Chapter 2 Value Creation Story

Characteristics of Semiconductor Production Equipment Business

The role of semiconductors is becoming increasingly important as the spread of AI and IoT accelerates the transition to a data-driven society. With the continuous expansion of digital technology usage and the advancement of semiconductor technological innovation, the importance of semiconductor production equipment increases even further.

It is vital for semiconductor production equipment manufacturers to utilize specialized expertise in a variety of fields and develop equipment with the highest performance to continuously expand business. This requires comprehending the needs of customers early on based on a solid relationship of mutual trust and engaging in R&D from a medium- to long-term perspective. In addition, we must collaborate with consortiums engaged in creating leading-edge technologies and carry out R&D at a global level. Capital investment and a solid management and financial foundation is essential to perform these activities consistently and effectively.

Providing high-value-added technical services that support the stable operation of equipment is also important. To achieve this, there has been a proactive push toward digital transformation (DX), such as the use of AI.

In addition to these aspects, it is crucial to build a sustainable supply chain based on partnerships with various suppliers involved in parts and materials supply, equipment assembly and adjustment, customs clearance, logistics and the like. Furthermore, contribution to the development of semiconductors with higher performance and lower power consumption, higher productivity of production equipment and reduced environmental impact are also being asked of semiconductor production equipment manufacturers.

Technological innovations in semiconductors driving the growth of the production equipment market

The Driving Forces of Growth and Strengths behind Our Company

From its founding, we have treasured the trust and reliability of our stakeholders, which serves as the foundation for our unique business model. We have also developed three key driving forces of growth: "abundant technological capabilities cultivated as an industry leader," "absolute trust from customers based on our reliable technical services" and "challenging spirit of our employees, who are capable of flexibly and rapidly adapting to changes in the environment." By maximizing the strengths created by these driving forces in our business activities, we aim for further growth and strive for medium- to long-term profit expansion and continuous corporate value enhancement.

The Driving Forces of Growth behind Our Company

Driving Force 1
Abundant technological capabilities cultivated as an industry leader

We generate innovative and diverse technologies through in-house development and joint development with our customers and collaboration with world-leading consortiums through proactive investment in R&D

Driving Force 2
Absolute trust from customers based on our reliable technical services

Striving to further improve customer satisfaction by providing high quality and highly efficient service, we will be the sole strategic partner for our customers

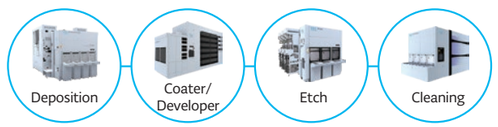
Driving Force 3
Challenging spirit of our employees, who are capable of flexibly and rapidly adapting to changes in the environment

Based on the idea that "our corporate growth is enabled by people, and our employees both create and fulfill company values," we promote management that emphasizes employee motivation, and realize a company filled with dreams and vitality

Strengths

Only one

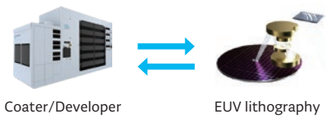
The world's only manufacturer with products for the four sequential key processes necessary for semiconductor scaling: deposition, coater/developer, etch and cleaning



100%

100% share in coater/developer for EUV[1] lithography, which are necessary for semiconductor evolution

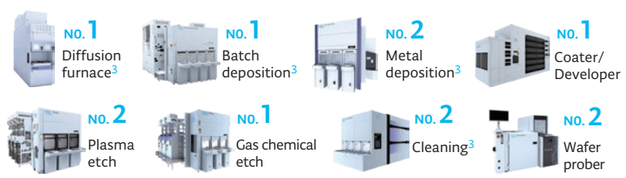
1 EUV: Extreme Ultraviolet. A semiconductor industry term for an exposure technology that uses a specific wavelength of 13.5 nm.



No.1 /No.2

Our product lines are strongly positioned in their respective segments, all of which having achieved first or second place in market share[2]

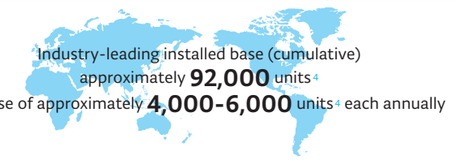
2 Our estimate (2023)
3 Our product lines in respective segments: Diffusion furnace includes thermal processing, batch deposition includes ALD (Atomic Layer Deposition) and CVD (Chemical Vapor Deposition), metal deposition includes single wafer deposition, and cleaning includes single wafer cleaning and batch cleaning.



No.1

Technical service and marketing developed based on relationships of absolute trust with customers, built through the highest number of installations in the world

4 As of the end of March 2024



No.1

Globally No. 1 patents owned in the semiconductor production equipment industry

5 As of the end of March 2024
The figure is based on LexisNexis®PatentSight® database.

Material Issues

By practicing of our Corporate Philosophy through the realization of our Vision, we aim to expand medium- to long-term profit and to continuously enhance our corporate value; to that end, we have positioned key items that should be worked on with priority as our material issues, and these are reviewed each year. In the fiscal 2024, we reviewed the content of our existing material issues to make them more detailed, and identified new material issues.

Key items to be worked on with priority (material issues)

- **Practice of our Corporate Philosophy through the realization of our Vision**
- **Medium- to long-term profit expansion and continuous corporate value enhancement**

Material Issues Identification Process

We obtain the advice of a third party specialist regarding consideration of the process by which we identify material issues.

Analyze environment and determine issues

We analyze the status of social issues and the SDGs, business environments, the results of engagement with stakeholders[1] and key risks in our business activities[2] to determine issues that could become our material issues.

Social Issues

- Climate change, human rights issues, geopolitical confrontations, supply chain management, cybersecurity, price rises, etc.

