the number of shares for one subscription right of shares of the restructuring company, and other circumstances.

(ii) Type of shares of the restructuring company subject to the subscription rights

Common stock of the restructuring company

(iii) Number of shares of the restructuring company subject to the subscription rights

To be determined by applying (2) above mutatis mutandis, taking into consideration the conditions of the organizational restructuring.

(iv) Value of assets to be contributed upon exercise of the subscription rights

The value of the assets to be contributed for the exercise of each subscription right shall be the amount determined by multiplying the post-restructuring pay-in amount specified below by the number of shares of the restructuring company subject to each subscription right determined in accordance with (iii). The post-restructuring pay-in amount is 1 yen per share of the restructuring company that can be granted by exercise of each subscription right granted.

(v) Exercise period of the subscription rights

The exercise period of the subscription rights shall be the later of the first day of the period when the subscription rights can be exercised as specified in (6) above or the effective date of the organizational restructuring until the last day of the period when the subscription rights can be exercised as specified in (6) above.

(vi) Matters regarding increases in capital and capital reserves upon issuance of shares by exercise of subscription rights

To be determined by applying (7) above mutatis mutandis.

(vii) Restrictions on acquisition of subscription rights by assignment

Acquisition of the subscription rights by assignment shall require the approval of the Board of Directors of the restructuring company.

(viii) Conditions for the exercise and acquisition of subscription rights

To be determined by applying (8) and (9) above mutatis mutandis.

(12) Entrustment of decisions concerning offering

Further to the above provisions, other matters including the offering of subscription rights and details concerning the offering shall be determined by resolution of the Board of Directors at a meeting held after the closing of the general shareholders meeting.

Note: Pursuant to the provisions of Article 361 of the Companies Act, TEL plans to submit a proposal limiting non-monetary compensation to directors to no more than 1,638.3 million yen annually and the number of subscription rights to no more than a total of 1,158 subscription rights (115,800 shares).

Note: The above content is conditioned on a decision approving the Matter concerning Issuance of

Subscription Rights As Stock-Based Compensation to Corporate Directors at this general shareholders meeting.

### **Subscription rights as stock compensation for executive officers of TEL and officers, etc. of TEL subsidiaries**

(Overview of issued subscription rights)

(1) People eligible for the allotment of subscription rights

- People who are judged as necessary among TEL executive officers, senior employees as of the final day of the 56<sup>th</sup> FY (excluding people who are concurrently serving as TEL corporate directors as of the date of allotment) and TEL corporate directors who will resign at the end of this General Meeting of Shareholders
- People who are judged as necessary among corporate directors and executive officers, senior employees of TEL's subsidiaries in Japan as of the final day of the 56<sup>th</sup> FY, as well as corporate directors and executive officers, senior employees of TEL's overseas subsidiaries (excluding corporate directors and executive officers of Tokyo Electron Device Limited which is an equity method affiliate of TEL).

(2) Number and type of shares to be issued for subscription rights

TEL common stocks up to 244,600 shares

If the Company implements a share split or share consolidation, the number of subject shares shall be adjusted according to the formula below; provided, however, that this adjustment will be made only with respect to the number of shares subject to subscription rights not yet exercised at the time of splitting or consolidation. In this calculation, any fraction of a share smaller than one share will be disregarded.

Adjusted number of shares = Number of shares before adjustment × Split or consolidation ratio

In addition, if the number of shares to be issued needs to be adjusted for any reason, TEL will adjust the number of shares to be issued as appropriate in a reasonable scope according to a resolution of a meeting of the Board of Directors.

(3) Aggregate number of subscription rights

Up to 2,446

(The number of shares to be issued for one subscription right is 100 shares. However, in the event that the number of shares is adjusted as determined in (2) above, this number will be similarly adjusted.)

(4) Payment amount for subscription rights

Gratis

(5) Value of assets required for the exercise of subscription rights

The value of assets required to exercise one subscription right shall be the amount determined by

multiplying 1 yen per share in payment by the number of shares to be issued for one subscription right as determined in (3) above.

(6) Exercise period for subscription rights

The period in which subscription rights may be exercised is from the first date of the next month after three years have passed since the date of allotment, until the last date of the previous month after 20 years have passed since the date of allotment.

(7) Matters regarding increase in capital and capital reserves upon issuance of shares through exercising of subscription rights

(i) The amount of increased capital due to issuing of shares through exercising of subscription rights shall be half of the maximum amount of increase in capital as calculated according to the provisions of Paragraph 1 of Article 17 of the Company Calculation Regulations, and fractions under 1 yen resulting from calculations shall be rounded up.

(ii) The amount of increased capital due to issuing of shares through exercising of subscription rights shall be the amount of increased capital stipulated in (i), subtracted from the maximum amount of increase in capital stated in (i).

(8) Conditions for exercising subscription rights

(i) Subscription rights may not be exercised for a unit of less than one.

(The minimum number of subscription rights exercisable shall be one.)

(ii) When exercising the Subscription Rights, the Optionee shall be a director, a statutory auditor, an employee, etc. of TEL, or subsidiary or affiliated company of TEL.

(iii) Notwithstanding the preceding Paragraph, in the event of the death of the Optionee on or before the day prior to the start date of the Exercise Period the successor of the Optionee may succeed to and exercise the Subscription Rights within 1 year from the start date of the Exercise Period, or in the event of the death of the Optionee on or after the start date of the Exercise Period, the successor of the Optionee may succeed to and exercise the Subscription Rights within 1 year after the Optionee's death; provided, however, that the successor of the Optionee shall exercise the Subscription Rights by the end of the Exercise Period.

