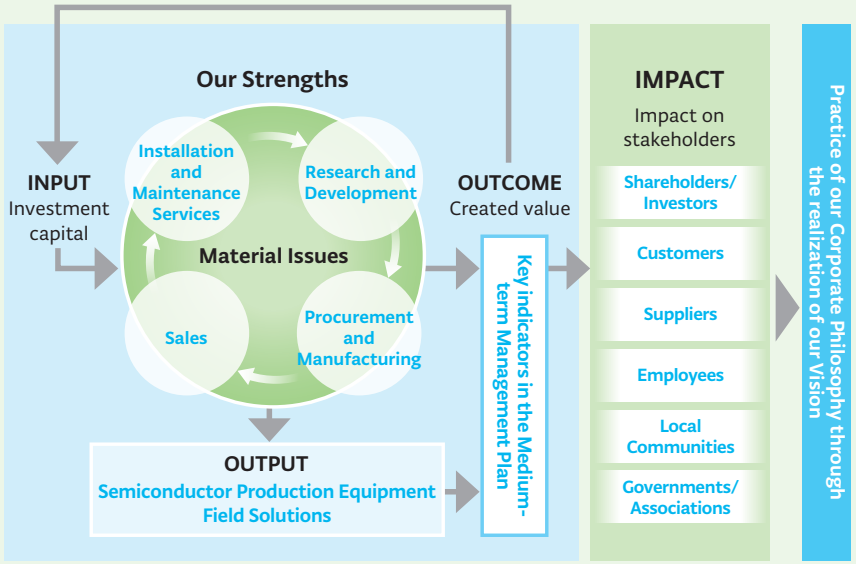
Chapter 2

Value Creation Story

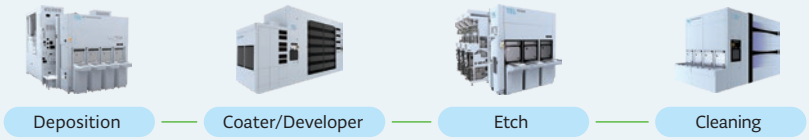


Leveraging our unique strengths, we are advancing business activities anchored around material issues to achieve our Medium-term Management Plan and drive further growth. By working steadily to fulfill our roles and responsibilities in society, we strive to build a solid relationship of mutual trust with our stakeholders and to expand medium- to long-term profit and continuously enhance our corporate value.

Our Strengths

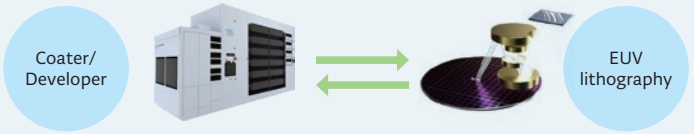
We aim to achieve further growth by continuing to take on challenges and evolve, while further refining the strengths we have cultivated to date and making full use of them as competitive advantages in our business activities.

The manufacturer with **advanced products for the four key processes** necessary for semiconductor scaling: deposition, coater/developer, etch, and cleaning



100% share[1] of coater/developer for EUV[2] lithography, which are necessary for semiconductor evolution

1 Tokyo Electron's estimate
2 EUV: Extreme Ultraviolet. A semiconductor industry term for an exposure technology that uses a specific wavelength of 13.5 nm.



Our product lines hold strong positions in their respective segments, all of which have achieved **leading** market shares[3]

3 Tokyo Electron's estimate
4 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.

Technical service and marketing developed based on relationships of absolute trust with customers and our **industry-leading**[5] installed base

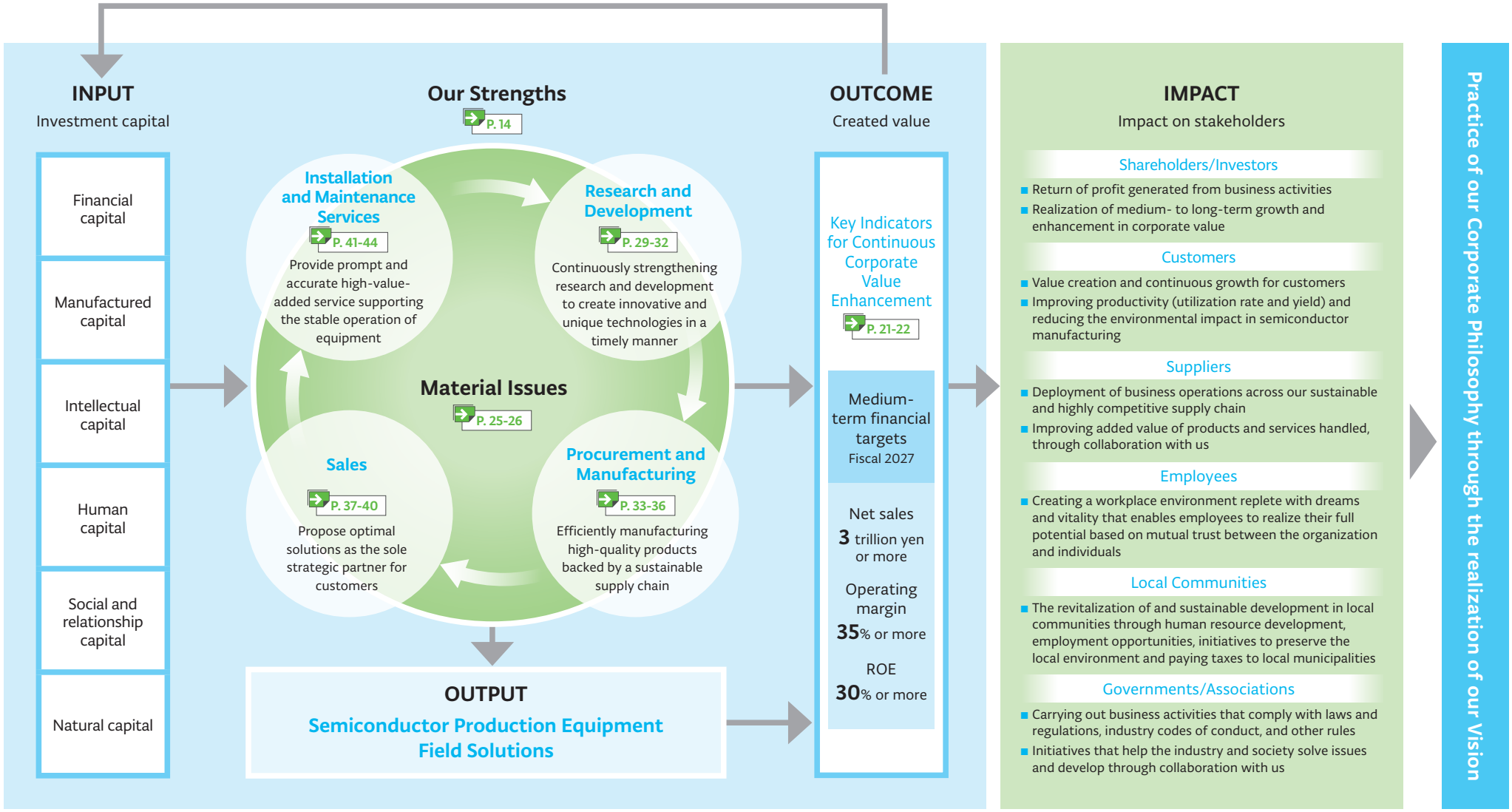
5 Tokyo Electron's estimate
6 As of the end of March 2026