Business Environment

- Further expansion of semiconductors and semiconductor production equipment markets as we move rapidly to a data-driven society, initiatives for the preservation of the global environment, human rights initiatives, further strengthening of corporate governance

Prioritizing/Mapping

Determined issues are evaluated and mapped on two axes: "Importance to stakeholders," which considers the impact on and interest of stakeholders, and "Impact on our performance and corporate value," which aims to continuously enhance our corporate value.

Identifying Material Issues

We identified key items as material issues following discussions and decisions by the Corporate Officers Meeting, participated in by the CEO, and a report to and approval of the Board of Directors.

In addition, we confirmed the material issues' relation to key indicators for continuous corporate value enhancement[3] and the SDGs to be addressed.

Furthermore, we clarified the main material issue initiatives in the value chain.

1 Stakeholder Engagement **P. 25-26** 2 Risk Management **P. 75-76** 3 Key Indicators for Continuous Corporate Value Enhancement **P. 17-20**

Identified Material Issues

Material Issues	Significance as Material Issues		SDGs to Be Addressed
	Our Significance	Significance to Society	
Climate Change and Net Zero	Reduce the environmental impact of businesses, products, and services to achieve net zero emissions	Reduce climate change risks and create new opportunities	7, 13
Product Energy Efficiency	Achieve both the process performance and environmental performance of products	Preserve the global environment by providing environmentally friendly products	12, 13
Best Products with Innovative Technology	Establish superiority by creating high-value-added products with innovative technology	Promote innovation and development of society through the evolution of semiconductors	9, 13
Best Technical Service with High Added Value	Expand business opportunities by providing advanced field solutions that solve customer issues	Improve semiconductor device yield and maximize equipment utilization rates	9, 12
Customer Satisfaction and Trust	Pursue customer satisfaction and build relationships of absolute trust as a sole strategic partner	Maximize return on investment and expand mutual benefits through co-creation	8, 17
Supplier Relationship	Carry out activities such as development, improvement, and quality improvement through collaboration	Maintain soundness and strengthen competitiveness throughout the supply chain	9, 17
Respect for Human Rights	Reduce human rights risks and respect individual dignity in business activities	Solve issues such as discrimination, inequality, and those related to labor and safety	10, 16
Employee Engagement	Create an environment where individuals can maximize their abilities and work actively	Provide various kinds of value that are beneficial to stakeholders	8
Safety First Operation	Achieve sustainable operations by putting safety first	Build a safe society	12
Quality Management	Pursue management efficiency through quality-focused operations	Create new value and strengthen competitiveness through quality improvement	12
Compliance	Comply with laws, regulations, industry codes of conduct, etc. as the basis for corporate reliability and sustainable growth	Improve compliance awareness and develop a compliance-oriented culture	16
Ethical Behavior	Strive to be a company with a strong sense of corporate social responsibility where our employees can take pride in their work and feel happy	Form a fair and orderly society	16
Information Security	Balance data utilization and information security by tackling cyberattacks, information leaks, etc.	Ensure information security without sacrificing convenience	9
Enterprise Risk Management	Aim for sustainable growth by appropriately responding to business risks and their impacts	Contribute to the medium- to long-term development of industry and society	8, 9

Medium-term Management Plan

Amid the rapid technological innovation of the electronics industry, Tokyo Electron, as the leading company in semiconductor production equipment, is actively expanding its business based on our Corporate Philosophy: "We strive to contribute to the development of a dream-inspiring society through our leading-edge technologies and reliable service and support." In fiscal 2023, we formulated a new Vision aimed at further growth to become "A company filled with dreams and vitality that contributes to technological innovation in semiconductors," announced our Medium-term Management Plan and implement various initiatives toward its achievement.

Financial Targets

This Medium-term Management Plan sets financial targets, aimed at future growth, of further improvements to our world-class operating margin and ROE in fiscal 2027. Amid the expectation of further increasing demands for semiconductors and significant future growth in the semiconductor production equipment market, we will advance various initiatives anchored around material issues in the value chain, continue to strive for the Best Products, Best Technical Service and to achieve medium- to long-term profit expansion and continuous corporate value enhancement.

	Fiscal 2024 Performance	Financial Targets (Target Year: Fiscal 2027)
Net Sales	1,830.5 billion yen	3 trillion yen or more
Operating Margin	24.9%	35% or more
ROE	21.8%	30% or more

Main Initiatives[1]

- Expand our business in the fields of our expertise, using our accumulated technology, in areas where we can leverage our management know-how
- Introduce next-generation products with high added value required in the future by our customers into the market as early as possible and provide superior technological services
- Conduct proactive R&D investment worth more than 1 trillion yen in the five years from fiscal 2023
- We will work to sell parts, offer upgrades and modifications and improve the utilization rate based on the industry-leading approximately 92,000 units[2] we have installed to date, and endeavor to resolve issues such as yield enhancement for the devices that our customers produce. We will also aim to expand revenue in the after-market by providing such advanced field solutions. In addition, in preparation to support future cumulative installed equipment of over 100,000 units, we will also focus on developing highly efficient and high-value-added service through such means as remote maintenance services and predictive maintenance utilizing device operating data and AI
- We are expanding E-COMPASS, aimed at preservation of the global environment through the entire supply chain. We have formulated a roadmap and are conducting various activities aimed at achieving our medium-term environmental goals up to fiscal 2031 in order to strengthen environmental initiatives in our products, plants and offices. Furthermore, we are implementing initiatives to achieve reduction of greenhouse gas emissions to net zero by 2040[3]

1 In addition to these initiatives, with the aim of further profit generation and increased corporate value, we are planning growth investments and investments in human resources over five years from fiscal 2025.
R&D investment: Over 1.5 trillion yen, Capital expenditures: Over 700 billion yen, Human resources recruitment: Recruitment of 10,000 people globally (cumulatively over five years)

2 As of the end of March 2024

3 Moved the target year of the net zero from 2050 to 2040 in December 2023

Vision A company filled with dreams and vitality that contributes to technological innovation in semiconductors

