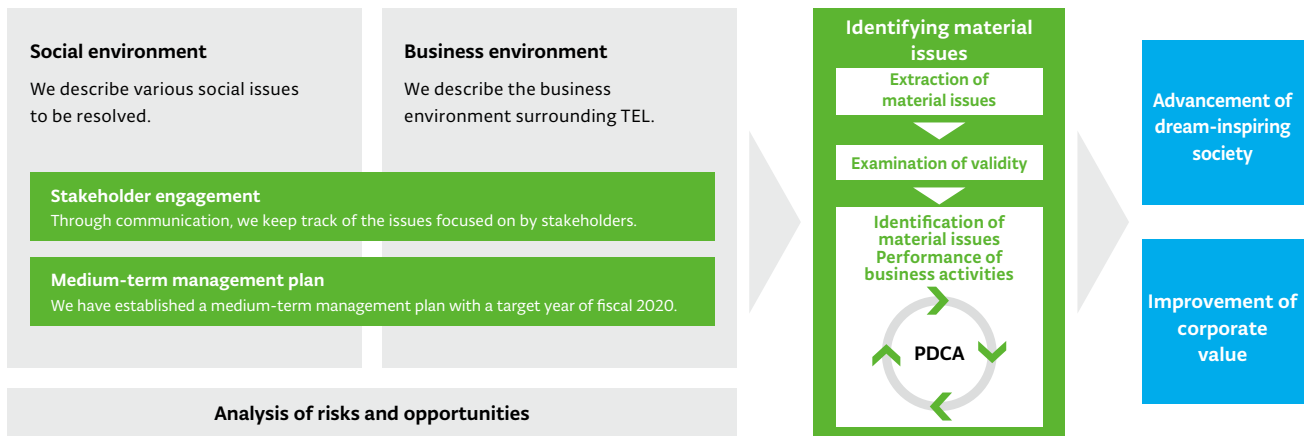


Material issues

Process for identifying material issues

TEL identifies material issues that are crucial for further improving its corporate value. To identify the issues, we take into account social issues, stakeholder expectations, the business environment and the company position. For each material issue, we set medium-term and annual goals, and implement various projects aimed at achieving those goals.



Social environment

Growth of the global economy does not rest solely on developed countries. Recently, the global economy has also been supported by growth in emerging economies such as India and China. This rapid economic growth has led to a number of new issues for humankind, including more concentration of people in urban areas, depletion of food and energy resources, global warming, and declining birthrates and aging populations in developed countries. In dealing with an ever-changing environment and social issues, companies must collaborate and contribute to the resolution of these issues through their business activities. We are committed to helping resolve social issues highlighted in the Sustainable Development Goals (SDGs) agreed upon by the international community, the Ten Principles of the UN Global Compact, the EICC Code of Conduct, the Global Reporting Initiative (GRI), and advice of the World Economic Forum and third-party organizations.

Sustainable Development Goals (SDGs)

Adopted by the United Nations in 2015, the SDGs are universal goals to protect our planet for a better future. They are a set of 17 goals and 169 targets to be achieved by 2030 with a philosophy of ensuring that no one is left behind.



Tokyo Electron Limited supports the SDGs.

Stakeholder engagement

Building firm stakeholder trust is essential to raising corporate value. To help stakeholders more deeply understand the progress of its business initiatives and the future direction of its business, TEL discloses highly transparent information in a fair and timely manner through regular briefings and its corporate website. We also work to accurately understand the opinions and demands of stakeholders and to reflect these in our business activities through dialog, surveys and designated contact points. We will continue to actively promote stakeholder engagement, using it to appropriately inform decision making in the course of everyday business activities, and thus further raise corporate value.