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

7 As of the end of March 2026. The figure is based on LexisNexis® PatentSight+ database.

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.



Value Creation Model

The results for INPUT (investment capital) and OUTCOME (created value) for fiscal 2026 are as follows.

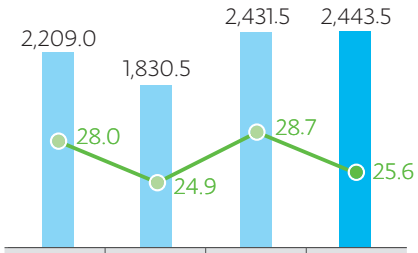
Capital	INPUT (investment capital) Fiscal 2026	OUTCOME (created value) Fiscal 2026
Financial capital	● Net assets **2,069.9** billion yen ● Equity ratio **71.5**% ● Total assets **2,860.9** billion yen	● Net sales **2,443.5** billion yen ● Operating margin **25.6**% ● Net income **574.4** billion yen ● ROE **29.6**% ● Total annual dividend **287.4** billion yen (dividend payout ratio: 50.1%)
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	● Cumulative number of equipment installations Approximately **100,000** units (annual shipment volume of approximately **4,000** units) ● High-quality and superior-reliability products incorporating leading-edge technologies ● Safety-first operation: TCIR **0.22** ● Reduction of production lead times
Intellectual capital	● R&D sites **19** total (8 in Japan and 11 overseas) ● R&D investment **277.8** 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	● Innovative, high-value-added unique technologies ● A comprehensive product lineup with leading market shares[1] ● Optimal solutions for semiconductor manufacturing ● Number of patents owned **26,592** (Increase in the number of patents owned **1,596**) ● High-quality and highly efficient service 1 Tokyo Electron's estimate
Human capital	● Number of employees **20,236** ● Proportion of engineers **68.9**% ● Human resources possessing knowledge in a variety of specialized fields ● Personnel able to perform globally ● Human resource development through TEL UNIVERSITY	● Retention rate[2] **97.8**% ● 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[3] **6.8**% 2 Calculated using data on turnover rate 3 Include experts and employees reemployed after retirement
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	● Percentage of respondents who selected "Very Satisfied" or "Satisfied" in the Customer Satisfaction Survey[4] **100**% ● Creating employment opportunities in and paying taxes to local municipalities and nations where we carry out business activities ● Number of TEL FOR GOOD[5] programs **285** 4 For each question, the average score is calculated for all customers who responded 5 The brand name for Tokyo Electron's social contribution activities
Natural capital	● Energy consumption **620,995** MWh ● Water consumption **2,077** thousand m^3	● Own CO_2 emissions **64**% reduction (compared to fiscal 2019, reduction of 111 kilotons due to the introduction of renewable energy, etc.) ● CO_2 emissions from product use (per wafer) **11**% reduction (compared to fiscal 2022) ● Waste recycling rate **98.5**%

Medium-term Management Plan

Financial Targets

Tokyo Electron formulated the Medium-term Management Plan in fiscal 2023 and set financial targets of net sales of 3 trillion yen or more, an operating margin of 35% or more, and ROE (return on equity) of 30% or more by fiscal 2027 with the aim of further improving our world-class operating margin and ROE.

Amid the expectation of further growth in demand for semiconductors and significant future growth in the semiconductor production equipment market, we will advance various initiatives throughout the value chain, always strive for the Best Products, Best Technical Service and aim to achieve medium- to long-term profit expansion and continuous corporate value enhancement.



