

TEL

TOKYO ELECTRON
INTEGRATED
REPORT 2021

Cover Image

"Digital x Green"

TEL

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Editorial Policy

Issuance of an Integrated Report

Tokyo Electron has issued an integrated report from this year for the purpose of reporting our medium- to long-term profit expansion and continuous corporate value enhancement to our stakeholders. This report contains a message from the CEO, along with information such as material issues and value creation model. The continuous creation of value in the value chain of our business activities is also explained along with our sustainability initiatives.

We remain committed to accurately comprehending all of our stakeholders' demands and disclosing information timely and transparently.

Scope

This report and related data cover the entire Tokyo Electron Group (28 consolidated companies, including the Group companies), with the exception of some domestic (Japan-exclusive) content.

Reference Guidelines

- International Integrated Reporting Council (IIRC): International <IR> Framework
- Ministry of Economy, Trade and Industry: Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation
- Global Reporting Initiative (GRI): Sustainability Reporting Standards
- Environmental Reporting Guideline 2018, Ministry of the Environment, Government of Japan
- Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

Issued Date

August 2021

Period Covered

Fiscal 2021 (April 1, 2020, to March 31, 2021), some content also covers fiscal 2022

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Tokyo Electron's Logo

Tokyo Electron's logo was created as a symbol for our next stage of growth, based on our Corporate Philosophy and vision. This simple design represents our reliability and the engaging presence we bring to a competitive industry. The green square at the center of the logo signifies the core of innovation supporting development in the industry; the translucent blue expresses our leading-edge advanced technology. We strive to contribute to the development of a dream-inspiring society through our leading-edge technologies and reliable service and support.



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Corporate Philosophy

The Corporate Philosophy defines the purpose of Tokyo Electron's existence and its mission in society. It represents TEL's basic way of thinking that forms the foundation for its corporate activities.

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



Management Policies

The Management Policies highlight the management values that Tokyo Electron regards as essential to achieving the objectives defined in its Corporate Philosophy. They express the logic that underscores our eight general rules of management.

■ Profit is Essential

The TEL Group aims to contribute to the development of society and industry and to the enhancement of corporate value while continually pursuing profit.

■ Growth Philosophy

We will tirelessly take on the challenges of technological innovation to achieve continuous growth through business expansion and market creation.

■ Employees

The TEL Group's employees both create and fulfill company values, performing their work with creativity, a sense of responsibility, and a commitment to teamwork.

■ Safety, Health, and the Environment

The TEL Group gives the highest consideration to the safety and health of every person connected with our business activities as well as to the global environment.

■ Scope of Business

The TEL Group leads markets by providing high-quality products in leading-edge technology fields with a focus on electronics.

■ Quality and Service

The TEL Group strives to understand the true needs to achieve customer satisfaction and secure customer trust while continuously improving quality and service.

■ Organizations

The TEL Group builds optimal organizations that maximize corporate value in which all employees can realize their full potential.

■ Social Responsibility

Feeling a strong sense of corporate social responsibility, we strive to gain the esteem of society and to be a company where our employees are proud to work.

CEO's Message



Toshiki Kawai
Representative Director,
President & CEO

Toward Expansion of Medium- to Long-term Profit and Continuous Corporate Value Enhancement

I would like to express my sincere gratitude to all stakeholders for your continued support and patronage.

Tokyo Electron was established in 1963 by a few young people full of venture spirit. That spirit has been passed down through the years, making it possible for us to launch innovative equipment for semiconductor and LCD panel manufacturing, areas characterized by rapid technological change.

With the spread of IoT, AI and 5G today, the shift toward a data-driven society is accelerating, and we

expect to see further expansion in business opportunities against a backdrop that demands unending technological innovation.

Amid such circumstances, we constantly remain aware of the "Purpose" of our existence in society, as represented by 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". By leading the world in the creation of high-value-added technologies, we strive to expand profits in the medium to long term, and continuously enhance our corporate value.

Practice of the Corporate Philosophy: Semiconductors and Displays in a "Digital × Green" Society

The previous year 2020 saw the global spread of COVID-19 and frequent natural disasters arising from climate change, including torrential rains in Japan and hurricanes and cold spells in North America. In addition, there were geopolitical issues such as trade friction as well as various human rights issues that occurred worldwide. It became a year carved in history as one that had a major impact on society and the lives of people.

On the other hand, it was also a year when digital transformation (DX) made progress in our daily lives and all kinds of industries, and the importance of semiconductors, which are essential for information and communication technologies (ICT), became prominent.

As the shift toward a data-driven society accelerates and efforts to solve global environmental problems progress, "Digital × Green" has become a major trend worldwide. Green refers to carbon neutrality, the goal of decarbonization by suppressing CO₂ emissions. (Fig. A)

Therefore, the world is currently pushing firmly ahead with implementing ICT and DX as well as taking action to realize a carbon-free society in order to build a strong and resilient society in which economic activities do not stop under any circumstances.

Going forward, the digitalization of all kinds of industries will penetrate widely through society, including the evolution of new technologies such as autonomous driving and smart fabs, smart agriculture, smart medical care, and smart cities. Standing at their core and supporting them are semiconductors.

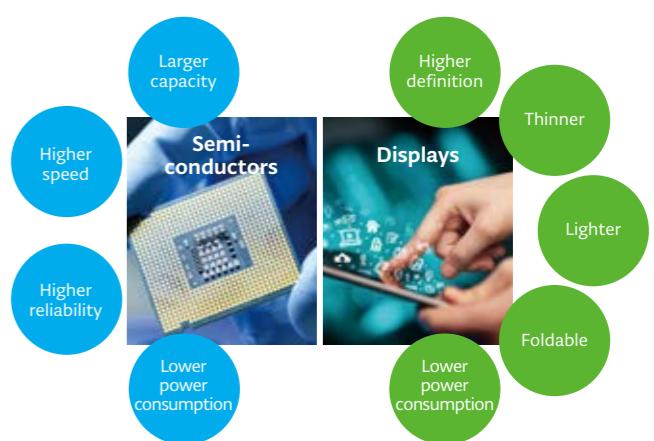
Semiconductors were first used in computers and television sets and then spread to mobile phones. They are now no longer simply chips that power things but have instead become an infrastructure for the whole of society. It is only with semiconductors that the digitalization of society becomes possible. The technological demands on semiconductors, such as larger capacity, higher speed, higher reliability, and lower power consumption, are limitless.

Alongside the evolution of semiconductors are displays that form the interface between people and data. Technological innovation continues to center on organic light-emitting diodes (OLEDs), and application is expanding beyond the concept of just being monitors. Technological innovation will continue as long as efforts to make displays more beautiful and easier to use continue. (Fig. B)

Fig. A: Trend toward the Future



Fig. B: Technological Demands on Semiconductors and Displays



Reflecting on the past, the 1990s were called computer-centric, with personal computers driving the semiconductor market. We then entered the mobile-centric 2000s, when smartphones drove the market. Going forward, we will enter the age of DX, where billions of “things” will be connected to the internet and the big data generated by these things will drive society. Global data traffic is expected to increase at a compounded annual growth rate of 26%¹.

The semiconductor market will expand greatly to support the explosive increase in data traffic. In the nearly 70 years since the invention of the transistor in 1947, the size of the global semiconductor market reached approximately US\$440 billion in 2020. It is expected to reach US\$1 trillion in 2030, more than twice the size of the current market which has grown over the past 70 years. In other words, it means a market that is the same size or greater than the current one will develop in the next 10 years. (Fig. C)

The wafer fab equipment (WFE)² market that we are a part of is expected to have a market size of over US\$90 billion in 2021³. Looking toward the future, further growth is expected with the trends toward ICT, DX,

decarbonization, electric vehicles, autonomous driving and post-5G communication, and just as the semiconductor market is expected to reach US\$1 trillion, the WFE market will also enter what we refer to as a new “Big Years” growth phase. (Fig. D)

To achieve further growth, we will ride the wave of such technological innovation and create high-added-value technologies that the world has never seen and only we can accomplish. Applying our expertise as an equipment manufacturer developed through being an industry leader and using all management resources, including our employees who both create and fulfill company values, we will contribute toward achieving the societal shared value of balancing “Digital × Green”. We will strive to practice our Corporate Philosophy and achieve sustainable growth through these efforts and meet the expectations of all stakeholders.

¹ A compounded annual growth rate of 26%: Omdia's projection for 2020-2030

² 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. Wafer fab equipment refers to the production equipment used in front-end production. Refer to Semiconductor Manufacturing Process and Our Main Products on p. 14.

³ Market size for 2021 is our estimate as of August 16, 2021.

Fig. C: Outlook for the Semiconductor Market

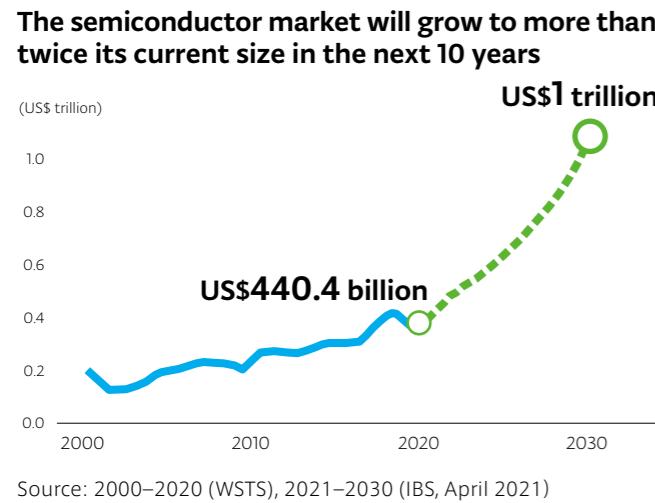
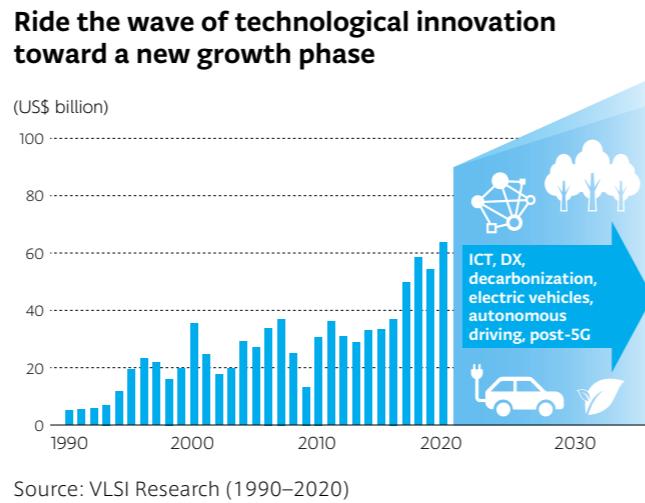


Fig. D: WFE Market Trends



Medium-term Management Plan

In May 2019, we revised our Medium-term Management Plan upward. We developed a financial model that shows the relationship between operating margin and return on equity (ROE) that we should seek to achieve for each anticipated sales scope. The model's core targets are to achieve net sales of 2 trillion yen, an operating margin of 30% or more and an ROE of 30% or more by fiscal 2024. It was designed to capture as much growth potential as possible while steadily reinforcing our financial strength and seeking to achieve world-class profits and ROE. (Fig. E)

Through these profits, we will achieve shareholder satisfaction and stable and enriching lives for our employees in all business situations. We will also strive to invest in technology development and secure outstanding human resources for continuous growth. In addition, we will seek financing when necessary under favorable conditions by building a solid financial foundation based on profits and fulfill our corporate responsibility by paying proper taxes.

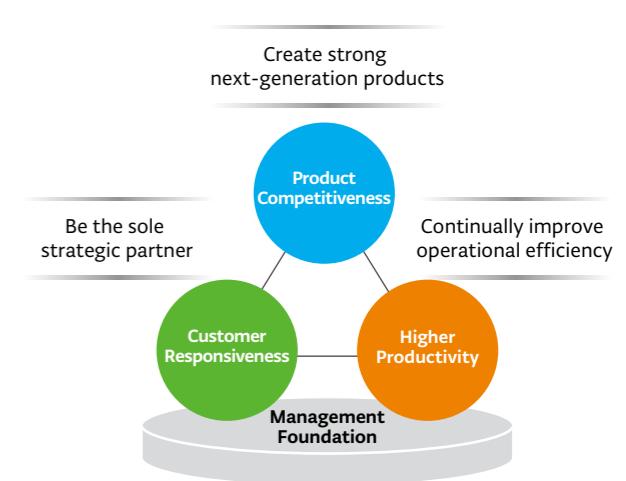
For fiscal 2022, we forecast net sales to be 1,850 billion yen with a 27.5% operating margin*. We assess that we are making smooth progress toward our targets and will continue to work as one to achieve this financial model.