Stakeholders	Key communication methods	Key opinions and requests	Key relevant material issues
Shareholders/ investors	<ul style="list-style-type: none"> Earnings announcement ESG surveys Interviews 	<ul style="list-style-type: none"> Medium- to long-term business outlook and measures for improving performance Corporate governance leading to medium- to long-term growth Initiatives for reducing environmental impact 	<ul style="list-style-type: none"> Enhancing product competitiveness Strengthening earnings power Establishing a sustainable management platform
Customers	<ul style="list-style-type: none"> Technology conference Customer satisfaction survey Interviews 	<ul style="list-style-type: none"> Accurate understanding of customer needs Proposal of high-value-added solutions Coordination of information within the Group 	<ul style="list-style-type: none"> Reinforcing responsiveness to customers Strengthening earnings power
Suppliers	<ul style="list-style-type: none"> Production update briefing/Partners day STQA* audit Interviews 	<ul style="list-style-type: none"> Standardization of operations within the company Greater promotion of collaborative systems Increased opportunities for communication 	<ul style="list-style-type: none"> Strengthening earnings power Establishing a sustainable management platform
Employees	<ul style="list-style-type: none"> Employee meetings Global engagement survey Interviews 	<ul style="list-style-type: none"> Development of systems leading to motivation and job satisfaction Support for medium- to long-term career planning 	<ul style="list-style-type: none"> Invigorating people and workplaces
Local communities	<ul style="list-style-type: none"> Community contribution activities Tours of factories and offices 	<ul style="list-style-type: none"> Community revitalization Creation of employment opportunities Proper environmental operations 	<ul style="list-style-type: none"> Invigorating people and workplaces Establishing a sustainable management platform
Governments/ associations	<ul style="list-style-type: none"> Industry group activities Collaboration with various initiatives 	<ul style="list-style-type: none"> Creation of innovation leading to the resolution of social issues Initiatives for respect for human rights Responsible procurement 	<ul style="list-style-type: none"> Enhancing product competitiveness Invigorating people and workplaces Establishing a sustainable management platform

* STQA: Supplier Total Quality Assessment

Example of communication: Employee meetings

Employee meetings are held regularly at each TEL factory and office as a way for senior management to communicate directly with employees. Over a four month period during fiscal 2017, the Representative Director, President & CEO and other members of senior management visited overseas subsidiaries as well as factories and offices in Japan to explain our business environment and management policies. During these visits, they also participated in panel discussions and other employee exchanges.

Feedback from participating employees showed that about 80% were satisfied with this engagement with senior management. Comments included, "It was worth hearing directly from top management about the direction the company is aiming for," and "I want management to boost employee motivation even more."



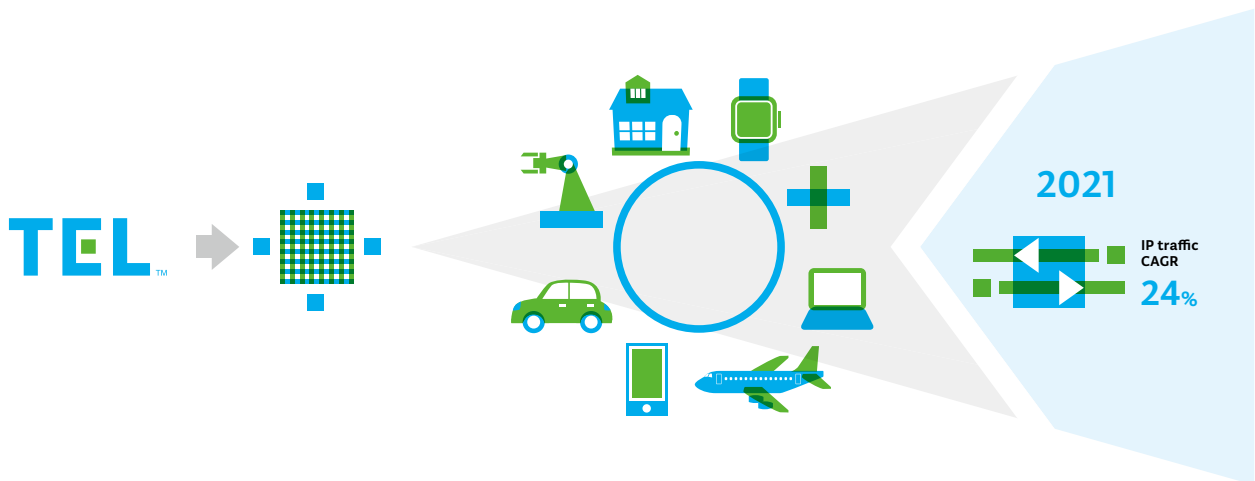
Business environment

The environment surrounding semiconductors produced by using TEL equipment is at a turning point moving toward a new era. With advances being made in IoT, with a huge variety of devices connected to networks, the rate of IP traffic* is projected to grow 24% annually. While the volume of information handled is growing with the increased popularity of cloud services, at the same time, the uses of semiconductors are becoming more and more widespread. New uses include automated driving, which requires a high degree of reliability, DNA analysis in medical and biotechnology fields, and computer applications based on artificial intelligence and new technologies such as AR and VR.