Short and medium- to long-term profits expansion and continuous corporate value enhancement

Financial targets (fiscal 2027): Net sales of 3 trillion yen or more, an operating margin of 35% or more, and ROE of 30% or more

Net Sales

- SAM[4] expansion and share increase
- Continuously create next-generation products with high added value
- Expansion of revenue in the after-market by providing advanced field solutions
- Implementation of R&D expenses

Operating Margin

- Expansion of cash flow
- Increase of productivity through improvements in business operations, leveling production and standardization of specifications/parts
- Improvement of employee engagement
- Realization of work-life balance
- Improved safety: No more than TCIR 0.10

ROE

- Pursuit of capital efficiency
  Appropriate cash allocation and balance sheet management
- Pursuit of asset efficiency
  Reduction of productivity/start up lead time, pursuit of appropriate inventory levels and increase in capital expenditure efficiency

4 SAM: Served Available Market

Message from the Division Officer, Finance Division

Tokyo Electron will implement the following strategies and measures to realize its Vision and achieve its financial targets, while also contributing to the enhancement of corporate and shareholder value through engagement with capital markets.

Hiroshi Kawamoto
Senior Vice President &
General Manager
Division Officer, Finance Division

1 Growth Strategy

- Set medium-term financial targets for net sales of 3 trillion yen or more, an operating margin of 35% or more, and ROE of 30% or more by fiscal 2027
- Pursue high capital efficiency, including improving ROE, by further enhancing the operating margin (29.9%) and asset efficiency, which were achieved in the previous Medium-term Management Plan, and striving to expand cash flow
- Utilize the cash we have generated for growth investments and investment in human resources to generate technological innovation in semiconductors that supports the sustainable development of society

In February 2024, we also announced the following for our five-year plan starting fiscal 2025. Going forward, we will continue to accelerate a range of initiatives toward further growth.

- Proactive R&D investment worth more than 1.5 trillion yen
- Capital expenditures of over 700 billion yen to expand R&D and production capacity and improve productivity
- Recruitment of a cumulative total of 10,000 people globally

2 Financial Strategy

- Stabilize management by securing working capital for anticipated business expansion
- Maintain a solid financial position
- Pursue appropriate cash allocation and balance sheet management

We have achieved considerable growth over the years as a leading company in the semiconductor production equipment industry. We will continue to effectively utilize our cash for our next growth investments and pursue further business expansion in areas of high growth potential as we work to enhance our medium- to long-term corporate value. To realize our medium-term financial targets, we will implement financial strategies to support the targets.

3 Capital Policy

- Accurately understanding our own corporate value and evaluating stock prices and market capitalization
- Achieving an optimal capital structure with awareness of capital cost and capital profitability
- Executing continuous and aggressive returns to shareholders based on the expansion of cash flow

Backed by our recent strong profit growth and expectations for further growth in the future, our market capitalization has shown strong growth, resulting in our third place listing by market capitalization on the Tokyo Stock Exchange Prime Market as of the end of March 2024. Our Price Book-value Ratio (PBR) was also about 10 or higher as of the end of March 2024. As a result of the capital market's positive evaluation of our corporate value, stemming from our aggressive shareholder return policy, high-level growth investments, recruitment and fostering of excellent human resources based on our management strategy and collaborations with customers and suppliers and their results, our market capitalization has also increased significantly compared to net assets.

Market Capitalization

4 Shareholder Return Policy

- Follow a performance-linked model for dividends to shareholders and aim for a consolidated payout ratio of 50% of the net income attributable to owners of parent*
- Apply a flexible policy for repurchase of treasury stocks, taking into account the current cash position, funds for medium- to long-term growth investments, stock price levels and total return conditions

* However, ensure the amount of annual dividend per share is not less than 50 yen, and consider reviewing the dividend policy if net income is not generated for two consecutive fiscal years.

We will enhance shareholder value through shareholder returns by achieving world-class medium-term financial targets, a high level of dividends and flexible repurchases of treasury stocks.

We will continue working to achieve medium- to long-term profit expansion and continuous corporate value enhancement by actively implementing these strategies and measures.

Key Indicators for Continuous Corporate Value Enhancement

The Medium-term Management Plan clearly defines financial and sustainability metrics as "key indicators for continuous corporate value enhancement." In fiscal 2024, we confirmed the main material issues related to key indicators.

At quarterly review meetings attended by the CEO, we regularly check the progress and action plans, and various activities are carried out under the responsible persons for each indicator.