	2023.3	2024.3	2025.3	2026.3
Net sales (Billions of yen)	2,209.0	1,830.5	2,431.5	2,443.5
Operating margin (%)	28.0	24.9	28.7	25.6
ROE (%)	32.3	21.8	30.3	29.6

Main Initiatives

- In line with growing AI-related demand, accelerate the deployment of equipment for cutting-edge applications, an area of strength for the Company, and capture expanding business opportunities in field solutions
- Introduce next-generation products with high added value required in the future by our customers into the market as early as possible while providing superior technological services
- Implement proactive growth investments (R&D spending and capital expenditures)
- Work to sell parts, perform upgrades and modifications, and improve utilization rates based on equipment installations, endeavor to resolve issues such as yield improvement for the devices that our customers produce, and expand profit in the after-market by providing these advanced field solutions
- Implement environmentally-focused E-COMPASS initiatives and carry out activities for achieving semiconductor technological innovation and reducing environmental impact throughout the entire supply chain
- Promote digital transformation (DX) and reinforce organizational systems to enhance operational efficiency and create new added value

CFO's Message

Hiroshi Kawamoto
Senior Vice President & General Manager
Chief Financial Officer
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.

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 asset efficiency 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 fiscal 2026, with growth of the semiconductor market driven by factors such as increased AI demand for data centers, we achieved a record high of 2,443.5 billion yen in net sales and 574.4 billion yen in net income, while ROE reached 29.6%. We have also been investing in capital for growth to improve production capabilities for meeting further growth in demand for semiconductor production equipment, and improve technical capabilities for future semiconductor manufacturing processes. As part of this, we have completed construction of new development buildings at Tokyo Electron Miyagi and Tokyo Electron Kyushu, and construction of the Tohoku Production and Logistics Center at Tokyo Electron Technology Solutions.

Going forward, against the backdrop of the transition to a data-driven society, and expansion of the semiconductor market for AI applications to enhance productivity and create new value, the semiconductor production equipment market is expected to continue growing over the medium to long term. We will therefore continue implementing growth investments to enhance our development capabilities.


Development Building No. 3, Tokyo Electron Miyagi


Process Development Building, Tokyo Electron Kyushu


Tohoku Production and Logistics Center, Tokyo Electron Technology Solutions

Medium-term Management Plan | CFO's Message

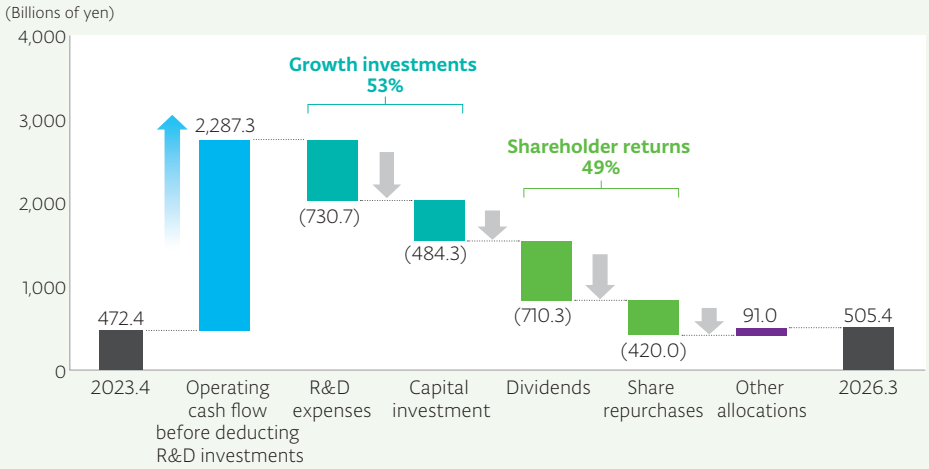
2 Financial Strategy

- 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 as we work to improve our medium- to long-term corporate value.

In terms of cash allocation over the past three fiscal years, we generated a cumulative total of 2,287.3 billion yen in operating cash flow before deducting R&D investments. We invested roughly 53% of this figure in growth (R&D and capital investment) and allocated 49% for shareholder returns (dividends and share repurchases). We will continue to allocate cash in a balanced manner to achieve sustainable corporate growth while providing greater shareholder value.

Cash Allocations (cumulative for past three fiscal years)



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 remained at a high level, reaching 17,558.8 billion yen as of the end of fiscal 2026. Our price/book value ratio (PBR) was also about 8 or higher as of the end of fiscal 2026. With capital markets rating us highly for corporate value, we experienced strong growth in market capitalization relative to our net assets.

For the past four fiscal years, we have maintained ROE around our target of 30%. We also estimate our cost of capital to be around 12%, giving us a substantial equity spread (ROE minus cost of capital).

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 share repurchases, 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.

In fiscal 2026, our total return to shareholders (dividends and share repurchases) reached a record high of 437.4 billion yen for a total payout ratio of 76.1%, representing a high level of returns.

We will continue to enhance shareholder value through shareholder returns by ensuring a high level of dividends and flexible share repurchases.

Medium-term Management Plan | Message from the Product Business Representative

Message from the Product Business Representative

Keiichi Akiyama
Corporate Officer, Product Business
Executive Vice President & General Manager

The semiconductor market is expected to grow into a US$1 trillion business much earlier than originally forecast. Leading that growth are semiconductors for AI, which will require further performance improvements and scaling to power the evolution of leading-edge devices and diversification of advanced packaging and testing methods. Within this context, we are actively engaging in technological development to strengthen our position as a company handling many of the key frontend manufacturing processes that are essential for semiconductor performance improvement and scaling. Fields such as etching and deposition are expected to see growth surpassing the growth rate of WFE[1], and our frontend process business, including these processes, has acquired numerous development PORs[2]. In the backend process, advanced packaging technologies, in which multiple chips are integrated in 2D and 3D directions, are becoming increasingly important. In particular, high-density bonding technology, which enables the ultra-high speed, power-efficient transfer of large volumes of data required by AI, is considered a critical technological inflection point for semiconductor manufacturing. As such, it is expected to deliver technological innovation for even higher reliability and productivity. By leveraging our regional development and evaluation centers, we provide rapid development and support tailored to our customers' needs, further enhancing customer engagement.

