

CSR operations

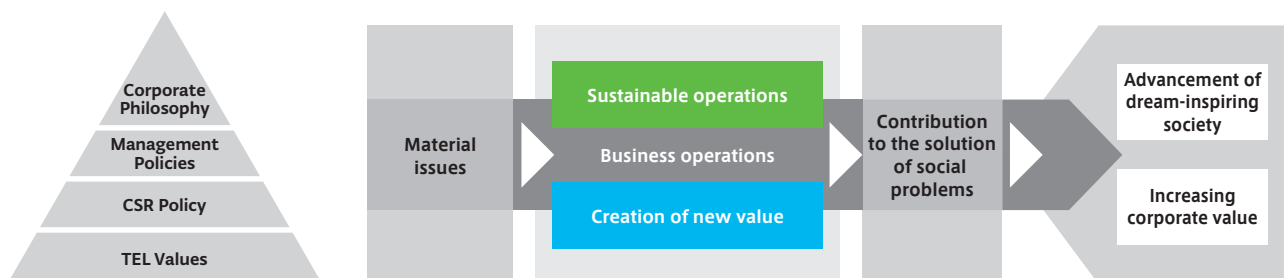
TEL's corporate philosophy and CSR

Corporate philosophy

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



TEL considers CSR to be the embodiment of its corporate philosophy, which has been firmly upheld since TEL's founding. TEL pursues sustainable operations from the viewpoints of corporate governance, legal and regulatory compliance, and business ethics while creating new value through its products and services. Based on these efforts, TEL implements CSR activities to help solve social problems. TEL will continue to pursue CSR activities to build stakeholder trust, improve corporate value, and promote the growth of a sustainable and dream-inspiring society.



CSR policy

TEL has developed a CSR policy that outlines the principles and values that form the foundation of its CSR activities.

| | |
|--|--|
| 1 Corporate Activities | TEL provides safe, high-quality products and services to customers around the world and works toward the enrichment of society. |
| 2 Business Ethics | TEL acts in compliance with the laws and regulations of the countries in which it operates, observes international regulations, and acts in accordance with strict business ethics. We do not engage in any conduct that impedes fair and open market competition. |
| 3 Respect for Individuals | TEL respects the character and individuality of each person. We value the diversity of employees, share a strong sense of mission, and promote the development of a vibrant work environment. |
| 4 Environment | TEL seeks to achieve harmony with the global environment. By developing and providing eco-friendly products, we strive to reduce our own impact on the environment and help our customers reduce theirs as well. |
| 5 Communication with Stakeholders | TEL discloses information in a fair, impartial, and timely manner; strives to engage in two-way communications; and works to meet stakeholder expectations. |
| 6 Social Contribution | As a good corporate citizen, TEL promotes the development of local communities and the betterment of society worldwide. |

CSR promotion framework

Through the end of fiscal year 2016, TEL semiannually convened a CSR promotion committee, consisting of the CSR Promotion Corporate Director, CSR Promotion Executive Officer, and the heads of related departments. The committee discussed CSR, set goals, and checked the progress of ongoing action plans. TEL held CSR monthly meeting to share information about departmental CSR issues and promote improvement. Starting in fiscal year 2017, TEL semiannually convenes the CSR management council, comprising the CEO, corporate directors, and division general managers. At the same time, the CSR promotion committee has been reorganized into the CSR global promotion committee to further enhance CSR activities at the global level.

| Theme | Goals for fiscal year 2016 | Results for fiscal year 2016 |
|------------------------|--|--|
| Sustainable management | CSR management <ul style="list-style-type: none"> Effectively use and maintain CSR management system. Regularly report on CSR activities at management meetings. | <ul style="list-style-type: none"> Convened management council joined by CSR Promotion Corporate Director and CSR Promotion Executive Officer to review CSR activities and set goals for the next fiscal year. Reported on primary CSR activities at the corporate management council. |

Stakeholder communication

Business activities are based on good communication with stakeholders and society at large. That is why TEL considers building stakeholder trust essential to its operations. Accordingly, TEL discloses information on the progress of its initiatives and future direction of its business in a fair and timely manner through regular briefings and its corporate website. In addition, TEL interacts with stakeholders on many occasions and through various contact points. This helps us accurately understand their views and expectations, and allows TEL to quickly reevaluate and adjust its course of business as appropriate.