Target Area		Objective	Target Year	Fiscal 2024 Performance	Future Initiatives	Related Main Material Issues
Finance		• Net Sales: 3 trillion yen or more	Fiscal 2027	• 1,830.5 billion yen	Medium-term Management Plan **P. 15-16**	
		• Operating Margin: 35% or more	Fiscal 2027	• 24.9%		
		• ROE: 30% or more	Fiscal 2027	• 21.8%		
Research and Development		• Continuously create high value-added next-generation products by implementing R&D expenses of more than 1 trillion yen over five years	Fiscal 2027	• R&D investment 202.8 billion yen (Cumulative 394.0 billion yen from fiscal 2023)	• In anticipation of sustainable growth, engaging in continuous proactive R&D and capital investment • Development efficiency of shift to KPI and its operation • Implementation of simulations and making development risks visible from the development of IT systems • Further strengthening the developmental platform from DX implementation and the introduction of leading-edge equipment	
Environment	**Plants and Offices**	• Reduce total CO_2 emissions by 70% (compared to fiscal 2019)* * Change of goals starting in fiscal 2025 "Reduce total CO_2 emissions by 85% (compared to fiscal 2019)"	Fiscal 2031	• 75% reduction	• Visualization of energy usage and energy efficiency in business activities • Introduction of renewable energy in Taiwan, South Korea and Singapore	
		• A rate of 100% renewable energy usage	Fiscal 2031	• 90%	• Purchase of non-fossil certificates and securing of a continuous supply of renewable energy	
		• Reduce energy consumption (per-unit basis) by 1% from the previous fiscal year at each plant and office	Every fiscal year	• Achieved goal at 2 out of 11 plants or offices	• Re-confirmation of links between per-unit basis and energy consumption	
		• Maintain water consumption (per-unit basis) at each plant and office at individual base year levels	Every fiscal year	• Achieved 10 out of 13 goals	• Plan and implement actions related to water consumption reduction	
	Logistics	• Reduce CO_2 emissions of total logistics (own delivery) by 30% by further implementing modal shift and joint delivery	Fiscal 2027	• 18.4% reduction	• Expand modal shift and joint delivery, and introduce electric vehicles	
		• Reduce the usage ratio of wood packaging for products to 50% or less (packaging of semiconductor production equipment)	Fiscal 2024* * Extended to fiscal 2025	• 77.6% over the fiscal year (fourth quarter 73.6%)	• Standardization of Strong Triple Wall (STW) packaging and promoting further development for customers • Introduction of STW with fortified pillars that can handle marine transportation	
	Products	• Reduce per-wafer CO_2 emissions by 55% (compared to fiscal 2022)* * Changed in goals during fiscal 2024 from "Reduce per-wafer CO_2 emissions by 30% (compared to fiscal 2019)"	Fiscal 2031	• 24% reduction	• Further implementation of energy efficient equipment	
Employees	**Engagement**	• Engagement survey score: Continuously improve (increase score compared to the previous survey) or achieve a score higher than the average of other companies in each region	Every survey	• Analyze the results of the survey conducted in the fiscal 2023 and implement improvement plans for each company while listening to employee opinions (no surveys to be conducted in the fiscal 2024)	• Continue to implement measures related to engagement issues in each organization of each company • Considering and implementing measures related to "career opportunities," which is a common global issue (mentoring, coaching training for managers, etc.)	
		• Employee retention rates* Japan: 99% Overseas: Higher than the industry average * Excluding retirement at the mandatory retirement age and so on	Every fiscal year	• Japan: 98.8% • Overseas: Higher than the industry average (95.8%)	• Japan: Analyze retirement trends and reasons for voluntary resignations and implement countermeasures Strengthen support for mid-career employees, including aid in adapting to the workplace and working in accordance with offer details • Overseas: Analyze retirement trends and reasons for voluntary resignations at each company and implement countermeasures	
	Careers	• We have created an environment where every employee can create value for the Company's growth and for society with the support of supervisors and others by challenging themselves to do what they want while imagining their own futures (career paths) and growing.	Fiscal 2027	• Providing and supporting an environment for independent career development (enhancing communication within the organization, motivating, providing career opportunities, promoting career education, etc.) • New manager training (expanding to three times the training period)	• By continuing to hold workshops for managers, we will strengthen support regarding understanding the necessity in improving organizational capabilities and promoting behavior change • Promoting "skills management in development engineers" and "making career paths visual" over three years in collaboration with external agencies • Considering the conditions for senior open jobs* and implementing career education for mid-career and manager level employees * Internal recruitment system for reemploying people after reaching retirement age in the Group	
	Work-life Balance	• Annual paid leave utilization rate Japan: (1) 80% / (2) 90% Overseas: Equal to or better than the previous fiscal year's results	Japan: (1) Fiscal 2027 / (2) Fiscal 2031 Overseas: Every fiscal year	• Japan: 80.6% • Overseas: 69.0% (previous fiscal year's result: 65.6%)	• Conducting awareness activities, mainly targeting managers, to encourage taking paid leave, such as introducing examples of ways to take paid leave	
	Diversity, Equity & Inclusion	• Ratio of female managers Japan: 5% Global: 8%	Fiscal 2027	• Japan: 3.1% • Global: 6.3%	• Providing potential human resources with opportunities such as external training and utilizing women's networks • Setting KPIs for each company and business unit	