We will continue to make proactive investments in technological development and strongly contribute to the growth of the semiconductor market.

1 WFE: Wafer Fab Equipment. The semiconductor production process is divided into frontend production, in which circuits are formed on wafers and inspected, and backend production, in which wafers are cut into chips, assembled and inspected again. WFE refers to the production equipment used in frontend production and in wafer-level packaging production.
2 POR: Process of Record

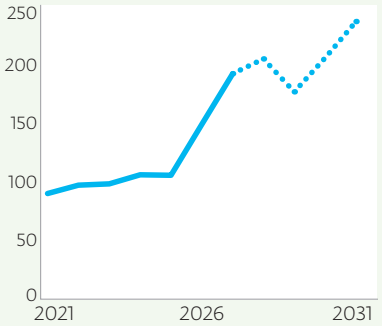
Frontend Process Business

Business Opportunities

As AI advances, the growth rate of etching TAM[1] is expected to rise further in the fields of advanced logic and DRAM, where growth is expected. In the field of film deposition, as well, high growth is expected for advanced logic. As the market expands, driven by the growing range of applications for AI-oriented devices, each device is expected to offer even higher performance and further scaling, thereby creating higher added value. In 2025, we completed construction of new development buildings in Miyagi and Kumamoto, and the Tohoku Production and Logistics Center in Iwate. We are also expecting to complete construction of our Miyagi Innovative Production Center in the summer of 2027. With these additions, we will work to enhance our development and production capabilities as we continue building our systems in preparation for future growth of the semiconductor production equipment market.

1 TAM: Total Available Market

Semiconductor Production Equipment Market



Source: TechInsights (June 2026)

Business Strategies

In advanced logic, we are working on precision control for film deposition and etching, high selectivity gas chemical etching, and new structures such as air gaps. Furthermore, to balance performance and cost for lithography, we are evaluating high numerical aperture (NA) EUV technology, its combination with multi-patterning, the adoption of MOR[2], and anisotropic etching for optimizing the number of EUV applications. For DRAM, we are meeting demand for high aspect ratio etch and highly difficult capacitor film deposition to secure the capacitance necessary for 2D scaling. We are also enhancing our technological development of film deposition, etch, and gas chemical etch to adapt to new structures such as 4F^2 vertical channel transistor and changes in 3D structures. For NAND, to further increase multi-layering, we will strengthen our development of cryogenic etch for deep holes and trenches, along with applying next-generation transition metal materials to word lines and lowering resistivity in channel silicon. Through the extensive technological development we are conducting, which plays an extremely important role in improving performance and scaling, we will make major contributions to the evolution of semiconductors and we will expand the range of fields in which we do business by supplying new products, thereby achieving growth that surpasses WFE levels. Furthermore, we will develop our comprehensive Epsira™ DX solutions, utilizing AI and robotics, while implementing a range of initiatives for more efficient development, production, maintenance, and operation for ourselves and our customers. In addition to digitalization, we will also strengthen our "Digital & Green" initiatives for decarbonization to help preserve the global environment.

2 MOR: Metal Oxide Resist

Medium-term Management Plan | Message from the Product Business Representative

Our Competitive Advantages in the Frontend Process Business

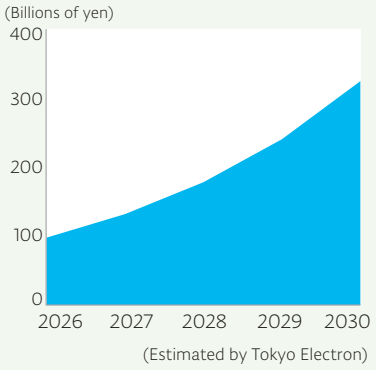
- Powerful development system for achieving the etch and film deposition that are the keys to higher performance and scaling
- Supporting EUV through coater/developer and optimization technologies
- Leveraging of advanced products for the four key processes in patterning to provide overall optimized solutions

Backend Process Business

Business Opportunities

The use of bonding technologies in the frontend processes of all leading-edge devices, and advanced packaging in the backend processes, has been increasing over recent years. For advanced logic semiconductors, development is also accelerating in the areas of backside PDN[1] (structures with wiring on the reverse side), next-generation CFET[2] transistors, and NAND and DRAM memory semiconductors. Die-level bonding, rather than just wafer-level bonding, is also becoming more important for advanced packaging. For example, there has been increasing development and adoption of next-generation HBM[3], stacked flash memory, and stacking of logic semiconductors and optical devices. With higher performance AI devices as well, opportunities are expanding in the bonding market. At the same time, we expect the bonding process equipment market, in which we are operating, to achieve a compound annual growth rate (CAGR) of over 30% between 2026 and 2030. In 2030, we anticipate that the market will reach in excess of 300 billion yen[4].

Scale of the Bonding Process Equipment Market



1 Backside PDN: Backside Power Delivery Network
2 CFET: Complementary Field Effect Transistor
3 HBM: High Bandwidth Memory
4 Estimated by Tokyo Electron