Through these efforts, TEL is reducing the latent impact of social and environmental issues on its business while seeking to improve its competitiveness and market position to maintain sustainable business operations.

| Theme | Goals for fiscal year 2016 | Results for fiscal year 2016 | |
|---------------|----------------------------|---|--|
| Communication | Stakeholder engagement | <ul style="list-style-type: none"> Formulate company-wide stakeholder engagement policy and execution plan. | <ul style="list-style-type: none"> Evaluated the positions and priorities of stakeholders. The formulation of engagement policy and execution plan will continue in fiscal year 2017. |
| | Disclosure | <ul style="list-style-type: none"> Expand the scope of communication on main social contribution activities. | <ul style="list-style-type: none"> Enhanced communication on TEL's social contribution activities in Japan and abroad. |

| TEL's key stakeholders | Divisions in charge | Key communication methods |
|--------------------------|----------------------------|--|
| Shareholders/investors | Management, IR | Earnings announcement (quarterly), Medium-term management plan briefing, Interviews, Factory tours |
| Customers | Sales, R&D, Marketing | Interviews, Executive meetings, Customer satisfaction survey (annual), Technology conferences |
| Suppliers | Procurement, Purchasing | Production update briefing (semiannual), Partners day (annual), STQA ¹ audit, Interviews |
| Employees | Management, HR | Employee meetings, Technology conference, Interviews, Global engagement survey (annual) |
| Local communities | Local administration teams | Factory tours, Participation in local activities, Visits to/interviews with local authorities, Social contribution activities |
| Governments/associations | Local administration teams | Legal and regulatory compliance/notification/monitoring/advocacy, Industry group activities, Alliances with external organizations |

1 STQA: Supplier Total Quality Assessment

Examples of initiatives

Technology conferences

TEL holds technology conference meetings of various sizes throughout the year, addressing the needs of specific business units, markets, regions, and so forth. These conferences serve as venues for information sharing and multifaceted communication and have received positive reviews from customers, TEL employees, and other participants. Through these networking events, TEL is effectively sharing information to support innovation and the development of high value-added products and services.



Participation in international CSR initiatives

TEL is taking an active part in international CSR organizations, such as the United Nations Global Compact and the EICC^{®*}, a CSR alliance of the electronics industry.

In fiscal year 2016, we assigned EICC promotion personnel at TEL locations in Japan and in the U.S. to promote effective compliance with the EICC Code of Conduct. These personnel also reinforce operational compliance for the Asian, European, and U.S. regions where TEL conducts business. For major suppliers, those whose total business with TEL accounts for over 80% of our procurement spending, we have implemented a Supply Chain CSR Assessment to ensure control over our supply chain based on the EICC Code of Conduct.

* EICC[®] is a registered trademark of Electronic Industry Citizenship Coalition Incorporated.



| Theme | Goals for fiscal year 2016 | Results for fiscal year 2016 |
|------------------------|---|--|
| Sustainable management | EICC <ul style="list-style-type: none"> Build a global framework for EICC compliance promotion and implement training. | <ul style="list-style-type: none"> Appointed EICC promotion personnel to overseas bases to build and reinforce compliance. Initiated training programs. |

Evaluations by external organizations

To enhance medium- to long-term corporate value, TEL is using evaluations by external organizations as benchmarks of its operations. In fiscal year 2016, TEL was chosen as a Sustainability Yearbook Member and an Industry Mover by RobecoSAM AG¹, a research institute that cooperates with the Dow Jones Sustainability Indices (DJSI). Since 2003, TEL has been a part of the FTSE4Good Global Index, a prominent index for social responsibility investment (SRI). TEL has also been selected by Morgan Stanley Capital International (MSCI) for the MSCI ACWI ESG Index and the MSCI World ESG Index.

1 RobecoSAM AG: An investment specialist founded in 1995 focused exclusively on Sustainability Investing



FTSE4Good



Social issues surrounding our business

International initiatives to realize a sustainable society, such as the UN Sustainable Development Goals (SDGs) and the Paris Agreement, have begun to be implemented. Businesses are also being requested to leverage their operational strength to help resolve diverse social issues on a global level.