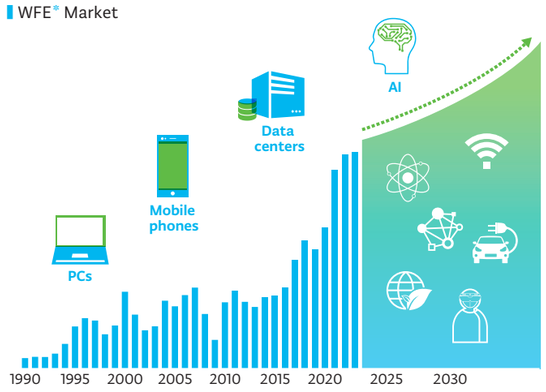
Target Area	Objective		Target Year	Fiscal 2024 Performance	Future Initiatives	Related Main Material Issues
Supply Chain Management	● Supply chain sustainability assessment implementation rate* * Additional goal from fiscal 2025: "Implementation of improvement activities in response to assessment results"	Material suppliers: Covering at least 85% of our procurement spend Logistics suppliers: 100% of customs-related operators Staffing suppliers: 100% of employment agencies and contracting companies (internal contractors)	Every fiscal year	● Material suppliers: Achieved 85% or more of our procurement spend ● Logistics suppliers: Achieved 100% of customs-related businesses ● Staffing suppliers: Achieved 100% of employment agencies and contracting companies (internal contractors)	● Assured implementation of actions for understanding issues and remediation based on assessment	
	● Supply chain BCP assessment implementation rate* * Additional goal from fiscal 2025: "Implementation of improvement activities in response to assessment results"	Material suppliers: Covering at least 85% of our procurement spend	Every fiscal year	● Material suppliers: Achieved 85% or more of our procurement spend	● Assured implementation of actions for understanding issues and remediation based on assessment	
Safety	● TCIR* No more than 0.10 (Globally No. 1 in the industry) * TCIR: Total Case Incident Rate. The rate of workplace incidents per 200,000 work hours.		Fiscal 2027	● TCIR 0.15	● Strengthening onsite inspections ● Measures to prevent ergonomic injuries* ● Establishing a safety training system ● Strengthening accident analysis and incorporating accident analysis into safe equipment design * Ergonomic injuries: Work-related musculoskeletal disorders that arise due to fatigue and stress caused by machines and tools used by people	
Corporate Governance	● We are working at all times to establish an optimal and highly effective Board of Directors and an aggressive management execution system, and by continuously addressing issues based on evaluations of the effectiveness of the Board of Directors and input from institutional investors and other stakeholders, we will achieve solid corporate governance for enhancing corporate value over the medium to long term and sustainable growth. 1. Seeking a Board of Directors with high effectiveness ● Audit & Supervisory Board System: Ratio of outside directors: One-third (including two females)*, Free and open discussions including corporate auditors ● Off-site meetings: For discussions on medium- to long-term strategies, issues, etc. (twice annually) ● CEO reports: Reports to the Board of Directors on the status of execution of key duties by the CEO (every Board of Directors meeting) ● CEO mission: Information is shared concerning the CEO's mission for achieving the Medium-term Management Plan ● Representative director assessment closed sessions: Sessions including corporate directors and Audit & Supervisory Board members but excluding the representative director (once annually) 2. Operating rhythm supporting the execution of business ● Corporate Officers Meeting: The highest decision-making body on the executive side (once monthly) ● Corporate Senior Staff (CSS) meeting: Global, across-the-board coordination of company-wide business execution (four times annually) ● Quarterly review meeting: Monitoring the progress of the Medium-term Management Plan (four times annually) * Change from "Ratio of outside directors: one-third (including two females)" to "Majority ratio of outside directors" in fiscal 2025		Every fiscal year	1. Seeking a Board of Directors with high effectiveness ● As a company with an Audit & Supervisory Board System, we maintain a ratio of one-half outside directors (3 out of 6). Continuing activities in the Nomination Committee with consideration for the majority The majority of director candidates proposed at the 61st Annual General Shareholders' Meeting are outside directors (4 out of 7) ● Off-site meetings: 2 times (August and February) ● At every Board of Directors meeting, in principle, the CEO explains important matters concerning business execution ● CEO mission: Shared with members of the Board of Directors ● Closed session on evaluation of representative directors: 2 times 2. Operating rhythm supporting the execution of business ● Corporate Officers Meeting: 20 times ● CSS meeting: 4 times ● Quarterly review meeting: 4 times	We will engage in the initiatives below, and carry out periodic progress reviews to further increase efficacy in those areas. (Role and function of the Board of Directors) ● Working backward from the future outlook for sustainable growth, the medium- to long-term perspective for the Company will be shared at the Board of Directors meetings and off-site meetings, and the functions and roles that the Board of Directors should play, and the state of its governance system will continually be discussed ● From the perspective of increasing the Company's corporate value, the Board of Directors' agenda will continue to be set appropriately, while working to align its perspective on medium- to long-term growth strategies and further enhance strategy discussions (Further strengthening of operational systems and acceleration of succession planning) ● The existing system of Corporate Officers that also serve as division managers will be revised and a Division Officer system will be newly introduced. As a result, the system will be that Corporate Officers who share the same perspective as the CEO will focus on higher-level management issues, while Division Officers, which are composed mainly of next-generation management personnel, will supervise business execution in each division	
Risk Management	● We are building and further improving a highly effective risk management system that supports a strong management foundation. ● We are enhancing risk management and compliance based on the slogan "Safety, Quality and Compliance. Our top priority. It's our pride." Together with establishing a dedicated Compliance Department at our headquarters and appointing a Chief Compliance Officer and Regional Compliance Head, we are also conducting assessments by external agencies and undertaking education.* ● We are conducting supervision and monitoring through reports to the Corporate Officers Meeting—the highest decision-making body on the executive side—and the Board of Directors (twice annually). ● To conduct appropriate measures with certainty across the entire Group, we are identifying risks (12 risks in fiscal 2024) expected in the execution of business centered on the Risk Management Committee and deploying them in the activities of each company. ● We are continuously conducting activities to foster awareness about safety, compliance and risk management, and reflecting the awareness of all executives and employees as well as their autonomous and specific initiatives in our human resource evaluation. * Change from "Together with establishing a dedicated Compliance Department at our headquarters and appointing a Chief Compliance Officer and Regional Compliance Head, we are also conducting assessments by external agencies and undertaking education" to "Close collaboration between the Chief Compliance Officer of Tokyo Electron Group and Compliance Officers at domestic and international subsidiaries and continually foster a corporate ethical culture to prevent serious incidents, and establish a compliance posture" in fiscal 2025		Every fiscal year	● Establishment and implementation of risk management activities across Group companies using GRC tools* ● Continuously review risk scenarios considering the recent business environment and implement risk management activities based on 12 risks in fiscal 2024 ● Implement initiatives to hold Risk Management Committee and establish Risk Management Committees for each company to further strengthen the structure of each Group company ● Strengthen the organizational structure of compliance through regular meetings with the Business Ethics Committee and each company/subsidiary. Consider introducing compliance assessments by external agencies ● Continued implementation of ethics, compliance and risk management trainings (training for newly assigned group leaders and vice presidents) * GRC tools: A system that contributes to managerial decision-making in a timely manner by systematically organizing multi-layered and complex corporate management functions and management information collected through the integration of Governance, Risk and Compliance (GRC) measures	● Establishing a highly effective risk management PDCA structure in all Group companies, early detection of priority risks assumed in business execution and assured implementation of measures ● Promoting and improving necessary compliance programs in consideration of assessment results from RBA audits and external agencies ● Revision and execution of the risk management and compliance educational training plan in consideration of human resources strategies at each Group company (mainly for managers, mid-career employees and new graduate employees)	

Outlook of Semiconductor Production Equipment Business

While a correction phase in the global semiconductor market continued on top of increasing semiconductor inventories, the supply/demand balance improved in the second half of 2023. Growth of the AI server market and increasing expectations for on-device AI as well led to rediscovery of growth potential in the semiconductor industry.