* Net sales and operating margin for fiscal 2022 are estimates as of August 16, 2021.

Our Material Issues

We define our material issues as we strive for medium- to long-term profit expansion and continuous enhancement of corporate value. In addition to “Management Foundation”, with areas such as safety, quality, compliance, governance and risk management that support our business activities at the foundational level, our material issues consist of “Product Competitiveness”, “Customer Responsiveness” and “Higher Productivity”. As a manufacturer, we always keep in mind the pursuit of becoming “Only One, Number One” through sales and support of equipment with world-leading performance that fulfills extreme technological needs; that is to say, we offer the Best Products and Best Technical Service. We will quickly grasp the changes in the trends of and needs for leading-edge technologies to create next-generation products with overwhelming added value and performance required by customers in the future; be the sole strategic partner using our customer responsiveness; and further strengthen our earning power using higher productivity based on continually improving operational efficiency. (Fig. F)

Fig. F: Our Material Issues



Leveraging Expertise and Strengths

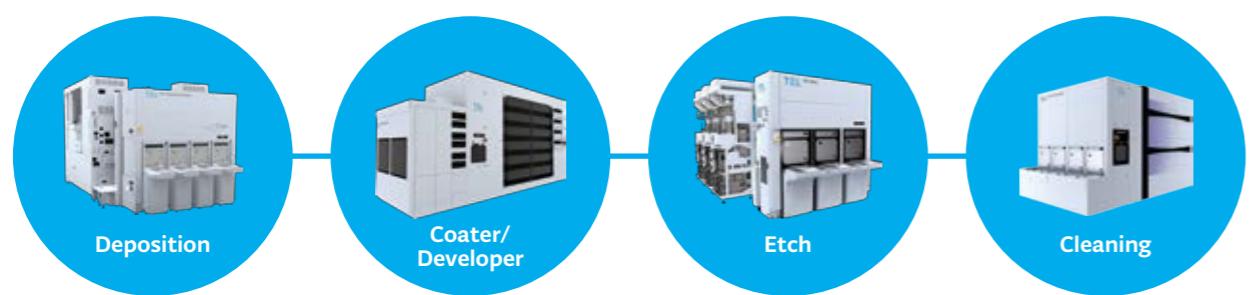
Based on these aforementioned ideas, we will adopt strategies that maximize the application of our expertise and strengths, which are as follows: (1) being the only manufacturer in the world with the series of four key process systems required for semiconductor scaling; (2) having the number one or two product share for these systems; (3) specifically, our 100% share of coater/developers for EUV lithography, which is essential for leading-edge scaling; and (4) delivering approximately 4,000 units annually and having a cumulative number of equipment installations of approximately 76,000 units, the largest number in the industry, through which sold equipment become new business opportunities and build a business model for field solutions that generate value. (Fig. G)

Under such circumstances, we plan to invest 165 billion yen for research and development in fiscal 2022, the highest amount ever. When we revised the aforementioned Medium-term Management Plan, we announced a research and development investment plan of approximately 400 billion yen in the three years starting from fiscal 2020. We are executing investments according to this plan. Going forward, we will continue to proactively invest in growth using our solid financial foundation based on profits.

Virtually every semiconductor or display in the world passes through our systems. We will further grow our strengths and bring in growth opportunities to the furthest extent possible.

Fig. G: Systems for Series of Four Key Processes

Leading-edge systems supporting technological innovation



Sustainability Initiatives

Our sustainability initiatives are the practice of our Corporate Philosophy itself. We will achieve sustainable growth and the enhancement of corporate value by using our unique expertise as an equipment manufacturer and contributing to the development of industry and society.

The Environment

Based on this approach, we are undertaking the building of a carbon-free society from three perspectives.

First, we will contribute toward higher performance and lower power consumption for semiconductor devices being used around the world. We will create the societal shared value of balancing "Digital × Green" by promoting technological innovation together with our customers.

Next is saving energy during the operation of equipment. In December of last year, we revised our Medium-term Environmental Goals for 2030, announcing our goal of reducing per-wafer CO₂ emissions by 30% compared to 2018.

The third perspective is the activities at our plants and offices. We have set our goals to achieve a rate of 100% renewable energy usage and a 70% reduction in total CO₂ emissions compared to 2018 by 2030. (Fig. H)

We will fulfill our mission and responsibility toward achieving decarbonization based on industry-leading, top-class goals.

We established E-COMPASS (Environmental Co-Creation by Material, Process and Subcomponent Solutions) in June of this year as a new supply chain sustainability initiative. We will actively endeavor to preserve the global environment throughout the supply chain. (Fig. I)

Human Resources

We believe corporate growth is about people, and employees both create and fulfill company values. Based on this approach, we place importance on the following three perspectives.

The first perspective is from the corporate culture and codes of conduct that we have cherished since our founding, and we summarized them as TEL Values¹. We always keep in mind the TEL Values as we strive to create a company replete with dreams and vitality.

The second perspective is from management that emphasizes motivation. "Employee capabilities and motivation" is essential for the Company's growth, and we focus on improving employee motivation together with the strengthening of human resource development such as through TEL UNIVERSITY². We see the main components of employee motivation as (1) dreams and expectations of the Company's future; (2) opportunities to take on challenges; (3) fair evaluations that recognize employee effort; and (4) an open workplace. Based on these components, we introduced a new human resources system in July of 2017 to promote the improvement of communication between managers and

their subordinates. In addition, the Corporate Senior Staff (CSS), consisting of our executive officers and management executives of overseas subsidiaries, reviews the progress of the entire Group's overall growth strategy and additional measures every quarter to improve openness and mobility within our organization. I also personally communicate the Company's direction at employee meetings being held at each location and listen to on-site opinions and proposals from employees directly in an effort to make prompt and accurate management decisions.

The third perspective is from human resource diversity. With 76 locations in 18 countries and regions around the world, 42% of our employees are foreign nationals. We actively implement initiatives for global diversity, including appointing the presidents and management executives of overseas subsidiaries mainly from locally recruited employees. In addition, we are also undertaking further gender-related initiatives to promote diversity and inclusion to bring about further growth.

¹ Refer to TEL Values on p. 12

² TEL UNIVERSITY: An in-house educational establishment, helping employees to independently build their careers and realize their personal goals

Fig. H: Medium-term Environmental Goals

CO₂ emission reduction goals (2030)

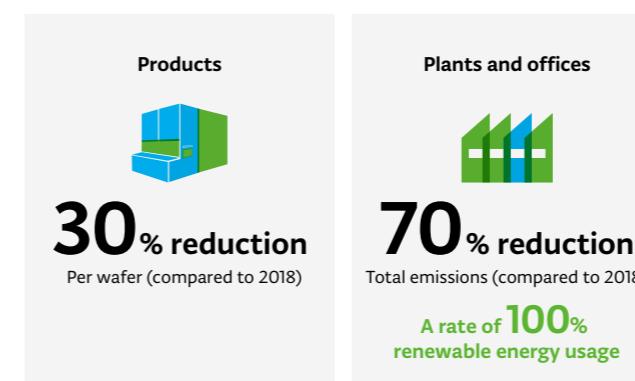


Fig. I: E-COMPASS

Pursue "Digital × Green" change throughout the supply chain



Corporate Governance

As for corporate governance, we seek to build a highly effective framework that achieves sustainable growth while taking into consideration our corporate culture and business characteristics for the proper functioning of management's decision-making and supervisory role. We have introduced a skills matrix in this fiscal year and will encourage diversity in the members of our Board of Directors and promote further improvement to deliberations. In addition, to further strengthen compliance and risk management, we have defined 13 business-related and other risks across our value chain and are working to strengthen our framework to be capable of always going through the PDCA* cycle.

We will build governance that is both proactive and prudent to incorporate our growth potential to the maximum extent.

* PDCA: The continuous implementation of the Plan, Do, Check, Act cycle to improve operations

To Be a Company that Is Loved and Trusted by All Stakeholders

A rich future that will be realized by semiconductors, and semiconductors which continue to evolve; the market for production equipment which support these has entered a further growth phase.

Corporate growth is about people, and employees both create and fulfill company values. Utilizing our expertise as an equipment manufacturer and diverse management resources, we will provide society with high-value-added technologies that the world has never seen and only we can accomplish.

Going forward, we will continue to take on challenges and evolve to be a truly excellent global company that is loved and highly trusted by all stakeholders.

We look forward to your continued support and patronage.



Toshiki Kawai
Representative Director,
President & CEO



P. 53 Please also refer to Chapter4 "Achieving Greater Growth"

TEL Values

Based on the thinking that corporate growth is about people and that employees both create and fulfill company values, we looked back at the values accumulated since our founding and what it means to be our company and summarized the codes of conduct that we hope to honor in the future as the TEL Values.

We will start our 60th fiscal year in April of next year. To further grow and keep being a company replete with dreams and vitality in the future, we will open up a new era together with the TEL Values as our foundation.



We have established the TEL Values, and we will continue to develop them accordingly in the future.

Pride

We take pride in providing high-value products and services.

We offer our customers cutting-edge technological products, along with the highest level of quality and technical service, in the pursuit of total customer satisfaction. We consider profit to be an important measure of value in our products and services.

Challenge

We accept the challenge of going beyond what others are doing in pursuing our goal of becoming number one globally.

We view changes as opportunities and respond to them flexibly and positively. We are tolerant of failure and consider it important to learn from the process and results.

Ownership

We will keep ownership in mind as we think things through, and engage in thorough implementation in order to achieve our goals.

We always have an awareness of problems and tackle challenges with enthusiasm and a sense of responsibility. We make decisions quickly and do what we consider to be the best course of action.

Teamwork

We respect each other's individuality and we place a high priority on teamwork.

We create a workplace with an open atmosphere and positive communication. We establish relationships of trust with our business partners in order to facilitate mutual growth.

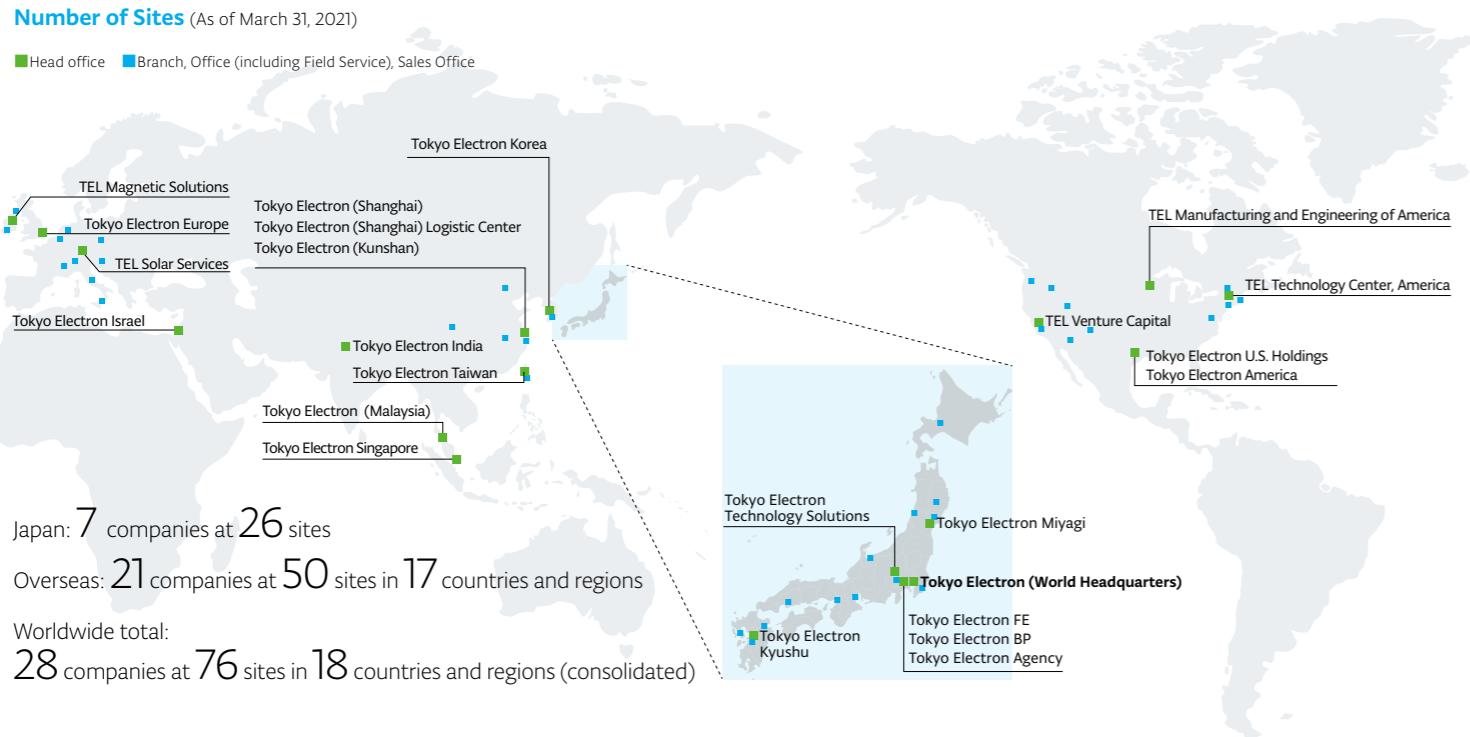
Awareness

We must have awareness and accept responsibility for our behavior as respectful members of society.