The semiconductor production equipment industry, which TEL is a part of, has made remarkable contributions to people's lives through constant technology innovation. This advancement and diversification of semiconductor process technologies comes with the risk of higher development costs. In addition, any delay in responding to customer needs can lead to lost opportunities for entering markets. Insufficient compliance with climate change related laws and regulations in the countries where TEL operates can put its marketing opportunities as well as its reputation at risk. There are many other social issues surrounding TEL's operations, as listed below. We believe being prepared for and proactively responding to these issues is critical to both ensuring our business growth and attaining a sustainable society.

| Social issues most relevant to TEL | Risk prevention and countermeasures |
|--|--|
| Technical differentiation and innovation | Continued investment in R&D, Open innovation |
| Climate change | Environmentally friendly products, Prevention of global warming, energy-saving initiatives |
| Unpredictable risks to business continuity: natural disasters, war, terrorism, infectious diseases | BCP programs |
| Anti-corruption measures and fair business practice | Continued initiatives to reinforce governance, Education on ethics and compliance |
| CSR in the supply chain | CSR-based procurement, Participation in conflict minerals initiatives, Green procurement, BCP of suppliers |
| Securing human resources worldwide, retention of key personnel | Achieving an invigorating workplace, Reinforcement of diverse programs, Human resource development |
| Health and safety | Safety initiatives, Improvement of employee health and workplace environment |
| Tightening of legal restrictions by governments and others | Information gathering on related laws, Policy advocacy initiatives, Legal compliance |

Policy advocacy initiatives

It is essential for a business that its products and technologies earn public acceptance in a manner that does not disregard requirements of society. Creating synergy between businesses and society can lead to greater advancement of the semiconductor industry and bring solutions to many social issues, TEL, as a member of SEMI² and other industry organizations, is engaged in advocacy. These initiatives involve lobbying governments and local authorities for public policies and regulations that benefit society in a practical and rational way. TEL believes that when backed by a good grasp of regulatory trends, active participation in advocacy initiatives can reduce the sustainability risk of manufacturing operations, not only for TEL itself but also for its customers.

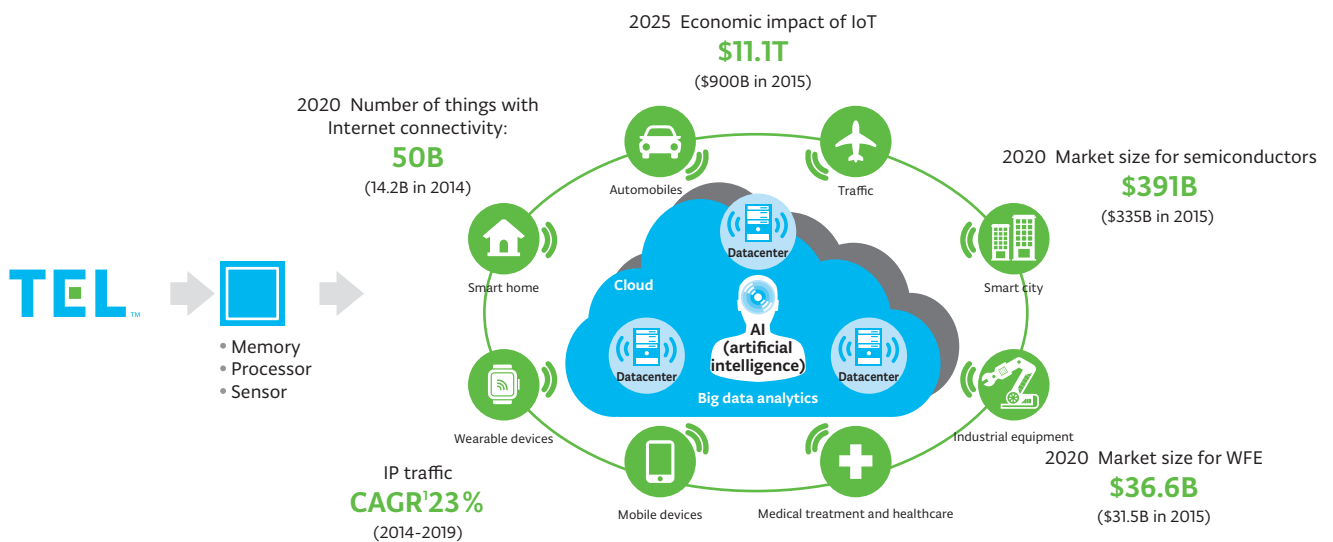
2 SEMI: A global industry association serving the supply chain of manufacturing equipment, raw materials, and related services in such fields as semiconductors, flat panel displays (FPDs), nanotechnology, MEMS, photovoltaics, and related technologies

Business opportunities and mid-term vision

The IoT-enabled future

From a medium to long-term perspective, the electronics industry is about to enter the age of the Internet of Things (IoT), where everything is connected to the internet. The number of devices with internet connectivity is expected to reach 50 billion in 2020, and the volume of data exchanged across the global networks is predicted to soar at an average annual rate of 23%. The demand for greater data processing capabilities, faster transfer rates, less power consumption, and higher screen resolution will only continue to rise.