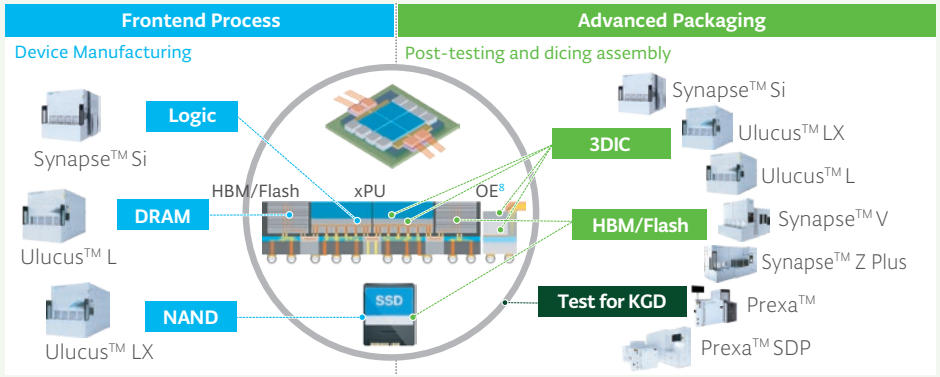
Business Strategies

The bonding systems we provide are process devices that fuse process technologies, such as plasma control and cleaning technology, with mechanical alignment technologies. We are continuing to develop products that incorporate the advanced technologies we have developed through our frontend process businesses of deposition, coating/development, etching, and cleaning, and our knowledge of particle control and other fields. To maximize business growth in the bonding market, we have also released our "Synapse™ Si" permanent wafer bonding system, and our "Ulucus™ L" laser edge trimming system and "Ulucus™ LX" extreme laser lift off system, which are both expected to contribute significantly to improved process quality and CoO[5]. Customer evaluations are proceeding smoothly.

We are also accelerating development of die-level bonding systems for advanced packaging, and planning to deploy cluster systems capable of integrated processing, from pre-processing to bonding, to achieve highly accurate and reliable die stacking.

Improving final yields is essential in the area of advanced packaging, so there is a need for KGD[6] testing of singulated devices prior to mounting. We launched our "Prexa™ SDP[7]" device prober, offering high heat absorption performance, to address the challenges of heat absorption and accurate temperature control when testing leading-edge devices. Through timely provision and integration of die-level and device-level solutions, in addition to wafer-level solutions, we aim to improve final yields for AI-oriented advanced packaging.

5 CoO: Cost of Ownership
6 KGD: Known Good Die/Device. A bare die or device that has been tested and proven defect-free.
7 SDP: Singulated Device Prober



8 OE: Optical Engine for Si Photonics

Our Competitive Advantages in the Backend Process Business

- Broad range of innovative products for the bonding market, which is expected to see major growth
- Technologies and know-how from our frontend business can be leveraged in fast, effective development
- Yield improvement approach through fusion of bonding and testing technologies

Medium-term Management Plan

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" and confirms the main material issues related to such key indicators. At quarterly review meetings attended by the CEO, we regularly check progress and action plans, and various activities are carried out under the responsible persons for each indicator.

"Annual Sustainability Goals and Key Indicators" on our website www.tel.com/sustainability/goals-and-results/index.html

○: Proceeding well △: Need to accelerate to achieve the goal

Target Area		Objective	Target Year	Fiscal 2026 Performance	Progress Evaluation	Related Main Material Issues[1]
Finance		● Net Sales: 3 trillion yen or more	Fiscal 2027	● 2,443.5 billion yen	○	
		● Operating Margin: 35% or more	Fiscal 2027	● 25.6%	△	
		● ROE: 30% or more	Fiscal 2027	● 29.6%	○	
Research and Development		● Continuously create high value-added next-generation products by investing 1 trillion yen or more in R&D over five years	Fiscal 2027	● R&D expenses 277.8 billion yen	○	
Safety		● TCIR[2] Less than 0.10 (Globally No. 1 in the industry)	Fiscal 2027	● 0.22	△	
Environment	Plants and Offices	● Reduce total CO_2 emissions by 85% (compared to fiscal 2019)	Fiscal 2031	● 64% reduction	○	
		● A rate of 100% renewable energy usage	Fiscal 2031	● 87%	○	
		● Reduce energy consumption (per intensity) 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	△	
		● Maintain water consumption (per intensity) at each plant and office at individual base year levels	Every fiscal year	● Achieved 6 out of 13 goals	△	
	Logistics	● Reduce CO_2 emissions of total logistics (own delivery) by 30% by further implementing modal shift and joint delivery	Fiscal 2027	● 26% reduction	○	
		● Reduce the usage ratio of wood packaging for products to 40% or less (packaging of semiconductor production equipment)	Fiscal 2027	● 52%	○	
	Products	● Reduce per-wafer CO_2 emissions by 55%[3] (compared to fiscal 2022)	Fiscal 2031	● 11% reduction	△	
Supply Chain Management		● Supply chain sustainability assessment implementation rate 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) ● Implementation of improvement activities in response to assessment results	Every fiscal year	● Material suppliers: Achieved 85% or more of our procurement spend Logistics suppliers: Achieved 100% of customs-related operators Staffing suppliers: Achieved 100% of employment agencies and contracting companies (internal contractors) ● Distributed feedback letters to all suppliers surveyed. For high-priority suppliers, conducted individual corrective actions.	○	
		● Supply chain BCP assessment implementation rate Material suppliers: Covering at least 85% of our procurement spend ● Implementation of improvement activities in response to assessment results	Every fiscal year	● Achieved 85% or more of our procurement spend ● Distributed feedback letters to all suppliers surveyed	○	