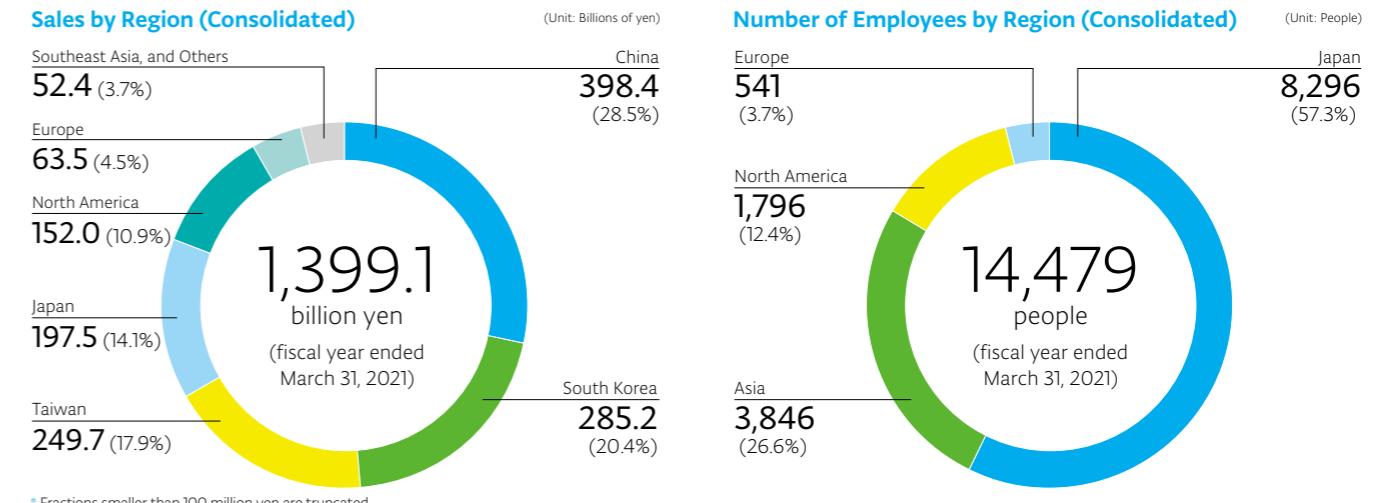
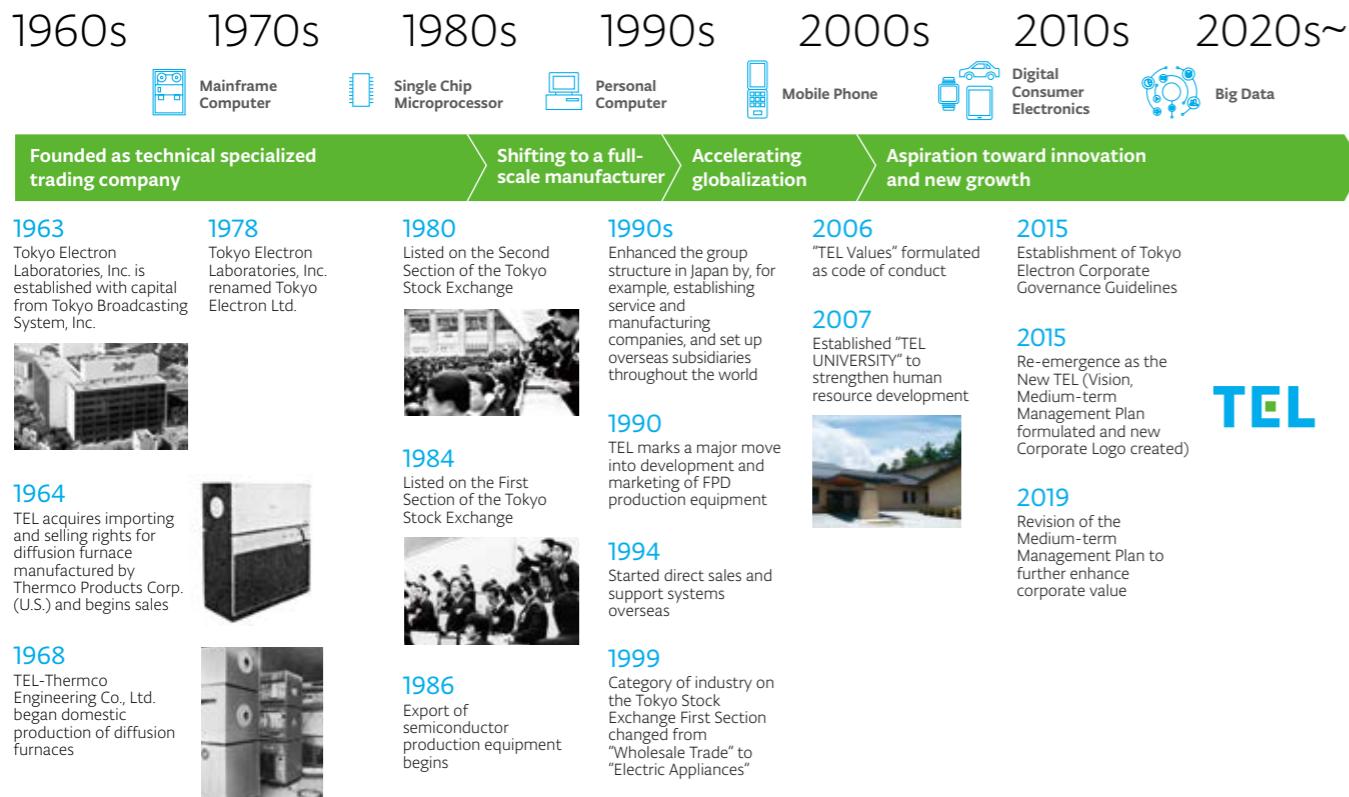
We strictly comply with laws and regulations and the rules of society. We give top priority to safety, health and the global environment. We strive to become a company that local communities hold in high esteem.

Company Overview

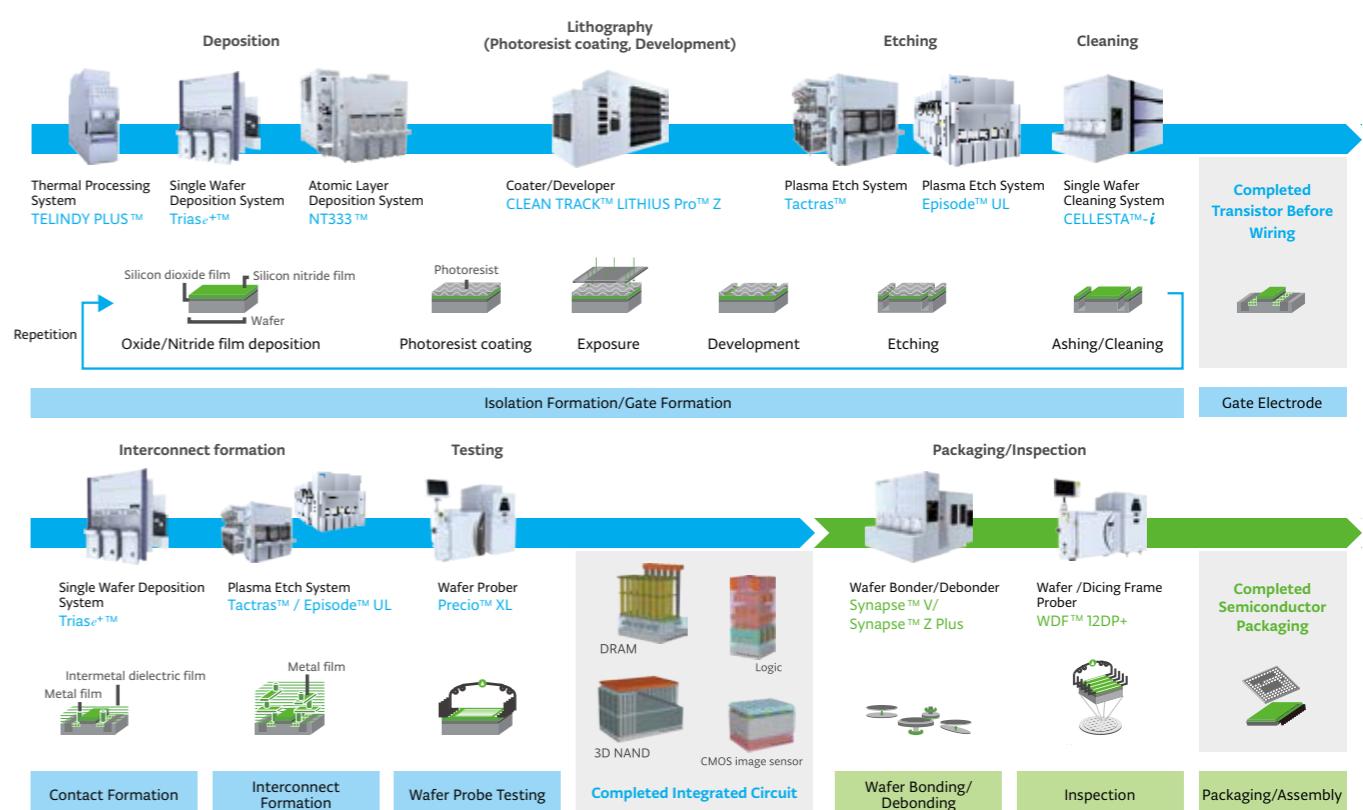
Tokyo Electron operates worldwide as a leading company in semiconductor and flat panel display (FPD) production equipment. By providing the Best Products and Best Technical Service, we are aiming for medium- to long-term profit expansion and continuous corporate value enhancement. We are also practicing our Corporate Philosophy by contributing to developing a sustainable society through our business.