Meanwhile, as LCD TVs and smartphone screens become increasingly larger, it is expected that there will be greater demand for FPDs with higher resolution and lower power consumption. Organic electroluminescent displays have also been gaining attention from the perspective of increasing screen size and the degree of processing flexibility. With the evolution of IoT and the growing use of displays as interface devices—rather than merely as display devices—massive real-time systems centered on semiconductors and FPDs are set to be built across the whole of society.

Amid such a business environment, the functions fulfilled by semiconductor and FPD production equipment are growing ever more broad. Also essential are existing general-purpose technologies capable of meeting increasingly diverse technological needs that will only expand with the IoT. As required technologies become more advanced, the need for our comprehensive capabilities as a production equipment manufacturer will increase. Having multiple product lines will enable us to offer a range of solutions by combining more than one product, and could expand business. In terms of environmental aspects and asset management, there is an increasing need to reconstruct and upgrade sold equipment, to improve equipment productivity through remote diagnosis, and to promote a business model that covers the entire lifecycle of equipment. Also, in line with moving toward smart fabs in the future, there is an increasing need to make equipment smarter through the use of artificial intelligence.

* IP traffic: The amount of data sent and received on a network



Cisco Visual Networking Index: Forecast and Methodology, 2016–2021

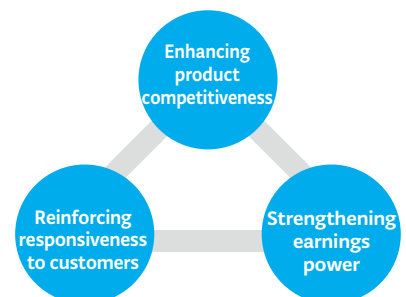
Medium-term management plan

TEL has established the medium-term management plan for the period to the end of March 2020.

Medium-term vision

A truly global company generating high added value and profits in the semiconductor and flat panel display industries through innovative technologies and groundbreaking proactive solutions that integrate diverse technologies.

There are three things we regard as important under our medium-term management plan: providing high-value-added products with a focus on the next generation, based on our advanced technology development capability; strengthening our responsiveness to customers and being an irreplaceable strategic partner for customers; and ensuring world-class profitability by pursuing streamlined operations. With these three items as key pillars of our medium-term management plan, we are promoting efforts on a company-wide basis.



Risks and opportunities

Social issues, stakeholder expectations, and the surrounding business environment are key inputs to our medium and long-term plans. The following risks and opportunities have been determined to have a considerable impact on medium- to long-term business operations.

Environmental issues including climate change

Climate change is an issue requiring action on a global scale. Demands to reduce greenhouse gases are increasing due to increased global warming as well as floods and water shortages caused by abnormal weather, all increasing the burden on business. Any tightening of environmental laws and regulations also leads to changes in products, responses at factories and offices, and increases in associated costs. At the same time, promoting efforts against climate change leads to the provision of outstanding environmentally friendly products and reductions in operation costs.

Evolution of technology

In this industry, technological innovation is fast. Responding to change and creating innovative technologies is crucial. If such technologies cannot be created in a timely manner, there is a risk of losing product dominance, an adverse impact on profits. Conversely, responding appropriately to technical diversification and evolution enables the provision of high-value-added products.

Changes in population trends

To continue growing in the medium to long term, recruiting and retaining personnel is particularly important, especially amid issues such as dwindling birthrates and aging populations in developed countries and educational gaps caused by poverty and economic disparity. Being unable to recruit necessary personnel could result in a diminished ability to undertake highly specialized development or to provide service support. On the other hand, for an appealing company where employees can demonstrate their full potential, having various measures and systems in place can help it to secure excellent talent and further bolster its competitiveness as a company.

Sustainable business management

Governance is an important part of business continuity. Negligence in compliance in particular could affect business continuity because of legal penalties or damage to the corporate image. Sound and highly transparent business management builds solid relationships of trust with stakeholders and leads to opportunities for further growth.