Due to these trends, TEL is simultaneously pursuing R&D into more sophisticated miniaturization, new structures and new materials technologies, new memory chips based on new device technologies, and new packaging technologies. Being a semiconductor production equipment manufacturer with diverse technologies, TEL's diverse capabilities will be in much greater demand in the near future.



Source: CISCO, McKinsey & Company, Semiconductor and WFE² markets (worldwide): Gartner, Forecast: Semiconductor Wafer-Level Manufacturing Equipment, Worldwide, 1Q16 Update. April 14, 2016

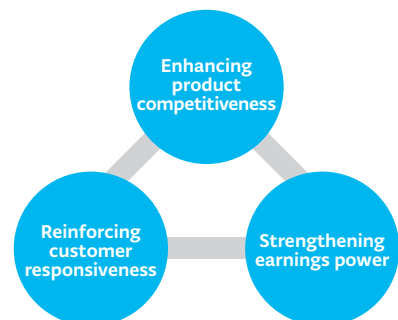
1 CAGR: Compound Annual Growth Rate

2 WFE:Water Fab Equipment

Mid-term vision

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

There are some factors that are required to integrate TEL's diverse capabilities as a semiconductor production equipment manufacturer and provide innovative solutions to customers. These include advanced technology development capability, services and technologies for speedily addressing customers' problems, and world-class earnings power. To attain the goals of our Medium-term management plan by the fiscal year ending March 2020, TEL has chosen these three focus areas to drive the implementation projects.



Materiality assessment

Process for identifying material issues

TEL identifies material issues based on the following process:

Step 1. Identifying social issues

Various departments concerned with CSR examined the variety of social issues from the standpoints of SDGs, the UN Global Compact, GRI, and so on. They worked with departments in charge of risk management and organization strategy to select social issues that are of great significance to TEL.

<External ideas and assessments used for reference>

- UN Sustainable Development Goals
- The Ten Principles of the UN Global Compact
- EICC Code of Conduct
- GRI G4 Guidelines
- Expectations from SRI and TEL's ranking
- Social norms and interest of the citizenry
- Inputs from stakeholder communication
- Views and requests given in response to our reports and through the Internet
- Advice of third-party support organizations on analysis of materiality

Step 2. Assessment of relevant business issues and prioritization

After the social issues were identified in Step 1, their relevance to our business issues was assessed and key issues were prioritized.

<TEL's principles, business environment, and policies used for reference>

- Corporate Philosophy
- Management Policies
- CSR Policy
- Underscored items in the medium-term vision
- Investment trends
- Plans for new businesses
- TEL Values
- Social issues and opportunities surrounding our operations
- Benchmarks of competitors in the industry

Step 3. Verification of feasibility

Inviting external experts as advisors, the Materiality Review Council was convened to evaluate the feasibility of each material issue identified in the previous fiscal year. The principal views and suggestions gained at the Council were as follows:



Materiality Review Council

<Principal views and suggestions obtained>

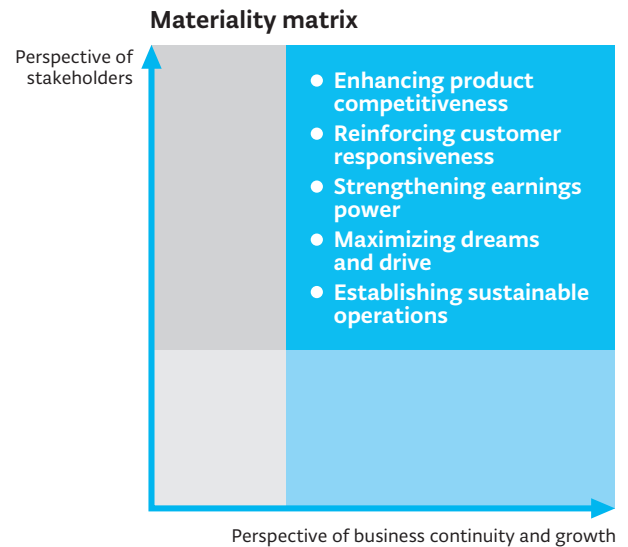
- A review of the material issues for fiscal year 2016 revealed that, in order to improve the choice of issues for the next fiscal year, more emphasis should be placed on the perspectives of management strategy and social issues. In addition, operational priorities should be made clearer.
- With regard to customer responsiveness, opportunities are growing at every stage of operations from equipment design through post-sales service. Customer engagement is becoming more important than ever before.
- In step with the advancement of technology, market expectations on innovation, new technologies, and speed, are increasing and must be addressed.
- Value creation in supply chain management is essential, and we need to maintain good relationships with our suppliers.
- As the labor force in Japan is shrinking, we need to take a global approach to HR management and provide an environment that enhances intellectual productivity regardless of the employees' nationality and culture.