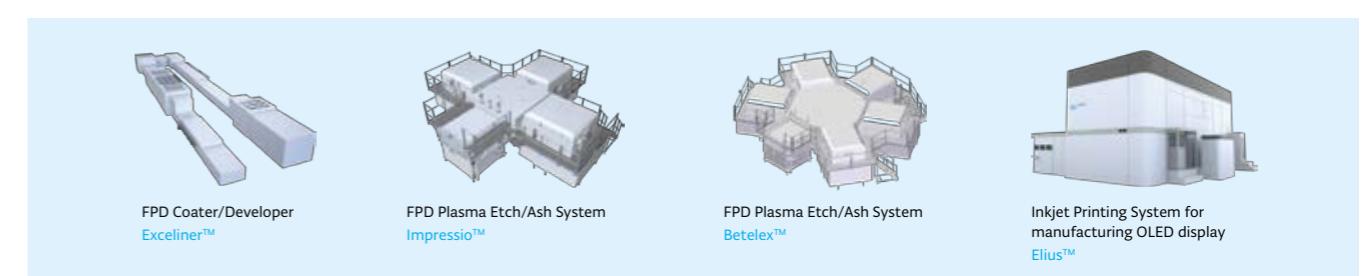
History



Semiconductor Manufacturing Process and Our Main Products

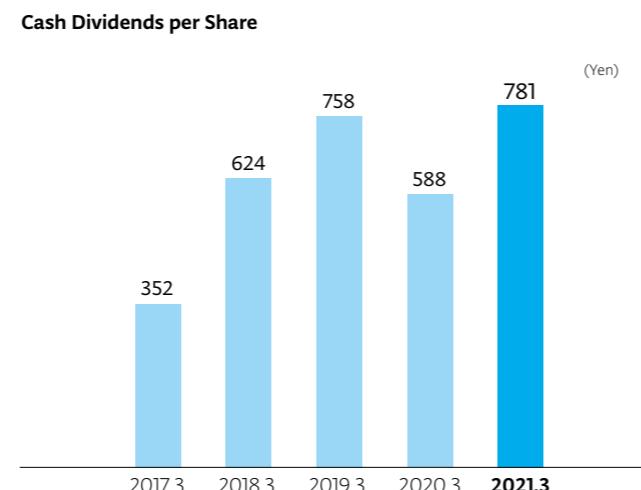
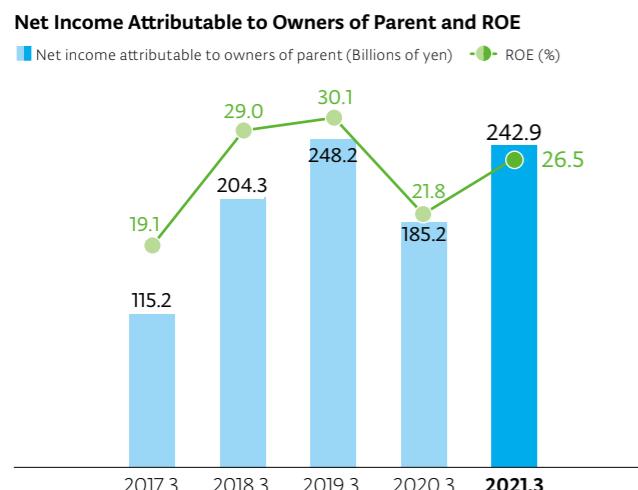
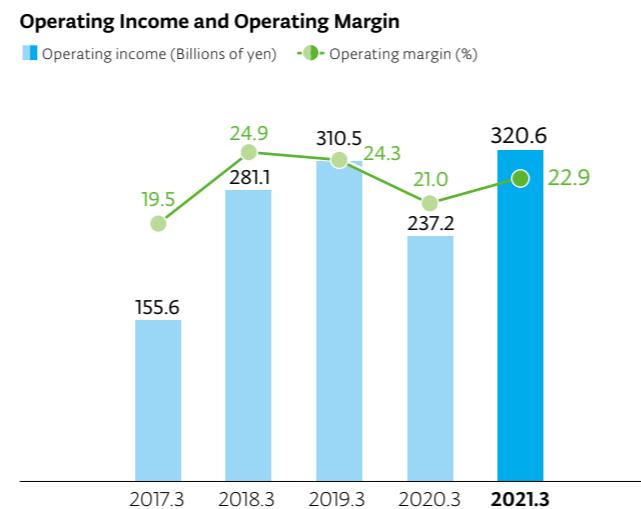
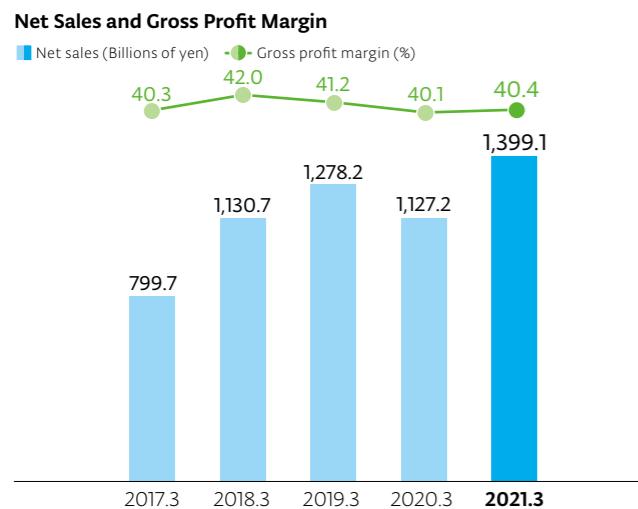


FPD Production Equipment



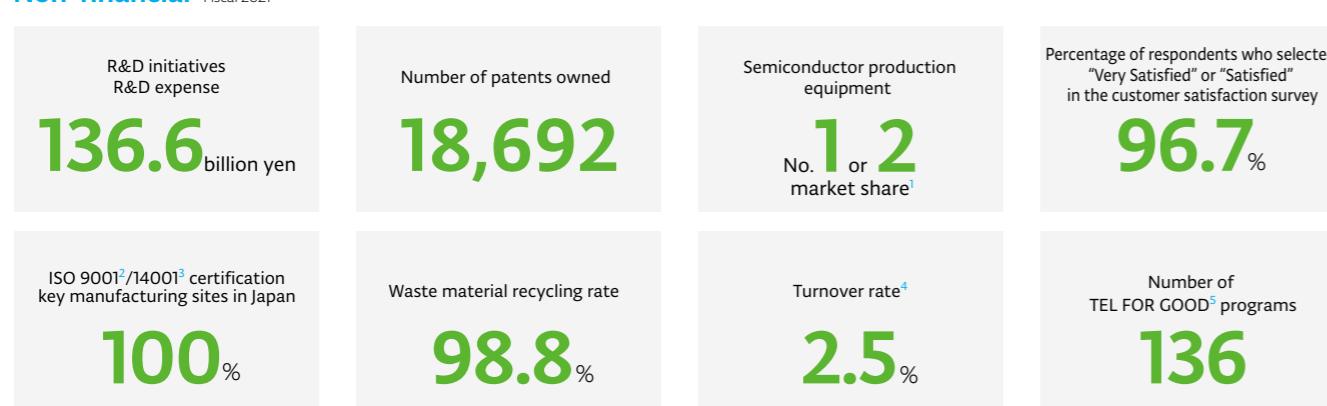
Financial and Non-financial Highlights

Financial



* For amounts shown in billions of yen, fractions smaller than 100 million yen are truncated. Percentages are calculated using the actual non-truncated values and rounded off.

Non-financial



¹ Our estimate. Equipment included: Coater/Developer (No. 1), Cleaning (No. 2), Plasma etch (No. 2), Gas chemical etch (No. 1), Diffusion furnace (No. 1), Batch deposition (No. 1), Metal deposition (No. 2) and Wafer prober (No. 1)

² ISO 9001: An international standard for promoting continuous maintenance and improvement of quality management systems to provide better products and services to customers

³ ISO 14001: An international standard for environmental management systems established to mitigate the direct and indirect impact that an organization's activities, products and services have on the environment

⁴ Turnover due to personal circumstances

⁵ TEL FOR GOOD: A brand name that represents our social contribution activities

Characteristics of Production Equipment Business

As technological innovations drive the growth of the production equipment market, it is essential to provide leading-edge technologies and services.

Pursuit of Technological Innovations

As the spread of IoT, AI and 5G accelerates the transition to a data-driven society, the role played by semiconductors is becoming ever more important. The big data era will require large quantities of diverse semiconductors as well as even higher performance. There is no stopping technological innovation in semiconductors, including larger capacity, higher speed, improved reliability and lower power consumption. Meanwhile, the application scope for displays, which form the interface between people and data, is expected to expand thanks to higher resolution, lower power consumption, larger size and improved design freedom from taking advantage of flexible shapes. As long as technological innovations continue, the semiconductor and flat panel display (FPD) markets will keep growing. At the same time, the market for production equipment, which supports these devices, can also be expected to grow further.

important to develop highest-performance equipment that helps realize semiconductor and FPD technological innovations by fully utilizing specialized expertise in a variety of fields, including electronics, mechanics, process and software. Therefore, it is crucial that manufacturers comprehend customer needs early, based on a solid relationship of mutual trust with customers, and carry out research and development continuously not only in-house but also with customers and consortiums. In addition, to carry out research and development that span multiple generations with an eye toward the future, solid management and financial foundations are also essential. Furthermore, the importance of technical services that support stable equipment operation is continuing to increase, and the utilization of AI and other technologies is actively being promoted toward providing higher-value-added services.

In our business activities, it is also crucial to build a sustainable supply chain based on partnerships with a variety of suppliers, including those who supply parts and materials, assemble and adjust equipment, and perform customs clearance and logistics operations.

Moreover, as a "Digital × Green" society is being promoted, the demand for reducing environmental impact is also heightening. Toward the realization of a sustainable society, production equipment manufacturers are required to contribute to the preservation of the global environment through various steps, such as contributing to the development of low-power-consumption semiconductors and FPDs, increasing the productivity of their production equipment and improving the operational efficiency of their plants and offices.

Technological innovations driving the growth of the production equipment market

Requirements of production equipment manufacturers

R&D from a medium- to long-term perspective and solid management and financial foundations to support it

Development of highest-performance equipment that realizes technological innovations

Specialized expertise in a variety of fields, including electronics, mechanics, process and software

Provision of high-value-added technical services

Solid relationship of mutual trust with customers

Building of sustainable supply chains

Initiatives to reduce environmental impact

Material Issues

Material Issues Crucial to Tokyo Electron's Sustainable Growth

As a manufacturer of semiconductor and flat panel display production equipment, we have identified "Product Competitiveness", "Customer Responsiveness" and "Higher Productivity" as three items to be enhanced in the Medium-term Management Plan. We have defined these three items, as well as "Management Foundation" that supports all our business activities, as high-priority material issues we must tackle in order to both expand our medium- to long-term profit and continue enhancing corporate value.

To appropriately respond to changes in the business environment surrounding our company, our management team, including our CEO, identifies material issues and reviews them on

a regular basis by evaluating risks and opportunities as well as engaging with our stakeholders.

Additionally, continuing our support of the Sustainable Development Goals (SDGs), which are globally shared goals to be achieved by 2030, we have identified appropriate SDGs initiatives through our business for each material issue and are conducting these initiatives throughout the entire Group.



SDGs Initiatives



- Create innovative technologies by promoting innovation and providing environment-friendly products and services to help develop a sustainable society



- Contribute to customer innovation generation and value creation by proposing optimal solutions, providing high-value-added services, ensuring equipment safety, and taking environment-conscious actions



- Pursue productivity improvement, continually improve operational efficiency and promote sustainable production-consumption mode, to contribute to the development of the industry and society and to economic growth



- Build a solid management foundation that achieves sustainable growth, respect human rights, take environment-conscious actions and promote value creation in the supply chain

Product Competitiveness

By jointly creating technology roadmaps spanning multiple generations to respond to the requirements of technological innovation, we are promoting leading-edge research and development on a global level. It is important for us to utilize our expertise as an equipment manufacturer and all of our management resources to continuously create high-value-added, next-generation products based on innovative technology on a timely basis.

We are strengthening our ability to make technical suggestions by integrating the development departments with the production departments. We are also providing equipment suitable to various applications by improving the performance of individual products and merging the wide variety of technologies we possess.

Customer Responsiveness

We are striving to further enhance customer satisfaction, which is a key management theme we have tackled since our founding, aiming to be the sole strategic partner for customers. We help customers manufacture leading-edge semiconductor devices and displays by maintaining an accurate and prompt grasp of customer needs and providing innovative technologies for future generations.

As an equipment manufacturer with a diverse product lineup, we propose optimal solutions contributing to value creation for customers. Making full use of leading-edge AI, digital technologies, and knowledge management tools, we help customers stably operate various generations of equipment by providing high-value-added services.

Higher Productivity

To enhance corporate value, it is important for us to improve our business operations, implement quality-first management and improve operational efficiency continually. Through taking steps such as integrating business systems in each division and unifying databases, we are striving to standardize and improve business operations throughout the entire Group, promote automation and improve productivity along the entire value chain. At the same time, we are utilizing AI and promoting digital transformation.

Additionally, we are also working to optimize our production operations by formulating detailed production plans, procuring parts and materials, and leveling production and installation based on assessment and analysis of technological and market trends.

Management Foundation

To ensure continued growth in business activities, building a strong and sound management foundation that supports them is vital. To ensure that operational decision-making and supervisory functions are exercised sufficiently, we are striving to build a highly effective corporate governance system, and further strengthen compliance and risk management.

Through our business, we are also working to preserve the global environment, ensure respect for human rights and build a sustainable supply chain. Furthermore, based on a belief that employees both create and fulfill company values, we are striving to further improve employee engagement by respecting diversity and building a workplace environment replete with dreams and vitality that enables employees to realize their full potential.

Medium-term Management Plan

Overview and State of Progress of the Financial Model

We are aiming for sustained growth in corporate value through a management base with global-standard strength. As the semiconductor production equipment industry enters a new stage in its development, our business activities in focus areas are progressing smoothly, with our sales far outpacing the market as one example of our progress.

It is in this environment that we have set our sights on achieving our financial model as the goal of the Medium-term Management Plan toward our further growth.

In the Medium-term Management Plan that was revised in May 2019, we added a model that aims to achieve net sales of 2 trillion yen and an operating margin of 30% or more. At the same time, the model—which we target to achieve by fiscal 2024—aims to achieve a return on equity (ROE) of 30% or more. Our financial model seeks not to anticipate the scope of our future sales but to optimize the business management that we should seek to achieve for each kind of sales scope anticipated. By

realizing this financial model, we intend to improve operational efficiency and profitability as well as secure resilience to market fluctuations.

In addition, through continuous efforts such as securing and generating resources necessary for growth investment and proactive returns to shareholders, we are working to improve capital efficiency by implementing appropriate balance sheet management with a view of medium- to long-term growth.