Supply chain management

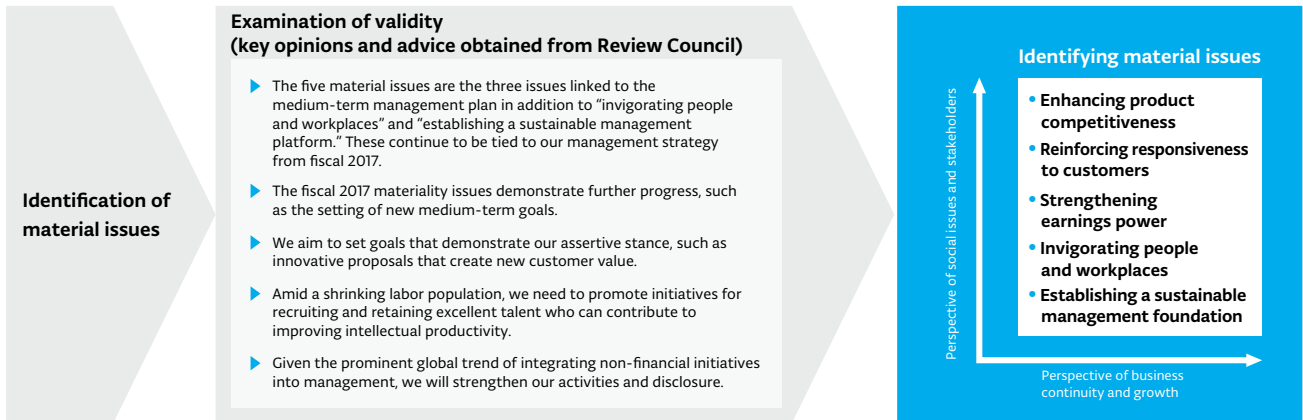
As the importance of social responsibility in supply chain management increases, companies are seeking responsible procurement activities across their entire supply chain. Failing to observe laws, regulations, industry codes, and other standards could hinder the stable supply of parts and materials and adversely affect the company's production system. In contrast, proactive supply chain management facilitates a sound and sustainable supply chain and brings with it a win-win relationship with suppliers based on trust.

Along with minimizing risk in our business operations, we are committed to enhancing corporate value through a variety of initiatives that lead to further growth.

Social trends	Risks for TEL	Negative consequences	Opportunities	Our initiatives
Environmental issues including climate change	<ul style="list-style-type: none"> Responding to global warming Compliance with environmental laws and regulations 	<ul style="list-style-type: none"> Breaches of laws and regulations Increases in business costs 	<ul style="list-style-type: none"> Reduction of operational costs Improved environmental performance of products 	<ul style="list-style-type: none"> Environmental contribution of products (P20) Environmental management (P45, 46)
Evolution of technology	<ul style="list-style-type: none"> Keeping up with the speed and diversification of technology 	<ul style="list-style-type: none"> Reduction in product dominance 	<ul style="list-style-type: none"> Generating innovative products and services 	<ul style="list-style-type: none"> Challenging technological innovation to create value (P17–19)
Changes in population trends	<ul style="list-style-type: none"> Securing human resources 	<ul style="list-style-type: none"> Decline in development and support capability 	<ul style="list-style-type: none"> Enhancing corporate competitiveness 	<ul style="list-style-type: none"> Invigorating people and workplaces (P33–37)
Sustainable business management	<ul style="list-style-type: none"> Effectiveness of governance 	<ul style="list-style-type: none"> Ethics and compliance violations Weakening of monitoring and checking functions 	<ul style="list-style-type: none"> Sound and highly transparent management 	<ul style="list-style-type: none"> Corporate governance (P40, 41) Ethics and compliance (P41, 42)
Supply chain management	<ul style="list-style-type: none"> Responsible procurement 	<ul style="list-style-type: none"> Weakening of supply system 	<ul style="list-style-type: none"> Creation of new value through collaboration 	<ul style="list-style-type: none"> Initiatives with suppliers (P31) Supply chain management (P47, 48)

Identifying material issues

Together with external experts, TEL considered the relevance of the identified material issues from the perspectives of social issues, stakeholder views, the business environment surrounding the company, its corporate philosophy, management policies and medium-term management plan, as well as risks and opportunities. As a result, we determined that the materials issues identified in fiscal 2017 remain relevant for fiscal 2018. We have clarified medium-term goals for each material issue, and have set separate themes and short-term priority targets for each goal.