Identifying material issues

TEL fulfills the roles and responsibilities of a corporate citizen in the international community through its support for the UN Global Compact and by endeavoring to solve social issues identified in the UN SDGs. In determining the materiality of the corporate issues at hand, TEL sought to thoroughly understand its business environment and risks, while also placing an emphasis on clarifying the connection between the social issues and TEL's operations.

As a manufacturer of semiconductor production equipment, TEL believes it can contribute to the advancement of technologies that support and enrich people's lives by fully understanding market changes and real customer needs and by continuously delivering innovative next-generation products. TEL also considers it important to streamline its operations and gain world-class earnings power. This will allow us to attain sustainable growth and medium- to long-term improvements in the enterprise value and to realize a dream-inspiring and engaging workplace with fully functional compliance and governance systems. In addition, this approach will continue to show TEL's focus on human rights and labor issues, as we continually offer challenging opportunities for personal growth.

Based on this position, and mindful of the need to be comprehensive and concise, TEL chose the material issues for fiscal year 2017 while also keeping the previous year's material issues in perspective.



CSR goals for fiscal year 2017

For fiscal year 2017, TEL has set 16 goals related to 5 material issues and is working to achieve them.

| Material issues | Themes | Goals |
|-------------------------------------|---|--|
| Enhancing product competitiveness | Innovation | Maintain development costs at the fiscal year 2016 level. |
| | Environmental contribution of products | Continue initiatives to reduce per-wafer consumption of energy and pure water by 10% by fiscal year 2019 (as compared with fiscal year 2014). |
| Reinforcing customer responsiveness | Customer satisfaction | Get 3.0 points or more on a 4.0 scale for every item in the customer satisfaction survey. |
| | Quality | Implement PDCA ¹ training and disseminate the TEL 6-Step model (8D problem solving method ²). |
| Strengthening earnings power | Information security | Ensure all target employees take a training course in information security. |
| | Improve profitability | See Annual Report 2016 |
| Maximizing dreams and drive | Streamline operations | Maintain the number of TPM programs at the fiscal year 2016 level. |
| | Create an invigorating workplace | Provide a work environment that supports continuous growth while ensuring performance-responsive, scrupulously fair treatment of employees. |
| Establishing sustainable operations | Social contribution | Maintain the number of social contribution programs at the fiscal year 2016 level. |
| | Corporate governance | Improve the operation of the Board of Directors through annual effectiveness evaluations. |
| | Compliance and ethics | Ensure all employees complete training courses in business ethics and compliance. |
| | Business continuity management | Provide business continuity plan (BCP) training at principal manufacturing sites and headquarters, revise the BCP manual and implement safety confirmation system training (all to be performed annually). |
| | Safety | TCIR ³ : Less than 0.5. |
| | Environmental management | Reduce energy consumption by 1% on a per-unit basis ⁴ from the fiscal year 2016 level. |
| | | Maintain water consumption at the fiscal year 2012 level (on a per-unit basis). |
| Supply chain management | Reinforce supply chain management through supply chain CSR assessment*. * Targeted at high-ranking suppliers whose aggregate business with Tokyo Electron accounts for 80% of its procurement. | |

1 PDCA: A method for continually improving operations by iterating the four steps of Plan, Do, Check, and Act

2 8D problem solving method: A method for solving problems in quality improvement through eight disciplines or processes

3 TCIR: Total Case Incident Rate (the number of workplace injuries per 200,000 work hours)

4 Per-unit basis: Energy consumption (environmental burden) divided by values closely associated with energy consumption, such as production volume, number of employees or total floor area