In fiscal 2021, Tokyo Electron's net sales reached 1,399.1 billion yen with an operating margin of 22.9% and ROE of 26.5%. We achieved net sales of over 1 trillion yen, an operating margin of over 20% and ROE of over 20% for the fourth consecutive year. For fiscal 2022, we are planning for net sales of 1,850 billion yen with a 27.5% operating margin*, and we are making smooth progress toward the financial model of our Medium-term Management Plan. We will continue to aim for world-class operating margins and ROE.

* Net sales and operating margin for fiscal 2022 are estimates as of August 16, 2021.

Actual Performance in Fiscal 2021, Estimates for Fiscal 2022* and Financial Model of the Medium-term Management Plan

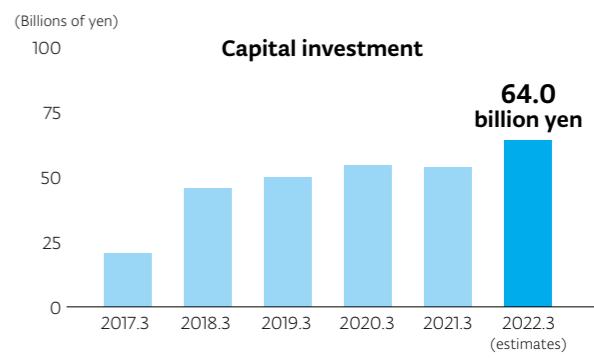
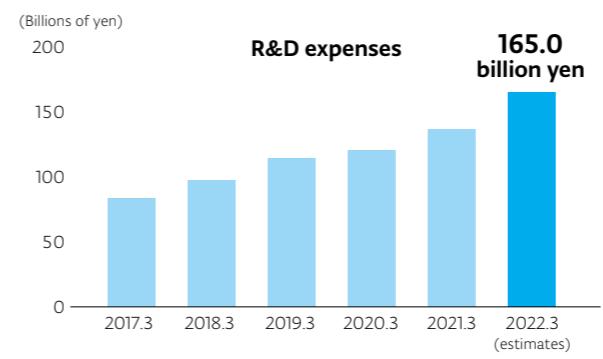
	Fiscal 2021 (Actual)	Fiscal 2022 (Estimates)	Financial Model (by Fiscal 2024)		
Net Sales	¥1,399.1 billion	¥1,850.0 billion	¥1,500.0 billion	¥1,700.0 billion	¥2,000.0 billion
Operating Margin	22.9%	27.5%	26.5%	28.0%	>30.0%
ROE	26.5%	—	—	—	>30.0%

Principal Initiatives to Achieve the Financial Model

- To create the Best Products, operate business in the fields of semiconductor and flat panel display (FPD) production equipment where we have strength and can leverage our accumulated technologies and management know-how
- Introduce state-of-the-art technological products with high added value required by customers into the market ahead of others and provide the Best Technical Service
- Continue to make proactive research and development investments using our solid financial foundation to maintain and enhance our world-leading technological innovation capabilities

- Expand revenues in the after-sale market through the provision of sophisticated field solutions based on our world-leading installed base
- Provide highly efficient, high-value-added services through the use of equipment data and AI

Trends in R&D Expenses and Capital Investment



For information about the material issues' identification process and the annual goals, please refer to the Tokyo Electron Sustainability Report 2021. www.tel.com/csr/report

Technological Capabilities

Our Approach to Increasingly Advanced Manufacturing Technologies

More complex structures and new materials are being adopted to achieve evolution of semiconductors and displays that support the development of information and communication technologies (ICT). Production equipment manufacturers are required to have comprehensive capabilities that respond to all kinds of technologies.

We have a rich product lineup that includes equipment capable of the series of four key processes—deposition, coater/developer, etch and cleaning—required to achieve higher performance and lower power consumption of leading-edge semiconductor devices. We are undertaking the development of equipment with innovative and extreme processing performance, centered on (1) deposition systems that can handle new materials and structure while utilizing batch, semi-batch and single-wafer characteristics and allow optimal film thickness and film quality control; (2) coater/developers for leading-edge EUV lithography; (3) etch systems that achieve precision processing of fine structure and processing of deep holes and trenches with high selectivity; and (4) cleaning systems that remove particles and residues—which are causes of lower yields—without causing the collapse of fine patterns. We also have a range of other equipment, such as wafer probers used in the wafer testing process and wafer bonders/debonders used for 3D integration of semiconductor devices.

The wide range of our product coverage allows us to propose solutions for issues faced by customers from a variety of approaches, including process integration based on an understanding of upstream and downstream processes. Specific examples include proposals for processing methods in the deposition and etch of hard masks necessary for the processing of ultra-fine patterns as well as proposals for cleaning methods according to the residues generated after deep-hole etching and deposition methods—including preprocessing—according to the surface state after cleaning. We strive to accurately understand the characteristics of our customers' devices and peripheral steps of processing and provide optimal solutions.

In the field of flat panel displays (FPDs), the patterning precision is becoming more advanced and progress is being made in technologies related to OLEDs. Under such conditions, in addition to the increasing deployment of PICP™ etch systems

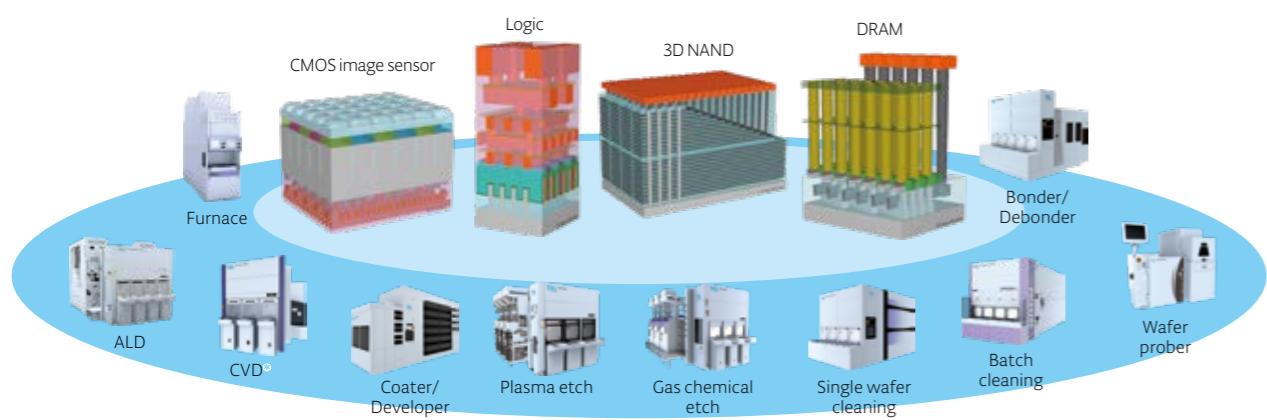
with plasma modules that are excellent in processing uniformity and energy efficiency, development and evaluation of inkjet printing systems, which have strong advantages in handling larger sizes and material efficiency, are also accelerating toward adoption for mass production.

We are also actively working to improve unit area productivity and energy consumption of our equipment. Positioning environmental performance as part of our equipment's basic specification, we reflect it in our product roadmaps of major models. We are promoting the reduction of CO₂ emissions that include reducing the usage of energy, water, process gases and chemical substances, reducing product footprint, volume and weight, reducing frequency of parts maintenance and increasing lifespan, and even shortening the time for equipment installation.

In addition, for the equipment we have shipped, which amounts to a cumulative total of 76,000 units, we will carry out maintenance, inspection and continuous improvement toward stable operation. At the same time, through our field solutions business, we will strive to reflect customer requirements in the development of next-generation technologies. We are contributing to our customers' manufacturing of semiconductor devices and displays by conducting high-value-added upgrades and providing re-engineered equipment*, including the strengthening of services such as through promoting digital transformation (DX).

In the development and production of semiconductor and FPD production equipment, it is important to fuse technologies by specialists in various fields—process, hardware, software, quality management, manufacturing and field engineering. Our employees' creativity, sense of responsibility and strong teamwork that achieve this fusion form the core of our technological capabilities. Using our rich technological capabilities developed over many years, we will continue to pursue the Best Products and Best Technical Service together with our employees who both create and fulfill company values.

* Re-engineered equipment: Equipment that replaces old units and parts with new ones while maintaining compatibility with existing processes to offer performance at the same level as the latest equipment

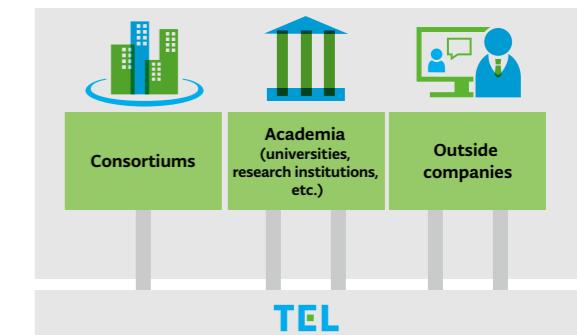


* CVD: Chemical Vapor Deposition

Various External Collaboration toward Achieving Technological Innovations

In addition to the development of leading-edge technologies at locations in Japan and overseas, such as in the United States, South Korea and Taiwan, we cooperate with customers in and outside Japan as well as international research institutions to pursue research for next-generation semiconductor manufacturing technologies in order to further strengthen our product competitiveness. Furthermore, we undertake collaboration with academia in a wide range of fields within our business areas—including a joint research bidding system with universities and research institutions in Japan—to discover advanced fundamental technologies. We also make investments in outside companies through TEL Venture Capital toward development of new technologies necessary for further business growth and application of our advanced technologies in other industries.

Through collaboration with various external organizations, we strive to establish our unique, innovative technologies and continue to create leading-edge semiconductor and FPD production equipment.

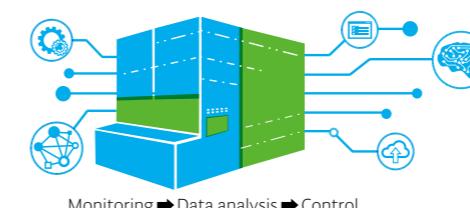


Maximization of Equipment Performance through the Promotion of DX

To meet the diverse technological needs of customers, we are strengthening DX toward early realization of aspects such as the establishment of performance and productivity improvement of our equipment and co-optimization of several process steps of manufacturing.

We are promoting the realization of smart equipment—which helps improve performance by controlling equipment

Realization of Smart Equipment



Development of Technological Development Strategy with a View of the Future

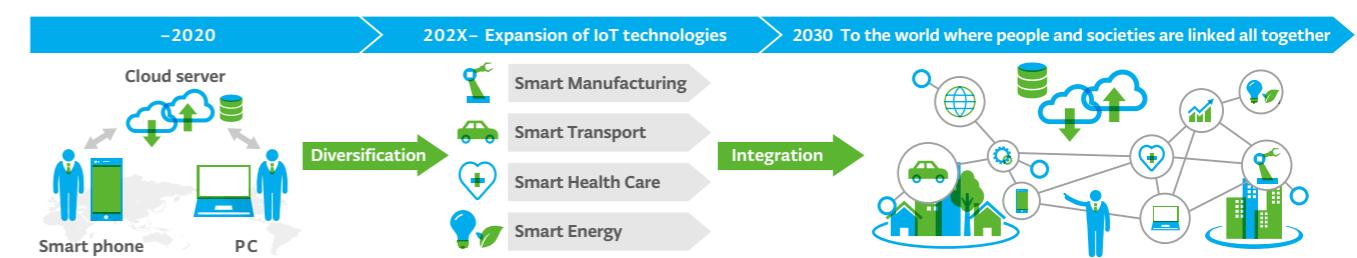
Together with the appearance of new technologies and services amid progress in building a "Digital × Green" society, lifestyles and business models are changing significantly. Manufacturing technologies for semiconductors and displays, which support such movements, are also becoming more advanced and diverse. Based on insights regarding changes in future social structure

based on using AI to analyze data on the states of operation and processes monitored through multiple sensors installed inside equipment—and TELeMetrics™, a remote maintenance service for equipment that has been installed at customers' fabs. Through these initiatives, we will provide functions and services meeting the needs of customers, such as improvement of equipment uptime, improvement of productivity and upgrades.