Going forward, further growth in the semiconductor and semiconductor production equipment markets is expected as the range of AI-based applications expands.

* WFE: Wafer Fab Equipment. The semiconductor production process is divided into front-end production, in which circuits are formed on wafers and inspected, and back-end production, in which wafers are cut into chips, assembled and inspected again. WFE refers to the production equipment used in front-end production and in wafer-level packaging production.

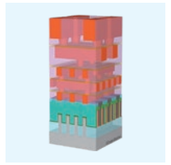


Source: TechInsights Inc. (1990-2023)

Semiconductor Device Technology Evolution and Business Opportunities

Further growth in the semiconductor and semiconductor production equipment markets will be supported by technological innovation in semiconductor devices. In logic, DRAM and NAND devices, demand is expected to continue increasing for improved transistor performance and greater storage capacity through further scaling and higher multi-layering, as well as for lower manufacturing costs and lower power consumption. We will utilize our broad product lineup and maximize quality in each process, while also providing customers with high added value through process-to-process integration, to contribute to technological innovation for semiconductor devices.

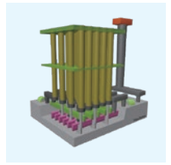
Logic



Transistor structures for leading-edge logic devices will shift from the current FinFET[1] structure to new structures (GAA NS[2] and CFET[3]). With increasing patterning complexity, and application of high-NA EUV[4] lithography technology to mass production to achieve further scaling, co-optimization between unit processes will become even more necessary. In wiring technology as well, progress is being made in development of new materials instead of copper, and backside wiring to reduce power supply wiring resistance. Our front-end process equipment and wafer bonding/debonding equipment will contribute to the realization of this kind of technological innovation.

1 FinFET: Fin Field Effect Transistor, a process technology with a three-dimensional structure in the shape of a fin
2 GAA NS: Gate All Around Nanosheet, a next-generation technology for FinFET
3 CFET: Complementary Field Effect Transistor, transistor with a new structure
4 High-NA EUV: Refers to next-generation EUV, an exposure technology that shortens the resolvable line width by increasing the numerical aperture (NA)

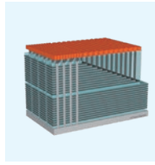
DRAM



In DRAM, technologies for forming high aspect ratio[1] capacitors and contacts are becoming increasingly important, while many of our deposition, etch and cleaning systems are used for these technologies. In the future, current 2D layouts are expected to change to new 2D layout structures and shift to 3D DRAM with vertically-stacked memory cells. We will therefore continue to provide new products and solutions to contribute to this kind of technological innovation. Demand is also increasing for HBM[2] in AI applications because it enables data transfer across a wide bandwidth. HBM is achieved through production of stacked DRAM chips, which will require equipment for many more processes than before, including wafer bonding/debonding equipment. We will contribute to technological innovation by working with customers to create and support processes for such leading-edge technologies as well.

1 Aspect ratio: Depth to width ratio of the pattern formed on the wafer
2 HBM: High Bandwidth Memory

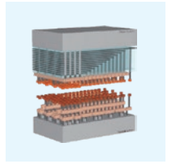
NAND



3D NAND high multi-layering is progressing even further, with layer counts expected to increase to 500 and 1,000 in the future. Accordingly, this will require etching that enables processing of deep holes and trenches with a high aspect ratio, sacrificial film deposition and removal, and atomic level deposition on 3D structures. As memory capacity increases, there is a need for increased data transfer speeds. Enhanced performance of peripheral circuits is essential to achieve this, but there is an issue with the thermal process, used when molding memory cells, creating limitations on performance and scaling. To resolve this, development is underway to enable use of 3D integration technology in mass production to manufacture and bond memory cells and peripheral circuits on separate wafers, which will also enable optimization of chip size. We are striving to further improve the performance of our etch, ALD* and wafer bonding/debonding equipment to meet these technological requirements.

* ALD: Atomic Layer Deposition

Advanced Packaging and 3D Integration



There are two main approaches to semiconductor manufacturing that will lead to technological innovation in semiconductors. The first is scaling, which has become synonymous with the evolution of semiconductors and which refers to increasing the level of semiconductor integration on chips. The second is advanced packaging. This refers to technologies for integrating multiple chips and functions into a single chip, which includes combining processors and HBM into AI devices. Already employed in a range of devices, the application of advanced packaging is expected to further expand in scope going forward. In addition to providing scaling solutions, we are also focusing on wafer bonding as part of these technologies. In terms of 3D integration based on wafer bonding, as applied to NAND and CMOS image sensors in front-end processes and HBM and other technologies in packaging processes, we will contribute to evolving performance of leading-edge devices and at the system level. We will do this by providing wafer bonding/debonding equipment and laser edge trimming systems while leveraging the technologies and experience we have cultivated in front-end processes overall.

Shift Left

We are focused on using the Shift Left approach, investing resources such as technology, personnel and expense into the early processes of product development. Through this approach, we are endeavoring to develop various technologies and conducting research for multiple future generations to realize the technology roadmaps we have created with customers.

With product development through the Shift Left approach, we understand customer needs at an earlier stage, reflect the information obtained from feedback into our technological development and propose superior products. This contributes to maximizing yield for customer devices and capacity utilization of their mass production line equipment. We are also promoting on-site collaboration for early delivery of evaluation equipment to customers' fabs and development and research laboratories, and are working to accelerate the process in which technological development is reflected in mass production equipment as well as to optimize development efficiency.