1 Material Issues P. 25-26

2 TCIR: Total Case Incident Rate. The number of workplace incidents per 200,000 work hours.

3 Including reductions resulting from customers' introduction of renewable energy

Medium-term Management Plan

○: Proceeding well △: Need to accelerate to achieve the goal

Target Area		Objective	Target Year	Fiscal 2026 Performance	Progress Evaluation	Related Main Material Issues[1]
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	● Introduced a common pulse survey company-wide ● Promoted effective use of the engagement survey results and a culture of dialogue[2] ● Launched coaching training for managers as a company-wide measure	○	
		● Employee retention rates[3] Japan: 99% Overseas: Higher than the industry average	Every fiscal year	● Japan: 99.1% ● Overseas: 96.2% (Higher than the industry average)	○	
	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. ● Ratio of annual online learning users Global: 60%	Fiscal 2027	● Developed "Seeker," a proprietary web application for careers and learning, and began introducing it in some divisions and group companies. Created a system that uses AI to make career opportunities visible and recommend the learning content and mentors needed to develop the skills required to pursue them—encouraging employees to take on challenges and drive behavior change. These initiatives were recognized, receiving the 14th Japan HR Challenge Awards Grand Prize. ● Ratio of annual online learning users Global: 45.3%	△	
	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: 78.0% ● Overseas: 83.2% (previous fiscal year's result: 78.9%)	○	
		● Male childcare leave utilization rate Japan: 85%	Fiscal 2030	● Japan: 83.5%	○	
	DE&I	● Ratio of female managers Japan: 5% Global: 8%[4]	Fiscal 2027	● Japan: 3.8% ● Global: 6.8%	△	
Corporate Governance		● We are working at all times to establish an optimal and highly effective Board of Directors and an offensive 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.	Every fiscal year	● Seeking a Board of Directors with high effectiveness ● Continue the Audit & Supervisory Board System Realize a ratio of majority outside directors (5 out of 8 people) Maintain contact with outside director candidates at the Nomination Committee ● Off-site meeting: 2 times (August and March) ● 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 ● Operating rhythm supporting the execution of business ● Corporate Officers Meeting: 23 times ● CSS meeting: 3 times ● Quarterly review meeting: 4 times	○	
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."	Every fiscal year	● Conducted annual risk assessments for 16 key risk items with risk owners and the presidents of our plants and subsidiaries. ● Strengthened responses to key risk items in each area, led by risk owners and the responsible departments.	○	

1 Material Issues P. 25-26

2 A culture of dialogue is one in which the process goes beyond conducting a survey—results are shared and acknowledged, and then translated into improvement actions through an organization-wide cycle.

3 Excluding retirement at the mandatory retirement age and so on

4 Targets do not apply to Tokyo Electron U.S. regions.

Medium- to Long-term Outlook

Evolution of Technology and Future of Semiconductors

Semiconductors are a critical technology supporting both society and industry. While the 1st Wave of technological advancements driving digitalization consisted of IoT, cloud computing, and edge computing, we are now transitioning to the 2nd Wave, with technologies driven by applications requiring advanced computing power such as generative AI, AR/VR, and autonomous driving. This has resulted in a dramatic increase in demand for semiconductors able to process vast amounts of data. In fact, the semiconductor market was once expected to reach US$1 trillion by 2030, but that milestone is now expected to be reached much earlier.

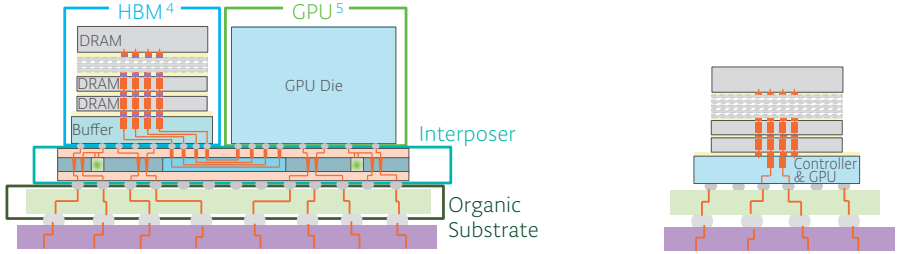
On the other hand, increased power consumption and environmental impacts associated with growth of the semiconductor market are becoming increasingly serious, making lower power consumption in semiconductors used to process vast volumes of data a top priority. To address these challenges, we are working to improve performance by driving scaling in frontend processes. For instance, we are achieving both power efficiency and high performance at the transistor level through the use of EUV[1] lithography and by transitioning from FinFET to next-generation transistor structures such as GAA[2] and CFET[3]. Multi-faceted technological innovation, from new materials and more advanced processes to optimization of design rules and AI-based device design and process control, is therefore essential.

1 EUV: Extreme Ultraviolet. A semiconductor industry term for an exposure technology that uses a specific wavelength of 13.5 nm.
2 GAA: Gate-All-Around
3 CFET: Complementary Field Effect Transistor

Changing Transistor Structures

In backend processes, we are employing advanced packaging technologies, including chiplets and heterogeneous integration, to optimize product performance, power consumption, and packaging density. Effectively combining chips with different functions, and implementing high-density packaging, make it possible to improve power consumption efficiency and performance of entire systems. Panel-level packaging is a high-throughput packaging method, using large-format substrates, which is suited to producing thinner and more cost-efficient products. These technologies will all contribute to increased yields and improved power efficiency in a wide range of fields, including automobiles, communications, and AI servers.

Advanced Packaging Technologies



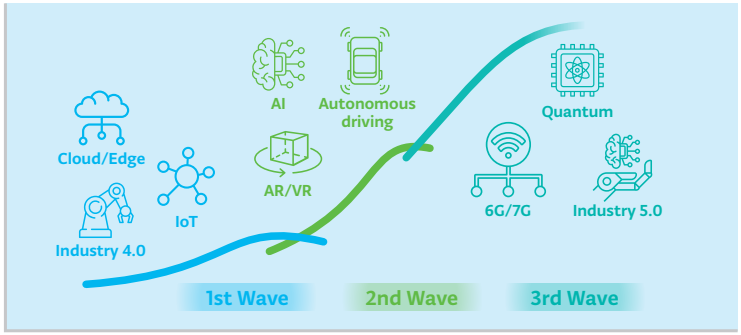
3D DRAM and 2.5D HBM/GPU integration

3D HBM/GPU integration

4 HBM: High Bandwidth Memory
5 GPU: Graphics Processing Unit

We will also make use of AI in the design and production stages to optimize yields and the supply chain overall, while employing complementary frontend and backend initiatives, to establish a platform for growth ahead of the 3rd Wave of technological advancements such as quantum computing and self-learning AI robots.