TELeMetrics™ Remote Maintenance Service

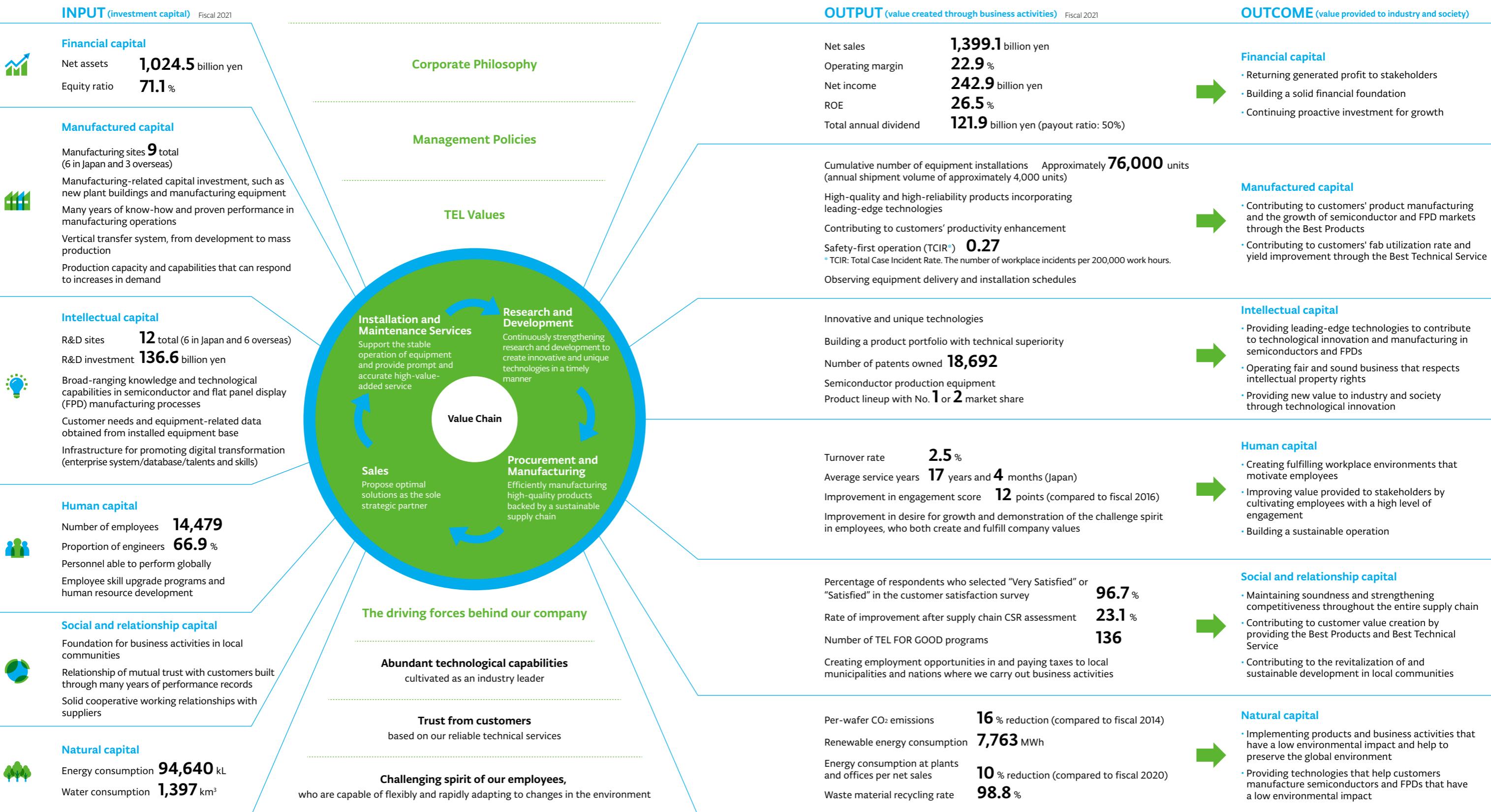


and people's values, we are constantly holding discussions on technological development strategies toward our sustainable growth. We share our medium- to long-term vision across the entire Group so that every employee can quickly grasp the changes of the times and respond flexibly and appropriately.



Value Creation Model

We will make the most of the capital we own and continue to provide new value that contributes to the resolution of issues and development of industry and society through our business activities in research and development, procurement and manufacturing, sales and installation and maintenance services in our value chain.



Stakeholder Engagement

Actively providing opportunities for engagement with our stakeholders and promoting mutual communication allows us to accurately comprehend their requirements and reflect them in our business activities. We strive to build a solid relationship of mutual trust with all the stakeholders surrounding our company and respond to each of their expectations, so that we can fulfill our roles and responsibilities in society.

Stakeholders	Relationship with Stakeholders	Value Provided to Stakeholders	Main Engagement Opportunities
Shareholders/ Investors	<ul style="list-style-type: none"> Shareholders and investors support our company's business expansion from a financial aspect and participate in company management by exercising their voting rights, etc. We share our management vision and growth scenario with shareholders and investors, and incorporate the feedback received from them through constructive dialogue into management decision-making in an effort to enhance our corporate value 	<ul style="list-style-type: none"> Return of profit generated from business activities Realization of medium- to long-term growth and enhancement in corporate value 	<ul style="list-style-type: none"> Earnings release conference, Medium-term Management Plan briefing, non-financial 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	<ul style="list-style-type: none"> Customers purchase the semiconductor and flat panel display (FPD) production equipment our company provides and also utilize services necessary for maintaining that equipment We not only provide products and services but also create technology roadmaps spanning multiple generations and carry out joint technology development with customers toward developing next-generation devices and processes 	<ul style="list-style-type: none"> Best Products with world-leading performance that incorporate leading-edge technologies High-value-added Best Technical Service Environment-friendly products and services with a focus on safety and quality Solutions that satisfy a variety of application needs 	<ul style="list-style-type: none"> Technology conference Customer satisfaction survey Joint development
Suppliers	<ul style="list-style-type: none"> Suppliers supply the parts, materials and human resources necessary for our company's equipment manufacturing, and also perform customs clearance and logistics operations We improve and enhance the quality of our products and services collaboratively with our suppliers, audit their business environments as needed, and promote improvement activities. In this way, we build a sustainable supply chain that takes into account labor, the environment, health and safety and ethics 	<ul style="list-style-type: none"> Maintaining soundness and strengthening competitiveness throughout the entire supply chain Further improving added value of products and services through collaboration with our company Providing business opportunities in the semiconductor and FPD production equipment market 	<ul style="list-style-type: none"> Production update briefing TEL Partners Day STQA* audit Refer to Initiatives with Suppliers on p. 30
Employees	<ul style="list-style-type: none"> Employees help enhance corporate value by utilizing their individual abilities and know-how, and by improving their skills through training We strive to improve employee engagement so our employees can realize their full potential 	<ul style="list-style-type: none"> A workplace environment replete with dreams and vitality that enables employees to demonstrate a challenge spirit Opportunities for career development and skill improvement Fair performance review and remuneration commensurate with results 	<ul style="list-style-type: none"> Employee meeting Global engagement survey Career interest survey (Japan)
Local Communities	<ul style="list-style-type: none"> We strive to advance together with the local communities where we carry out business activities. We create employment opportunities, develop local industries and advance environmental preservation initiatives as well as pay taxes in line with the profit generated by our business activities 	<ul style="list-style-type: none"> Provision of employment opportunities Promotion of environmental preservation in communities Financial contributions, such as tax payments 	<ul style="list-style-type: none"> Community contribution activities Tours of plants and offices Environmental debriefing
Governments/ Associations	<ul style="list-style-type: none"> In the markets where we carry out our business activities, we work to accurately comprehend societal needs by collaborating with highly relevant international organizations, industry associations, initiatives and NGOs, contributing to the resolution of issues faced by the industry and society, as well as to further development 	<ul style="list-style-type: none"> Solutions that help solve industrial and societal issues Equipment technology that increases environmental performance as well as CO₂ emission reduction in our products, plants and offices Business development based on respect for human rights 	<ul style="list-style-type: none"> Industry group activities Collaboration with global initiatives

The Driving Forces behind Our Company

We are striving to enhance our medium- to long-term corporate value. As the driving forces behind further growth, we are utilizing our abundant technological capabilities cultivated over many years and the customer trust gained based on reliable technical services and relying on our employees and their spirit of challenge.

	Major Initiatives	Related Data
Driving Force 1	<p>Abundant technological capabilities cultivated as an industry leader</p> <ul style="list-style-type: none"> Creating innovative and varied technologies through joint development with customers who are leading in the semiconductor and flat panel display (FPD) market and collaboration with world-leading consortiums Accurately comprehending customer needs to achieve early market introduction of next-generation products possessing overwhelmingly high added value and the level of performance that will be required in the future Executing proactive R&D investment aimed at creating leading-edge technologies Strengthening development capabilities and product competitiveness by promoting digital transformation, which utilizes data and AI Proposing optimal processes that take advantage of a wide variety of product lineup 	<ul style="list-style-type: none"> Semiconductor production equipment Product lineup with No. 1 or 2 market share (Example: 100% share in EUV-compatible coater/developers) R&D investment: More than 400 billion yen over three years from fiscal 2020 Number of patents owned: 18,692 
Driving Force 2	<p>Trust from customers based on our reliable technical services</p> <ul style="list-style-type: none"> Carrying out activities to improve the customer satisfaction level and build a relationship of mutual trust with the aim to be the sole strategic partner for customers Contributing to customers' manufacturing of semiconductors and displays by providing advanced field solutions that achieve steady operation of various generations of equipment and productivity improvement Providing high-efficiency, high-value-added services, such as remote maintenance services that utilize AI and digital technology, and predictive maintenance that utilizes equipment operation data Building a global service structure that responds to customer needs in a timely manner and strengthening the skills of front-line engineers* who work directly with customers <p>* Refer to Enhancing Front-line Engineers on p. 34</p>	<ul style="list-style-type: none"> Business expansion: 76 sites located in 18 countries and regions of the world Number of field engineers: Approximately 4,000 Percentage of respondents who selected "Very Satisfied" or "Satisfied" in the customer satisfaction survey: 96.7% 
Driving Force 3	<p>Challenging spirit of our employees, who are capable of flexibly and rapidly adapting to changes in the environment</p> <ul style="list-style-type: none"> Sharing with our employees the "TEL Values", which summarize the corporate culture cherished since our company's founding and the codes of conduct for all employees Focusing on strengthening human resource development and enhancing employee motivation to maximize "Employee capabilities and motivation" Setting management goals that increase the promise of our company's future, providing opportunities for taking on challenges without fear of failing, providing a system for fair performance reviews commensurate with results, and creating a workplace environment conducive to teamwork and open communication Enhancing productivity throughout the entire value chain and building a relationship of mutual trust with stakeholders by addressing issues and implementing policies based on a regular employee global engagement survey 	<ul style="list-style-type: none"> Improvement in the engagement score: 12 points (compared to fiscal 2016) High employee retention rate*: 94.1% (Japan) * Retention after three years of joining the Company, average over the past five years Low turnover rate: 2.5% 



Initiatives in the Value Chain

Tokyo Electron is building a superior business model that takes advantage of our company's characteristics, and is continuing to create value through sustainability initiatives and a series of business activities.



Sustainability Initiatives in the Value Chain

- Environment ► P. 35
- Safety ► P. 37
- Human Rights ► P. 37
- Continuous Improvement of Business Operations ► P. 42
- Corporate Governance ► P. 43
- Information Security ► P. 51
- Engagement with Capital Markets ► P. 52

- Supply Chain Management ► P. 39
- Compliance ► P. 48
- Evaluation from Third-party Institutions ► P. 52
- Human Resources ► P. 40
- Risk Management ► P. 49
- Quality ► P. 41



Value Chain Initiatives

Research and Development

We are taking on the challenge of developing our own unique technologies through basic and applied R&D as well as through utilizing in-house and outside knowledge, while always remaining conscious of the most current customer needs.

We are creating innovative and unique technologies for manufacturing leading-edge semiconductors and flat panel displays (FPDs) by ascertaining technological and market trends as well as customer needs early on by leveraging global marketing activity networks and sharing that information throughout all relevant departments. Through development portfolio management, we are formulating short-term as well as medium-

to long-term development strategies and progressing various types of basic and elemental R&D toward the next growth phase. Additionally, we are continuing to develop technologies that will help customers create value through worldwide collaboration with domestic development bases as the core as well as through strengthening our R&D capabilities through alliances with outside consortiums, research institutes and academia.