Further Strengthening of Development Structure

We are actively investing with a focus on further growth as we endeavor to further strengthen our development structure. To this end, we have completed construction of Miyagi Technology Innovation Center and a new development building at Tokyo Electron Technology Solutions Hosaka Office. We are also planning to open and operate new development buildings at Tokyo Electron Miyagi and Tokyo Electron Kyushu from 2025.

Miyagi Technology Innovation Center
(Completed in September 2021)

Tokyo Electron Technology Solutions
Hosaka Office New Development Building
(Completed in July 2023)

Tokyo Electron Miyagi
New Development Building
(Completion scheduled for spring 2025)

Tokyo Electron Kyushu
New Development Building
(Completion scheduled for summer 2025)

Value Creation Model

Utilizing the capital we hold to the maximum capacity (INPUT) while leveraging our strengths, we implement the value chain of our business activities anchored around material issues. We offer the value created (OUTCOME) from this process to our stakeholders. By practicing our Corporate Philosophy through the realization of our Vision, we aim to expand medium- to long-term profit and to continuously enhance our corporate value.

INPUT (investment capital) Fiscal 2024

Financial capital
- Net assets **1,760.1** billion yen
- Equity ratio **71.1**%
- Total assets **2,456.4** billion yen

Manufactured capital
- Manufacturing sites **9** total (6 in Japan and 3 overseas)
- Manufacturing-related capital investment, such as new plant buildings and manufacturing equipment
- Component standardization and leveling production
- Many years of know-how and proven performance in manufacturing operations
- Manufacturing core system

Intellectual capital
- R&D sites **14** total (7 in Japan and 7 overseas)
- R&D investment **202.8** billion yen
- A high level of expertise in numerous areas, and the ability to fuse this knowledge together to create new products
- Broad-ranging knowledge and integrated technological capabilities in semiconductor manufacturing processes
- Customer requests and technology trends
- Equipment-related data accumulated through digital technology and knowledge management

Human capital
- Number of employees **17,702**
- Proportion of engineers **68.1**%
- Human resources possessing knowledge in a variety of specialized fields
- Personnel able to perform globally
- Human resource development through TEL UNIVERSITY

Social and relationship capital
- Relationship of mutual trust with customers built through many years of performance records
- Strong partnerships with our suppliers
- Foundation for business activities in local communities
- Collaboration with other companies in the industry through industry associations

Natural capital
- Energy consumption **102,260**kL
- Water consumption **1,542,000**m³

The strength of our company built by the driving forces of growth

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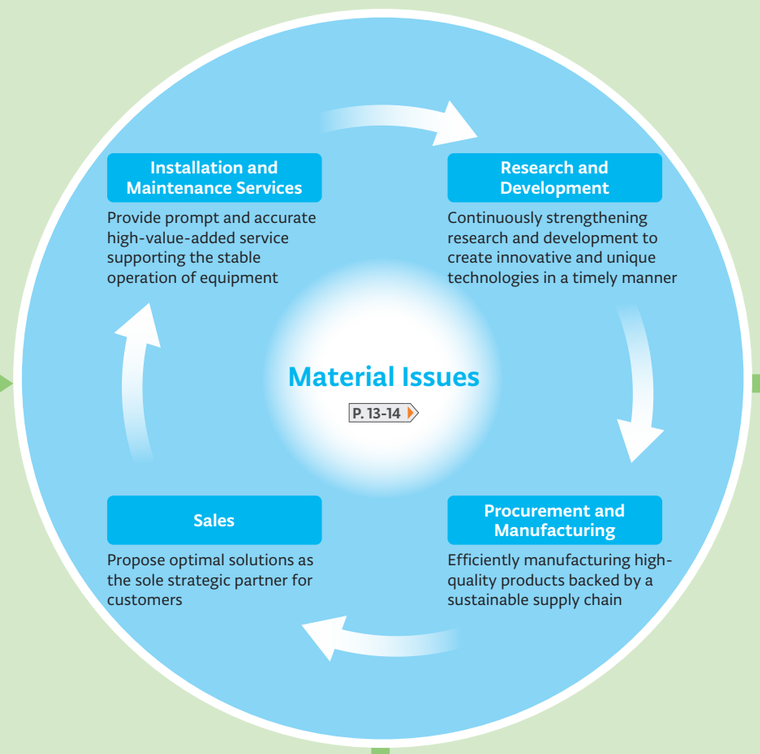

OUTPUT

Semiconductor Production Equipment
Field Solutions

OUTCOME (created value) Fiscal 2024

Financial capital
- Net Sales **1,830.5** billion yen
- Operating margin **24.9**%
- Net income **363.9** billion yen
- ROE **21.8**%
- Total annual dividend **182.4** billion yen (dividend payout ratio: 50.1%)

Manufactured capital
- Cumulative number of equipment installations Approximately **92,000** units (annual shipment volume of approximately 4,000-6,000 units)
- High-quality and superior-reliability products incorporating leading-edge technologies
- Safety-first operation: TCIR **0.15**
- Reduction of production lead times

Intellectual capital
- Innovative, high-value-added unique technologies
- Product lineup with No. **1** or No. **2** market share
- Optimal solutions for semiconductor manufacturing
- Number of patents owned **23,249**
- High-quality and highly efficient service

Human capital
- Retention rate* **97.5**%
  * Calculated using data on turnover rate
- Improvement in desire for growth and demonstration of the challenge spirit in employees, who both create and fulfill company values
- Building of relationships of trust with stakeholders by employees with a high level of engagement
- Ratio of female managers* **6.3**%
  * Include individual contributors and employees reemployed after retirement