Semiconductor Market Outlook



In addition to higher densities, the semiconductor market needs diverse, optimized devices tailored to the application. With separate demand for high-performance devices for data centers and HPC[6] to handle large volumes of data, and low-power devices for smartphones and other edge devices, optimization is required in every process of design, manufacturing, and packaging. It is also important to optimize energy use through digital technologies to address risks associated with climate change and the supply of raw materials and energy.

6 HPC: High Performance Computing

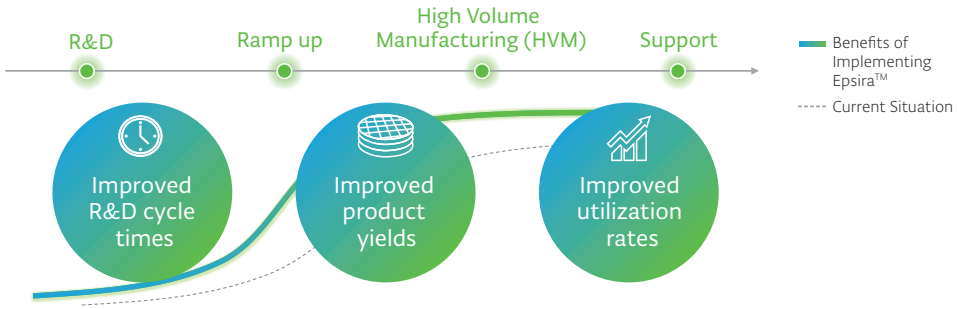
Medium- to Long-term Outlook

Development of Semiconductor Production Equipment

The evolution of semiconductors has been based on the interaction between advances in devices and the development of the production equipment and manufacturing technologies that support them. Going forward, as scaling and 3D structures continue to advance in devices, the physical evolution of production equipment will continue along the lines of higher-precision control, high-precision alignment, and bonding technologies.

At the same time, innovation on the software side using data, AI, robotics, and other technologies is essential to reduce development lead times and costs and to enable faster equipment ramp-ups and stable operation at sites throughout the world. At the R&D stage, data analysis, simulation, and AI-based prediction and optimization of conditions are used to narrow down designs and process conditions prior to verification using actual equipment, thereby improving development efficiency while reducing the number of prototypes and experiments. This makes it possible to simultaneously accelerate development and reduce costs. It is also important to improve equipment utilization rates and yields through analysis and predictive detection utilizing equipment operation and maintenance data. Through the rollout of Epsira™, we are working to achieve digital transformation across manufacturing sites by combining AI-based optimization of equipment performance with functions such as the automation of maintenance work using robotics. By combining our extensive expertise in semiconductor production equipment with digital technologies, we will contribute to improving productivity for customers.

Epsira™ Vision



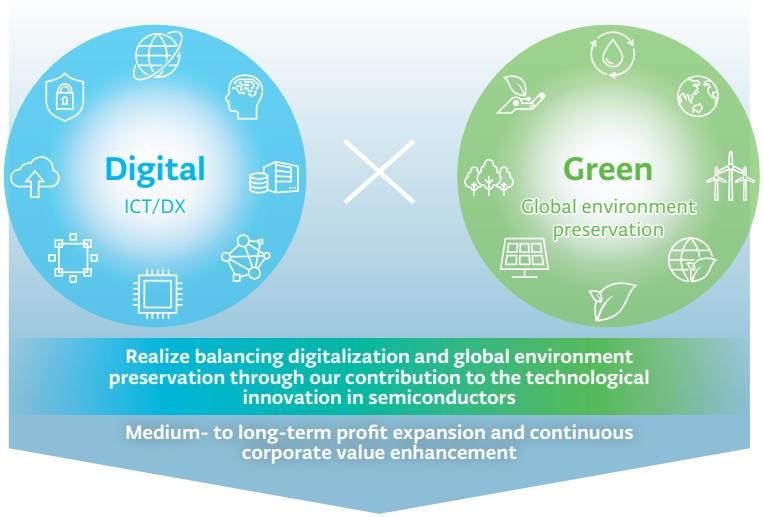
New semiconductor device structures interact with each other across the boundaries of equipment, processes, and designs. Co-design, which considers everything from transistor structure to wiring technology and package design, is becoming increasingly necessary as a result. As a semiconductor production equipment manufacturer, we believe that it is even more important now to provide optimal solutions that incorporate both frontend and backend processes.

Aiming to Be a Company Filled with Dreams and Vitality

With the digital infrastructure developed in the 1st Wave, AI-led transformation accelerating in the 2nd Wave, and new innovation generated in the 3rd Wave, the semiconductor market is expected to continue growing strongly into the future.

By realizing a "Digital & Green" future that balances digitalization and preservation of the global environment, we will contribute to the development of a dream-inspiring society. Strategically utilizing our high level of expertise as a semiconductor production equipment manufacturer, and all management resources including employees who create and fulfill company values, we will continue to provide the Best Products with innovative technology and Best Technical Service with high added value. We will strengthen our global support structures by actively investing in development and promoting collaboration, while helping the industry as a whole to develop by contributing to collaborations between industry and academia and to developing international frameworks.

By continuing to take on challenges and evolve, we will work hard to expand medium- to long-term profit, and continue enhancing our corporate value, leading to the practice of our Corporate Philosophy through the realization of our Vision, and meeting the expectations of all stakeholders surrounding the Company.



Meet the expectations of all stakeholders surrounding the Company by practicing our Corporate Philosophy through the realization of our Vision

Material Issues

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. To that end, we have identified key items to be worked on with priority as our material issues, and confirm their validity each year. Additionally, we continuously work to create new value through the value chain of our business activities anchored by these 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

Environmental Analysis and Identification of Issues

We conduct an environmental analysis by taking the following factors into account and identify potential material issues.