Material issues and CSR goals

Fiscal 2017			
Material issues	Themes	Main annual goals	Results
Enhancing product competitiveness	Innovation	<ul style="list-style-type: none"> • Maintain development costs at the fiscal 2016 level 	<ul style="list-style-type: none"> • Maintained development costs at the fiscal 2016 level (fiscal 2017: ¥83.8 billion)
	Environmental contribution of products	<ul style="list-style-type: none"> • Continue initiatives to reduce per-wafer consumption of energy and pure water by 10% by fiscal 2019 (as compared with fiscal 2014) 	<ul style="list-style-type: none"> • Achieved goal for three models (CLEAN TRACK™ LITHIUS Pro™ Z, Precio™ XL and Certas LEAGA™) ahead of schedule
Reinforcing responsiveness to customers	Customer satisfaction	<ul style="list-style-type: none"> • Get 3 points or more on a 4-point scale for every item in the customer satisfaction survey 	<ul style="list-style-type: none"> • Achieved for 67.6% of items (5% improvement year-over-year)
	Quality	<ul style="list-style-type: none"> • Implement PDCA¹ training and disseminate the TEL 6-Step model 	<ul style="list-style-type: none"> • PDCA training: Implemented to employees at all TEL Group business sites. Attended by 89% of employees (as of April 2017) • TEL 6-Step: Implemented courses for key members at main locations in TEL Group
	Information security	<ul style="list-style-type: none"> • Ensure all target employees take a training course in information security 	<ul style="list-style-type: none"> • Achieved attendance rate of 100%
Strengthening earnings power	Streamline operations	<ul style="list-style-type: none"> • Maintain the number of TPM programs at the fiscal 2016 level 	<ul style="list-style-type: none"> • Maintained programs at the fiscal 2016 level
Maximizing dreams and drive	Create an invigorating workplace	<ul style="list-style-type: none"> • Provide a workplace that supports continuous growth while ensuring performance-responsive, scrupulously fair treatment of employees 	<ul style="list-style-type: none"> • Implemented the TEL Global Engagement Survey • Introduced healthcare platform Pep Up
	Social contribution	<ul style="list-style-type: none"> • Maintain the number of social contribution programs at the fiscal 2016 level 	<ul style="list-style-type: none"> • Maintained programs at the fiscal 2016 level (fiscal 2016: 242, fiscal 2017: 254)
Establishing sustainable operations	Corporate governance	<ul style="list-style-type: none"> • Improve the operation of the Board of Directors through annual effectiveness evaluations 	<ul style="list-style-type: none"> • Reviewed resolutions by the Board of Directors, promoted delegation to executive management, and increased discussion time • Briefed outside officers on draft proposals and background information, helping to stimulate discussion
	Compliance and ethics	<ul style="list-style-type: none"> • Ensure all employees complete training courses in business ethics and compliance 	<ul style="list-style-type: none"> • 98% attendance (as of the end of March 2017, in Japan only; overseas companies will complete this training by the end of June 2017)
	Business continuity management	<ul style="list-style-type: none"> • Provide business continuity plan (BCP) training at principal manufacturing sites and headquarters, revise the BCP manual and implement safety confirmation system training (all to be performed annually) 	<ul style="list-style-type: none"> • Carried out BCP training and safety confirmation training and revised the BCP manual at main locations
	Safety	<ul style="list-style-type: none"> • Ensure that the number of workplace injuries per 200,000 work hours (TCIR) is less than 0.5 	<ul style="list-style-type: none"> • Achieved less than 0.5 (fiscal 2017: 0.28)
	Environmental management	<ul style="list-style-type: none"> • Reduce energy consumption by 1% from the fiscal 2016 level (on a per-unit basis²) • Maintain water consumption at the fiscal 2012 level (on a per-unit basis) 	<ul style="list-style-type: none"> • Energy consumption: Reduced by 0.1% from the fiscal 2016 level • Per-unit target: Achieved at 7 out of 11 business sites • Water consumption: 11% reduction compared to base year level • Per-unit target: Achieved 10 out of 14 targets
	Supply chain management	<ul style="list-style-type: none"> • Reinforce supply chain management through supply chain CSR assessment 	<ul style="list-style-type: none"> • Assessed key suppliers accounting for more than 80% of our procurement spend • Improvements in rating scores and rating grades were observed at 59% and 17% of suppliers respectively