Key Themes for Medium- to Long-term Value Creation

- Timely development of high-value-added technologies and products through promotion of Shift Left*
- Creating innovative and unique technologies for manufacturing leading-edge semiconductors and FPDs
- Increasing investment in human resources and development

* Shift Left: A method that tests performance and quality from an early stage of the development life cycle to reduce reworking in the latter stages

Management Resources to Be Invested



Primary Management Indicators



Sustainability Initiatives

- Initiatives related to product environment **P.35** Medium- and Long-term Environmental Goals
- Future-oriented development of environmental technologies **P.36** Initiatives Related to Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)
- Structure to promote innovative development that takes advantage of global diversity **P.40** Diversity and Inclusion
- Development efficiency improvement through the promotion of DX **P.42** Continuous Improvement of Business Operations

Risk Management Initiatives

Main Risks		Initiatives
Research and Development	Declining product competitiveness	<ul style="list-style-type: none"> ■ Established the Corporate Innovation Division, and built a Group-wide development framework that integrates innovative technological development with the technologies of each development division ■ Provide highly competitive next-generation products ahead of competitors through collaborating with research institutions and sharing a technology roadmap spanning multiple generations with leading-edge customers
Intellectual Property Rights	Declining product competitiveness Occurrence of liability for damage	<ul style="list-style-type: none"> ■ Advance the R&D strategy, business strategy and intellectual property strategy in an integrated manner to build an appropriate intellectual property portfolio
Human Resources	Diminished product development capability or customer support quality	<ul style="list-style-type: none"> ■ Make ongoing improvements to work environments and promote health and productivity management, including having top management share direction through regular employee meetings, establishing training plans for the next generation of human resources, visualizing career paths for employees and offering attractive remuneration and benefits

Main Research and Development Initiatives

Strengthening Research and Development Capabilities

One of the important themes that we uphold is continuous creation of high-value-added, next-generation products that will be needed by customers in the future. To make this happen, we have a duplex structure for development. The development divisions at individual sites and the Corporate Innovation Division jointly promote both the progress and improvement of technology in both the areas they manage and newer areas, collaborating where necessary while maintaining their respective individuality.

The development divisions at individual sites are focusing on improving functions in the product areas they manage as well as in

peripheral areas, and also developing technologies and systems to be installed in products intended for use in manufacturing vastly evolved future-generation semiconductors and FPDs.

The Corporate Innovation Division works closely with the development divisions at individual sites to maintain consistency in each product area and focuses on further high-value addition by optimizing research and development while maintaining a bird's-eye view of the entire development structure. At the same time, the division is also engaged in a search for potential growth areas, as well as in research and development of fundamental technologies toward creating new value in the future.

We are actively deploying the leading-edge technologies established through these activities to our company's R&D, helping our customers bring to fruition the cutting-edge devices they are working on.



Promotion of Digital Transformation (DX)

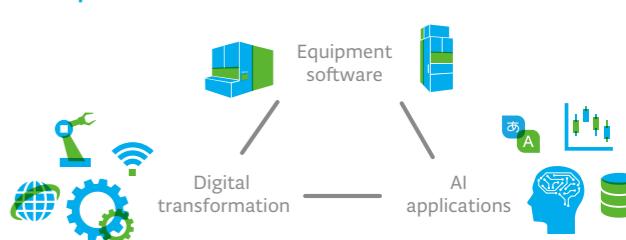
Prioritizing DX as an important means for continuing to provide new value to customers, we are promoting it company-wide. Tangible results are definitely showing up in research and development, including the realization of remote support using AR technology. We are also advancing initiatives targeted at providing new value to customers, such as the search for new materials and achievement of process optimization at overwhelming speeds by utilizing materials informatics.

In 2020, we opened TEL Digital Design Square, a DX-focused site, in Sapporo, Japan. We are establishing an environment in which data scientists can thrive, and are also providing education and training on DX knowledge and methods to support engineers in the individual divisions in creating innovation in their work.

We plan to continue promoting DX and the utilization of things such as AI in solving a variety of issues and developing functions, and

to advance the development and provision of products, such as production equipment that analyzes its own operating conditions and makes functional enhancements and operating efficiency improvements, that are equipped with innovative functions.

Development Activities





Value Chain Initiatives

Procurement and Manufacturing



Sustainability Initiatives in the Value Chain

Along with striving to build a sustainable supply chain, we have established a system for manufacturing high-quality products more efficiently.

We are aiming for constant innovation in production based on the themes of safety, high quality and high reliability, and are putting together manufacturing operations that are eco-friendly. Besides working toward a vertical transfer from product development to mass production via further improvements to efficiency, we are also promoting the creation of production systems that can respond swiftly to market fluctuations, as well as strengthening and leveling of production capacity.

To ensure stable and sustainable procurement, we carry out CSR and BCP assessments throughout the supply chain based on industry codes of conduct, as well as share knowledge* with our suppliers regarding safety, quality, the environment and compliance. We value fair and transparent relationships with our suppliers and aim to grow alongside them and contribute to society on a global level through firm relationships based on trust.

* Knowledge: Value-added information such as experience and know-how that is beneficial to a company

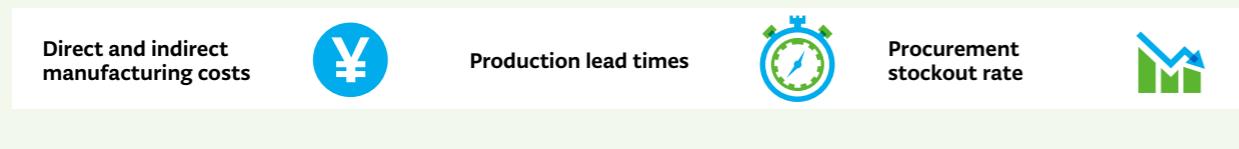
Key Themes for Medium- to Long-term Value Creation

- Creating production systems and capabilities appropriate for the market size
- Optimizing management resource allocation to truncate the transition period from product development to mass production
- Streamlining manufacturing operations with consideration toward the operating margin and ROE

Management Resources to Be Invested



Primary Management Indicators



Sustainability Initiatives

- Quality control in manufacturing P. 41 Quality
- Promoting sound supply chain management based on industry codes of conduct P. 39 Supply Chain Management
- Initiatives for reducing CO₂ emissions and using renewable energy at plants and offices P. 35 Medium- and Long-term Environmental Goals
- Shortening of production lead times and leveling P. 42 Continuous Improvement of Business Operations

Risk Management Initiatives

	Main Risks	Initiatives
Procurement, Production and Supply	Delays in the supply of products	<ul style="list-style-type: none"> ■ Formulate BCPs, establish alternate production capabilities, develop multiple sources of important parts, seismically reinforce plants, etc. ■ Build a system for the stable supply of products by sharing forecasts based on demand projections with suppliers to ensure the early procurement of parts and production leveling
Safety	Occurrence of safety-related problems and liability for damages, and a decline in credibility	<ul style="list-style-type: none"> ■ Based on the "Safety First" approach, thoroughly implement safety design at the product development stage, promote safety training and establish a reporting system in the event of an accident
Quality	Occurrence of costs for countermeasures of a product defect and a decline in credibility	<ul style="list-style-type: none"> ■ Establish a quality assurance system and a world-class service system ■ Resolve technical issues from the product development and design stage ■ Investigate the cause of any defects and implement measures to prevent the same or similar defects from occurring ■ Monitor the quality status of suppliers, conduct audits and provide support for improvement
Environmental Issues	Costs such as for developing new products or changing specifications, and declining product competitiveness and diminished public confidence in the Company	<ul style="list-style-type: none"> ■ Set industry-leading medium- to long-term environmental goals ■ Reduce greenhouse gas emissions from product use. Reduce overall energy consumption and increase the ratio of renewable energy used at plants and offices ■ Provide technologies that help reduce the power consumption of semiconductors

Main Procurement and Manufacturing Initiatives

Initiatives with Suppliers

In addition to conducting STQA* when beginning transactions with new suppliers, we conduct annual surveys with regard to CSR, BCP, conflict minerals and environmental laws and regulations, and we work with our suppliers to promote improvement activities based on the survey results. We also hold production update briefings and TEL Partners Day on a regular basis to create opportunities to share market trends, our management policy and business policies, and CSR initiatives with our suppliers.

Procurement policies based on each country's laws and regulations, social norms and industry codes of conduct are disseminated internally and externally to relevant parties, and compliance is encouraged. In addition, as a BCP measure, we have created a database of manufacturing sites for procured items and have established a system that enables us to quickly confirm the damage sustained in the event of a disaster and promptly begin restoration activities. We are also striving to improve the quality of procured items by clarifying the required specifications for

Manufacturing Operations

We have key manufacturing sites in Japan. We are constantly striving to innovate in production and further improve profitability while engaging in the strategic development of world-class manufacturing operations through the use of our manufacturing know-how, knowledge and the equipment data we have accumulated over many years.

In assembly, adjustment, inspections and other processes, we have implemented in-process quality control consisting of thorough screening, simulation verification and so on to prevent non-conforming products from making it through to subsequent processes. In the manufacturing process, which consists of a combination of procurement from suppliers and our own operations, we meticulously control the quality of procured products and are working to build a resilient supply chain that can

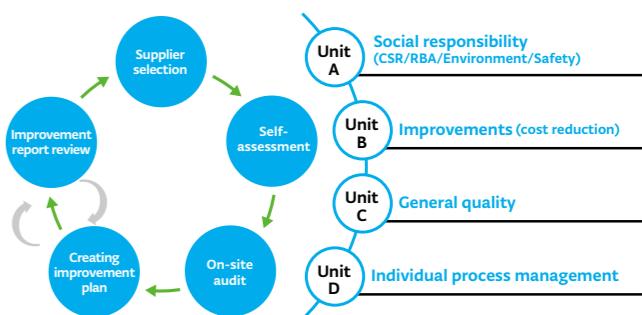
Aiming for Productivity and Efficiency

We are creating a production system that centralizes all production-related information and can respond swiftly to market fluctuations. In addition, we have implemented a core system and a manufacturing execution system (MES) that utilize the latest digital technology to strengthen our IT infrastructure and computerize field data. By utilizing the aggregated data in each business operation, we can quickly collect data needed for business decisions, make production schedules more reasonable and more efficient, visualize delivery dates for parts and achieve stronger coordination between sales planning and production/procurement/inventory planning.

In addition, based on BOM² information, we have established production capabilities (flow lines) for performing work in an accurate and efficient manner according to the schedule expected by the customer, all while ensuring appropriate availability of materials and staff. Also, given the nature of our

essential parts and units, identifying and improving parts with high non-conformance rates and auditing suppliers' quality systems.

STQA Activity Model



* STQA: Supplier Total Quality Assessment. An assessment that focuses on industry codes of conduct, cost reduction/higher productivity and quality.

guarantee stable procurement. Moreover, each manufacturing site is working to shorten the transition period from product development to mass production and improve product quality by strengthening production capacities, optimizing inventory and reducing management resources involved in mass production and reallocating them to product development.



Tokyo Electron Technology Solutions
New Production Buildings (Left: Tohoku Plant Right: Fujii Plant)

business, which involves a wide range of parts, we have introduced automated warehouses and a warehousing and shipping navigation system, as well as automated inspections to save on human labor and increase efficiency.

¹ MES: Manufacturing Execution System. A system that monitors and controls the work of factory machines and workers by linking them to the parts of the factory production line.

² BOM: Bill Of Materials. A list of the parts that control a product, showing the hierarchical structure as well as including basic information on each part, such as from which parts the product is assembled.



Tokyo Electron Miyagi JIT Supply Center (Automated Warehouse)



Value Chain Initiatives Sales

We propose optimal solutions that contribute to the creation of value for our customers in order to be the sole strategic partner.

Since our company's inception, improvement of customer satisfaction has been a significant management theme. We will build strong, trust-based relationships with our customers by providing the Best Products and Best Technical Service in order to be their sole strategic partner.

We help customers manufacture leading-edge devices by grasping the latest technological trends and customer needs in an accurate and timely manner, as well as developing innovative

technologies for future generations.

In addition, by leveraging our strengths as a device manufacturer with a diverse product lineup and the experience and high level of quality we have cultivated over many years, we propose optimal solutions that contribute to the creation of value for our customers. Moreover, by focusing on sales of used equipment and re-engineered equipment, we can meet a wider range of customer needs and help maximize their return on investment.