Social and relationship capital
- Percentage of respondents who selected "Very Satisfied" or "Satisfied" in the Customer Satisfaction Survey* **100**%
  * For each question, average score is calculated for all customers who responded
- Rate of improvement after supply chain sustainability assessment **29.2**% (compared to fiscal 2023)
- Creating employment opportunities in and paying taxes to local municipalities and nations where we carry out business activities
- Number of TEL FOR GOOD* programs **285**
  * The brand name for Tokyo Electron's social contribution activities

Natural capital
- Own CO_2 emissions **75**% reduction (compared to fiscal 2019, reduction of 131 kilotons due to the introduction of renewable energy, etc.)
- CO_2 emissions not from our Group (per wafer) **24**% reduction (compared to fiscal 2022)
- Waste material recycling rate **98.8**%

IMPACT

Stakeholders	Impact
Shareholders/ Investors	● Return of profit generated from business activities ● Realization of medium- to long-term growth and enhancement in corporate value
Customers	● Value creation and continuous growth for customers ● Improving productivity (utilization rate and yield) and reducing the environmental impact in semiconductor manufacturing
Suppliers	● Deployment of business operations across our sustainable and highly competitive supply chain ● Improving added value of products and services handled, through collaboration with us
Employees	● Creating a workplace environment replete with dreams and vitality that enables employees to realize their full potential based on mutual trust between the organization and individuals
Local Communities	● The revitalization of and sustainable development in local communities through human resource development, employment opportunities, initiatives to preserve the local environment and paying taxes to local municipalities
Governments/ Associations	● Carrying out business activities that comply with laws and regulations, industry codes of conduct and other rules ● Initiatives that help the industry and society solve issues and develop through collaboration with us

Practice of our Corporate Philosophy through the realization of our Vision

Stakeholder Engagement

We actively create opportunities for dialogue and hold mutual communication with our stakeholders to allow us to accurately comprehend their demands and expectations as we deploy our business activities. We strive to build a solid relationship of mutual trust with all the stakeholders surrounding our company by working steadily to fulfill our roles and responsibilities in society.

Shareholders/Investors

Relationship with Stakeholders	● Shareholders and investors provide our company's capital, while expressing their opinions, demands and expectations of our company from the shareholder/investor perspective through constructive dialogue and through exercising their voting rights at the Shareholders' Meeting ● We share our management vision and growth scenario with shareholders and investors, and incorporate the opinions and demands we hear from them into our management in an effort to enhance our corporate value
Value Provided to Stakeholders	● Return of profit generated from business activities ● Enhanced corporate value through the realization of our medium- to long-term growth
Main Engagement Opportunities	● Earnings release conference, Medium-term Management Plan briefing, IR Day ● IR conference, IR road show*, individual IR interview ● Shareholders' Meeting * IR road show: IR activities presented directly to shareholders and investors

Customers

Relationship with Stakeholders	● Customers purchase the semiconductor production equipment we provide and also utilize services necessary for maintaining that equipment ● We not only provide products, services and solutions but also create technology roadmaps spanning multiple generations and carry out joint technology development with customers
Value Provided to Stakeholders	● Best Products with innovative technology ● Best Technical Service with high added value ● Environmentally friendly products and services with a focus on safety and quality ● Solutions that satisfy a variety of application needs
Main Engagement Opportunities	● Technology conference ● Joint development ● Customer Satisfaction Survey

Governments/Associations

Relationship with Stakeholders	● Governments and associations not only require companies to comply with laws, regulations, industry codes of conduct and other rules, but also aim to work in partnership with companies to bring about development at the industrywide, national and community level ● While carrying out our business activities in compliance with such laws, regulations, industry codes of conduct and the like in the countries and communities where we operate, we contribute to social development and the resolution of societal issues by accurately grasping social needs
Value Provided to Stakeholders	● Solutions that help the industry and society solve issues and develop ● Business activities that comply with laws, regulations, industry codes of conduct and other rules
Main Engagement Opportunities	● Cooperation with government and administrative agencies ● Collaboration with global initiatives and NGOs etc. ● Industry group activities

Suppliers

Relationship with Stakeholders	● Suppliers supply the materials and human resources necessary for our company's business administration, and also perform customs clearance, logistics operations and other operational services ● In addition to purchasing these materials and operational services, we cooperate with our suppliers on the further development and improvement of these aspects and enhancement of their quality. We build a sustainable supply chain that takes into account labor, the environment, health and safety, ethics and the like
Value Provided to Stakeholders	● Social issue initiatives and further improving added value of products and services through collaboration with our company ● Business opportunities in the semiconductor production equipment markets ● Maintaining soundness and strengthening competitiveness throughout the entire supply chain
Main Engagement Opportunities	● Production update briefing ● TEL Partners' Day/TEL E-COMPASS Day ● Sustainability Assessment ● STQA* audit * STQA: Supplier Total Quality Assessment

Local Communities

Relationship with Stakeholders	● Local communities are striving to offer more value by working to foster local industry and educate human resources ● We contribute to the development of the local communities where we operate through employment opportunities, initiatives to preserve the local environment and paying taxes to local municipalities
Value Provided to Stakeholders	● Human resources development and employment opportunities ● Promotion of environmental preservation in communities ● Financial contributions through tax payments
Main Engagement Opportunities	● TEL FOR GOOD (Social contribution activities) ● Tours of plants and offices ● Environmental debriefing

Employees

Relationship with Stakeholders	● Our employees contribute to enhancing our corporate value by demonstrating their individual capabilities and pursuing personal growth through making use of opportunities for education ● We promote the improvement of employee engagement under management that emphasizes employee motivation
Value Provided to Stakeholders	● A workplace environment replete with dreams and vitality that respects diversity and enables employees to realize their full potential based on mutual trust between the organization and individuals ● Opportunities for career development and skill improvement ● Fair performance review and remuneration commensurate with results
Main Engagement Opportunities	● Employee meeting ● Global engagement survey ● Training and workshops