(iv) Notwithstanding Paragraph (ii) of this Article, when the Optionee resigns (or retires) from the office of director, statutory auditor, an employee, etc. of TEL, or a subsidiary or affiliated company of TEL on or before the day prior to the start date of the Exercise Period (if the Optionee holds several offices at the same time or consecutively, this means when the Optionee resigns (or retires) from all offices, hereinafter the same shall apply), the Optionee may exercise the Subscription Rights within 1 year from the start date of the Exercise Period; or when the Optionee resigns (or retires) from the office of director, statutory auditor, an employee, etc. of TEL, or a subsidiary or affiliated company of TEL on or after the start date of the Exercise Period, the Optionee may exercise the Subscription Rights within 1 year from the date of resignation (or retirement); provided, however, that the Optionee shall exercise the Subscription Rights by the end of the Exercise Period.

- (v) Other conditions pertaining to the exercise of subscription rights include matters regarding advertising subscription rights based on a resolution of a meeting of the Board of Directors, and the agreement for granting share subscription rights concluded thereof.
- (9) Acquisition of subscription rights
- If any of the proposals set forth in (i) through (iii) below is approved by TEL's general shareholders meeting (or approved by TEL's Board of Directors if the approval of the general shareholders meeting is not required), TEL may acquire the subscription rights without payment on a day to be determined separately by the Board of Directors.
- (i) A proposal approving a merger agreement causing TEL to cease to exist;
  - (ii) A proposal approving a demerger agreement or demerger plan making TEL a demerging company; or
  - (iii) A proposal approving a stock-for-stock exchange agreement making TEL a wholly-owned subsidiary or a stock-transfer plan making TEL a wholly-owned subsidiary.
- (10) Restriction on acquisition of subscription rights by way of transfer
- The acquisition of the subscription rights by way of a transfer requires approval being granted at a meeting of the Board of Directors of TEL.
- (11) Policies decided regarding lapse of subscription rights due to restructuring and details regarding delivery of subscription rights from the restructuring company
- In the event that a merger (limited to mergers in which TEL will cease to exist), absorption-type demerger or incorporation-type demerger (limited to demergers in which TEL will become the demerging company), stock-for-stock exchange, or stock-transfer (limited to exchanges/transfers in which TEL becomes the wholly-owned subsidiary; all of the above scenarios called "Organizational Restructuring" collectively) occurs, the share subscription rights of the joint stock company(ies) listed in Article 236, Paragraph 1, Items 8 (i) through 8 (ho) of the Companies Act (the "Restructuring Company") may be delivered to the Optionee who has the remaining subscription rights immediately prior to the effective date of the Organizational Restructure (the effective date of the absorption-type merger in the case of an absorption-type merger; the incorporation date of the company incorporated in the case of an incorporation-type merger; the effective date of the absorption-type demerger in the case of an absorption-type demerger; the incorporation date of the company incorporated in the case of an incorporation-type demerger; the effective date of the stock-for-stock exchange in the case of a stock-for-stock exchange; and the incorporation date of the wholly-owning parent company incorporated in the case of a stock-transfer). In the event the subscription rights of the Restructuring Company are to be delivered, the remaining subscription rights shall lapse, and the Restructuring Company shall issue new subscription rights. Delivery of the subscription rights of the Restructuring Company shall be subject to the following conditions in the absorption-type merger agreement, incorporation-type merger agreement, absorption-type demerger agreement, incorporation-type demerger agreement, stock-for-stock exchange agreement or stock-transfer agreement.
- (i) Number of subscription rights to be granted



The same number of subscription rights as the number of remaining subscription rights held by the Optionee shall be granted; provided, however, that the number of subscription rights may be adjusted to an appropriate number other than the number of remaining subscription rights depending on the number of subscription rights of the restructuring company provided in Item (3), the number of shares for one subscription right of shares of the restructuring company, and other circumstances.

(ii) Type of shares of the restructuring company subject to the subscription rights

Common stock of the restructuring company

(iii) Number of shares of the restructuring company subject to the subscription rights

To be determined by applying (2) above mutatis mutandis, taking into consideration the conditions of the organizational restructuring.

(iv) Value of assets to be contributed upon exercise of the subscription rights

The value of the assets to be contributed for the exercise of each subscription right shall be the amount determined by multiplying the post-restructuring pay-in amount specified below by the number of shares of the restructuring company subject to each subscription right determined in accordance with (iii). The post-restructuring pay-in amount is 1 yen per share of the restructuring company that can be granted by exercise of each subscription right granted.

(v) Exercise period of the subscription rights

The exercise period of the subscription rights shall be the later of the first day of the period when the subscription rights can be exercised as specified in (6) above or the effective date of the organizational restructuring until the last day of the period when the subscription rights can be exercised as specified in (6) above.

(vi) Matters regarding increases in capital and capital reserves upon issuance of shares by exercise of subscription rights

To be determined by applying (7) above mutatis mutandis.

(vii) Restrictions on acquisition of subscription rights by assignment

Acquisition of the subscription rights by assignment shall require the approval of the Board of Directors of the restructuring company.

(viii) Conditions for the exercise and acquisition of subscription rights

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Further to the above provisions, other matters including the offering of subscription rights and details concerning the offering shall be determined by resolution of the Board of Directors at a meeting held after the closing of the general shareholders meeting.