1 PDCA: A method for continuously improving business processes by repeatedly carrying out the four stages of Plan, Do, Check, and Act

2 Per-unit basis: A figure obtained by subtracting environmental impact from closely-associated measurements such as production volume, personnel, and total building floor area

Material issues

• Enhancing product competitiveness

In the industries in which TEL operates, technological innovation advances very quickly. We must keep pace with this innovation while continuously offering high-value-added products that accommodate next-generation technologies. By globally engaging in cutting-edge technological development, we can release competitive products in a timely manner.

• Reinforcing responsiveness to customers

As new markets emerge—most notably those created by the Internet of Things (IoT)—customer demands are diversifying, and expectations for equipment performance are rising. Accurately understanding customer needs and delivering solutions that meet these needs is crucial. We strive to reinforce our responsiveness to customers so that they will see us as an irreplaceable strategic partner.

• Strengthening earnings power










Profit is the engine that advances business activities. TEL works to continuously generate profit by providing high-value-added products and services and improving business processes. The ongoing generation of profit drives virtuous cycles, including reinvestment in business and the return of value to shareholders, employees and society at large, helping to make both our company and society more sustainable.

• Invigorating people and workplaces

People are an especially important management resource. Employees who feel purpose in their work and take pride in their company help to increase productivity and power corporate development. By promoting diverse work styles and helping employees build their careers, we are increasing employee engagement and invigorating our people and workplaces.

• Establishing a sustainable management foundation

The establishment of a solid management foundation that underpins corporate activities is key to sustainable growth. To create new value through our business and help address social issues, we steadily operate a highly effective governance structure. By doing so, we implement sound, highly transparent management.

Fiscal 2018				
Material issues	Themes	Main annual goals	Medium-term goals	Relevant SDGs
Enhancing product competitiveness	Technological innovation aimed at creating value	<ul style="list-style-type: none"> Ensure that 5% or more (three-year moving average) of all equipment models are new products for next-generation technologies Maintain the previous year's global patent application rate 	Create highly competitive next-generation products	 
	Environmental contribution of products	<ul style="list-style-type: none"> Reduce per-wafer consumption of energy and pure water by 10% by fiscal 2019 (as compared with fiscal 2014) 		
Reinforcing responsiveness to customers	Accurate grasp of customer needs	<ul style="list-style-type: none"> Get 3 points ("Satisfied") or more on 100% of customer satisfaction survey items 	Become an irreplaceable strategic partner	 
	Solutions that create value for customers	<ul style="list-style-type: none"> Increase TEL's value to customers Increase field solutions business sales from the fiscal 2017 level 		
Strengthening earnings power	High quality products	<ul style="list-style-type: none"> Reduce quality improvement costs from the fiscal 2017 level 	Improve operational efficiency	
	Increase added value of processes	<ul style="list-style-type: none"> Revise business processes to reduce man-hours used for sales operations from the fiscal 2017 level 		
Invigorating people and workplaces	Human rights and diversity	<ul style="list-style-type: none"> Retain 100% of new employees for the first three years Reach 70% paid vacation usage Increase the use of the Group's "Pep Up" healthcare platform from the fiscal 2017 level 	Maximize dreams and drive	 
	Work-life balance			
	Human resource development			
	Health			
Establishing a sustainable management foundation	Corporate governance	<ul style="list-style-type: none"> Improve on issues identified in evaluations of the effectiveness of the Board of Directors Revise the internal reporting system (set up new external hotlines, revise range of persons covered, etc.) 	Build a management foundation for increasing value	  
	Safety management	<ul style="list-style-type: none"> Ensure that the number of workplace injuries per 200,000 work hours (the total case incident rate) is less than 0.5 		
	Environmental management	<ul style="list-style-type: none"> Reduce energy consumption by 1% from the fiscal 2017 level (on a per-unit basis) Maintain water consumption at the fiscal 2012 level (on a per-unit basis) 		
	Supply chain management	<ul style="list-style-type: none"> Implement supply chain CSR assessments for 80% or more of suppliers (procurement volume basis) 		