- Social Issues
  Climate change, human rights issues, interstate conflicts and geopolitical confrontations, supply chain management, technology and ethics, cybersecurity, inflation, etc.
- Business Environment
  Further expansion of semiconductors and semiconductor production equipment markets due to the development of AI, initiatives for the preservation of the global environment, human rights initiatives, further strengthening of corporate governance, etc.
- Status of initiatives for the SDGs
- Stakeholder engagement
  P. 27
- Key risks in business activities
  P. 65-66

Materiality Assessment

The identified issues are evaluated for materiality on two axes: "Impact of the company on society and the environment," taking into account stakeholder impact and interest, and "Impact on our performance and corporate value," focusing on continuously enhancing corporate value.

Identifying Material Issues

- Discussions and decisions by the Corporate Officers Meeting
- Report to and approval of the Board of Directors
- Identification of material issues

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

Material Issues

Identified Material Issues

We confirm the impacts on our company and society and organize the relationships between the material issues and the key indicators for continuous corporate value enhancement[1], the value chain, and the SDGs to be addressed[2], while advancing various initiatives.

Material Issues	Impact on Our Company	Impact on Society	Main Initiatives
Climate Change and Net Zero	Reduce the environmental impact of our business activities, products, and services, to achieve net zero emissions	Reduce climate change risks and create new opportunities in technology, human resources, industry, and other areas	Environment P. 52-56
Product Energy Efficiency	Enhance product competitiveness by achieving both the environmental performance and process performance of products	Preserve the global environment by providing environmentally friendly products	Research and Development P. 29-32 Environment P. 52-56
Best Products with Innovative Technology	Establish competitive advantages by creating high-value-added products with innovative technology	Promote technological innovation and societal development through the evolution of semiconductors	Research and Development P. 29-32 Procurement and Manufacturing P. 33-36
Best Technical Service with High Added Value	Expand business opportunities by providing advanced field solutions that solve customer issues	Improve the yield and productivity of semiconductor manufacturing, and maximize equipment utilization rates	Installation and Maintenance Services P. 41-44
Customer Satisfaction and Trust	Expand mutual benefits as a sole strategic partner for customers	Promote value creation and continuous growth for customers, and further revitalize the industry	Sales P. 37-40
Supplier Relationship	Create added value and stabilize the supply chain through collaboration with suppliers	Maintain soundness and strengthen competitiveness throughout the supply chain	Procurement and Manufacturing P. 33-36 Environment P. 52-56 Supply Chain Management P. 59-60
Respect for Human Rights	Reduce and eliminate human rights risks in business activities and foster a corporate culture in which employees can work energetically	Address human rights-related social issues such as discrimination, inequality, and those related to labor and safety	Human Rights P. 57-58

Material Issues	Impact on Our Company	Impact on Society	Main Initiatives
Employee Engagement	Maximize the performance of employees, who both create and fulfill company values	Promote economic growth by reducing risks, creating innovation, and other measures	Human Resources P. 48-51
Safety First Operation	Achieve sustainable operations by putting safety first	Establish safety as a social foundation	Installation and Maintenance Services P. 41-44 Safety P. 61
Quality Management	Improve management efficiency through advanced quality management	Build a sustainable society by improving productivity and reducing environmental impact	Procurement and Manufacturing P. 33-36 Quality P. 62
Compliance	Ensure stable business operations and enhance corporate trust by complying with laws and regulations	Improve soundness of society by realizing social responsibility	Compliance P. 67-68
Ethical Behavior	Develop into a company that is highly regarded by society and where our employees can take pride in their work	Form a fair and orderly society	Human Rights P. 57-58 Compliance P. 67-68
Information Security	Create an environment in which data can be used safely and securely to conduct business continuously and reliably	Stabilize social infrastructure by ensuring the convenience and security of information	Information Security P. 64
Enterprise Risk Management	Strengthen resilience by appropriately managing and responding to business risks	Sustainably develop the economy and society by eliminating and reducing risks	Risk Management P. 65-66

1 Key Indicators for Continuous Corporate Value Enhancement P. 21-22

2 "Material issues" on our website www.tel.com/sustainability/materiality/index.html

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.

Stakeholders	Relationship with Stakeholders	Value Provided to Stakeholders	Main Engagement Opportunities
Shareholders/ Investors	● 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	● Return of profit generated from business activities ● Enhanced corporate value through the realization of our medium- to long-term growth	● Earnings release conference, Medium-term Management Plan briefing, IR Day ● IR conference, IR road show[1], individual IR interview ● Shareholders' Meeting ● Investor event (CEO appearance) held in conjunction with major domestic and international exhibitions related to semiconductors and technology 1 IR road show: IR activities presented directly to shareholders and investors
Customers	● 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	● 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	● Technology conference ● Joint development ● Customer Satisfaction Survey
Suppliers	● 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	● Promote social issue initiatives and enhance the 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	● Production update briefing ● TEL Partners' Day/TEL E-COMPASS Day ● Sustainability Assessment ● STQA[2] audit 2 STQA: Supplier Total Quality Assessment
Employees	● 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	● A workplace environment replete with dreams and vitality 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	● Employee meeting ● Global engagement survey ● Training and workshops
Local Communities	● 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	● Human resources development and employment opportunities ● Promotion of environmental preservation in communities ● Financial contributions through tax payments	● TEL FOR GOOD (Social contribution activities) ● Tours of plants and offices ● Environmental debriefing
Governments/ Associations	● 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	● 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	● Cooperation with government and administrative agencies ● Collaboration with global initiatives and NGOs etc. ● Industry group activities