Key Themes for Medium- to Long-term Value Creation

- Improving our responsiveness to customers and customer satisfaction
- Increasing mutual profits by providing the Best Products and Best Technical Service
- Improving our position among our major customers

Management Resources to Be Invested



Primary Management Indicators



Sustainability Initiatives

- Initiatives for improvement of customer satisfaction [P.32](#) Improvement of Customer Satisfaction
- Ongoing efforts to ensure customer safety [P.37](#) Safety
- Reducing CO₂ emissions from product usage by addressing Medium-term Environmental Goals [P.35](#) Medium- and Long-term Environmental Goals
- Improvement of operational efficiency in sales activities [P.42](#) Continuous Improvement of Business Operations

Risk Management Initiatives

Main Risks		Initiatives
Market Fluctuations	Opportunity losses due to inability to supply customers with products in a timely manner	<ul style="list-style-type: none"> ■ Periodically review market conditions and orders received at Board of Directors and other important meetings, and appropriately adjust capital investments, personnel/inventory planning and other aspects of business ■ Account Sales Division and Global Sales Division to strengthen the sales framework and customer base by grasping investment trends of customers and responding to a wide range of customer needs
Geopolitics	Restrictions on business activities	<ul style="list-style-type: none"> ■ Carefully watch policy and diplomatic trends to understand moves to introduce regulations ■ Communicate opinions to policy-making authorities such as through public comment, and anticipate the impact of different countries introducing policies and regulations, and consider countermeasures
Information Security	Diminished public confidence in the Company or liability for damages	<ul style="list-style-type: none"> ■ Establish an information security system that conforms to global standards by launching a dedicated security organization and having security assessments conducted by external experts ■ Establish globally standardized rules and regulations for information management

Main Sales Initiatives

Product Feedback that Reflects Accurate Understanding of Customer Needs

By collaborating with customers to create technology roadmaps spanning multiple generations, we can identify customer needs early on and reflect them in R&D for the next generation and beyond. This allows us to offer highly competitive products that help improve the yield rate of devices and maximize equipment utilization rate. We are also strongly promoting on-site collaboration to deliver value-added machines to customers' fabs and laboratories at an early stage, and are working to

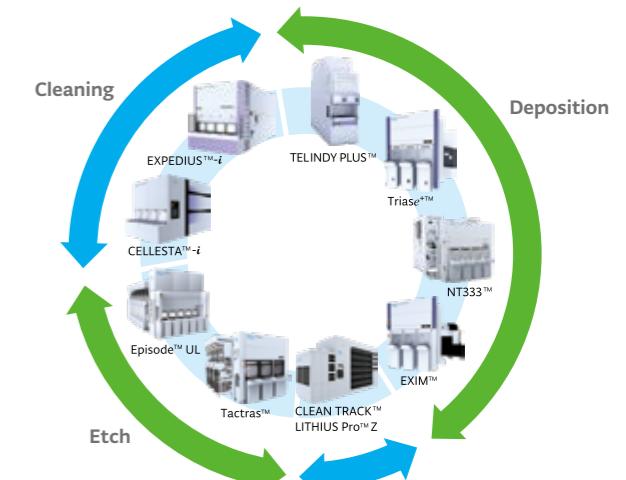
optimize products and shorten the time from technology development to mass production.

To carry out these activities efficiently, global operations (=One-TEL) are being rolled out by an organic organization consisting of business units, the Account Sales Division, the Global Sales Division, development and manufacturing divisions, service divisions, overseas subsidiaries and other entities.

Proposing Customer Solutions Leveraging a Wide Range of Product Lineup

To solve customers' issues and contribute to the manufacture of highly competitive devices, we offer proposals that leverage our wide range of product lineup, including equipment for key processes such as deposition, coater/developer, etch and cleaning. We simultaneously strive to help optimize manufacturing processes and enhance the productivity and quality of development and manufacturing processes by providing optimal solutions that include remote support systems and software for maximizing equipment utilization rate. Furthermore, through continuous improvements to performance of our mass production equipment, we are proactively responding to customer demands for the production of multiple generations of products.

We are also working to satisfy the market's diversifying needs by providing products for the IoT market, which include power devices, image sensors and communication devices, as well as used equipment and re-engineered equipment.

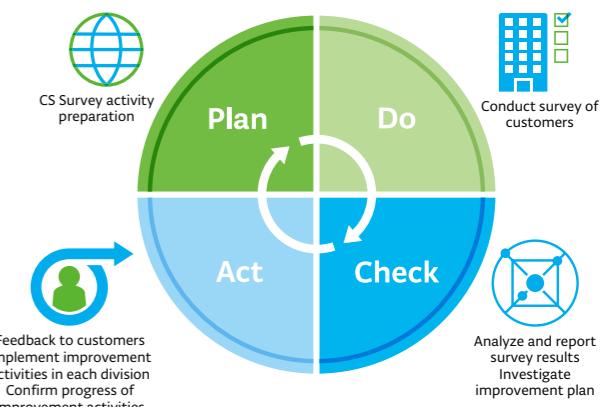


Improvement of Customer Satisfaction

We are working to build a solid relationship of mutual trust with customers by further enhancing customer satisfaction, which we have valued highly since our founding. As an indicator for this effort, for many years we have been conducting a unique company-wide customer satisfaction survey (TEL CS Survey) at the same time every year to promote ongoing improvements to our business practices.

In the customer satisfaction survey for fiscal 2021, responses were received from approximately 1,400 individual customers (70.2% of all customers), and 96.7% of all survey items received a score of three points or higher (Very Satisfied or Satisfied)*. This marked an improvement of 3.4 percentage points from fiscal 2020. Information obtained from the survey is analyzed by business unit (product), account (customer) and function (software, development, etc.), and the results of this are shared with relevant divisions, such as sales, plants, service and overseas subsidiaries to implement actions for improvement.

* On a four-point scale, three points or higher represents "Very Satisfied" or "Satisfied".





Value Chain Initiatives

Installation and Maintenance Services



We have established a global support system to provide the Best Technical Service with high added value in a prompt and appropriate manner.

For installation and equipment maintenance, we take advantage of a cumulative number of equipment installations of approximately 76,000 units to offer the Best Technical Service with high added value.

We make full use of leading-edge AI, digital technology and knowledge management* tools, and promote enhanced efficiency for our services to support the stable operation of various generations of equipment for a wide variety of applications.

By refining the skills of the front-line engineers who interact with customers, we work hard to accurately identify customer needs and

provide timely feedback to our development and manufacturing operations. In addition, we are making efforts to further improve the quality of our services through the provision of advanced field solutions, such as by constructing a global support system via our Total Support Center (TSC) and enhancing remote support through our remote maintenance service.

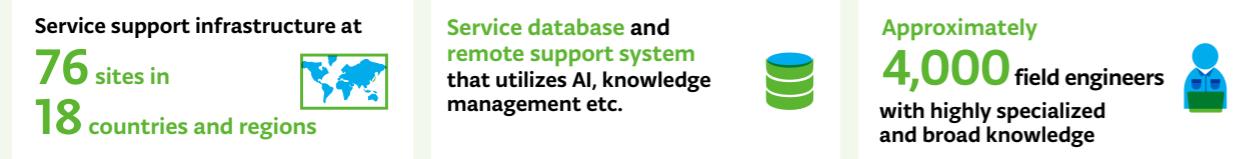
* Knowledge management: Management approach to promote internal company sharing of tacit knowledge held by individuals, in order to encourage innovation and to improve overall productivity

Key Themes for Medium- to Long-term Value Creation

- Improvement of customer satisfaction through the provision of high-value-added services
- Maximizing service revenues through expanded sales of comprehensive contract-based services*
- Addressing new customer needs with equipment for power devices, re-engineered equipment and other measures

* Comprehensive services primarily for post-warranty maintenance (maintenance work, performance maintenance, provision of spare parts etc.)

Management Resources to Be Invested



Primary Management Indicators



Sustainability Initiatives

- Improving the efficiency of start-up operations and maintenance services **P.42** Continuous Improvement of Business Operations
- Safety initiatives for installation and maintenance services **P.37** Safety
- Provision of high-quality services **P.41** Quality
- Effective utilization of diverse talent **P.40** Diversity and Inclusion

Risk Management Initiatives

Main Risks		Initiatives
Quality	Occurrence of costs for countermeasures for a product defect and a decline in credibility	<ul style="list-style-type: none"> ■ Establish a quality assurance system and a world-class service system ■ Resolve technical issues from the product development and design stage ■ Investigate the cause of any defects and implement measures to prevent the same or similar defects from occurring ■ Monitor the quality status of suppliers, conduct audits and provide support for improvement
Human Resources	Diminished product development capability or customer support quality	<ul style="list-style-type: none"> ■ Make ongoing improvements to work environments and promote health and productivity management, including having top management share direction through regular employee meetings, establishing training plans for the next generation of human resources, visualizing career paths for employees and offering attractive remuneration and benefits
The Novel Coronavirus (COVID-19)	Slows the Company's business activities or the deterioration of global economic conditions	<ul style="list-style-type: none"> ■ Established an Emergency Task Force headed by the CEO ■ Restrict travel to high infection-risk countries and regions, maintain supply chains and thoroughly implement infection prevention measures at plants and offices

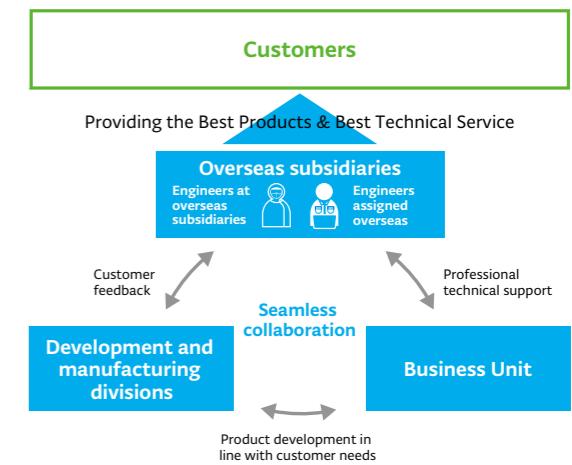
Main Installation and Maintenance Service Initiatives

Enhancing Front-line Engineers

We believe it is essential to accurately ascertain valuable information, including customer needs and equipment operation status, in markets where we deliver equipment, as well as to provide timely feedback with regard to related operations to assist in equipment development and improvements to functionality.

To efficiently conduct these activities, we are working to improve the skills of each and every engineer involved in on-site equipment installation and maintenance. We also strive to promote seamless communication between our development and manufacturing departments and both the engineers at our overseas subsidiaries and our own engineers assigned overseas who serve as our on-site contacts with customers.

Moreover, we are making efforts to establish a management system for operations in each country and region so that we can respond in a flexible and rapid manner to changes in the business environment and promote efficient operations.



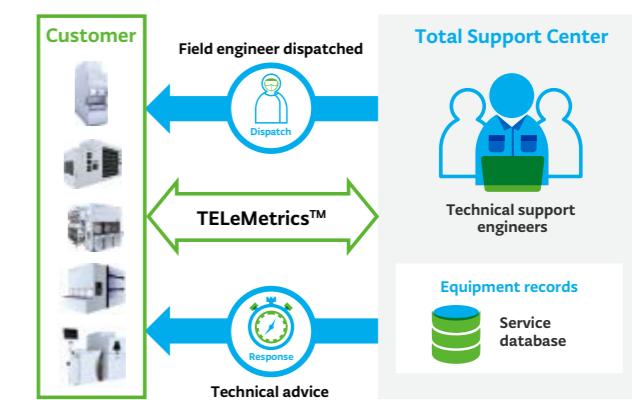
Promotion of High-value-added Services

We have built a global support system, establishing Total Support Centers (TSCs) in Japan, the United States, China and Europe. At each TSC, dedicated representatives maintain and utilize a database of information about customers' equipment and examples of similar incidents. Further, through our TELeMetrics™ remote maintenance service, TSCs use their knowledge and tools to propose solutions to the various issues customers face.

And to expand remote support for field engineers, we are engaged in developing a remote support system that can share video and audio from customers' fabs in real time, as well as further enhance the confidentiality of information. Through such efforts, we are promoting remote support that helps to ensure stable equipment operation. Starting in fiscal 2021, we will add unique functions such as information protection, restricted video transmission, and call translation to our existing smart glasses* system to make remote support more convenient and further improve support quality.

Promoting these initiatives in smooth collaboration with field engineers and manufacturing sites allows us to provide high-value-added services.

* Smart glasses: Glasses-style wearable devices that can display images and digital information



Improving Service Productivity

To further improve service productivity, we are implementing initiatives in conjunction with Group-wide business innovation projects. To promote knowledge management, we are deploying Service CRM* on a global scale to centrally manage customers' equipment records (support/trouble history) as a database, as well as to ascertain each field engineer's actual work status through work orders.

In addition, we are placing more emphasis than ever on developing advanced equipment diagnostic capabilities that utilize equipment output data. Going forward, we plan to utilize these functions to support comprehensive contract-based services, particularly those with billing based on performance (Pay for Performance contracts).

* Service CRM: Service Customer Relationship Management



Sustainability Initiatives in the Value Chain

Tokyo Electron is merging business activities with a variety of sustainability initiatives, focusing on the environment, society and governance to help create new value.

Environment

Environmental Management

Environmental issues such as climate change are growing ever more crucial. To promote activities in the medium to long term that meet the environmental/social/governance needs of its customers and other stakeholders, the Manufacturing Company Presidents' Council, which includes the corporate director in charge of environment, health and safety (EHS), monitors and supervises progress related to environmental issues. A headquarters has been established, headed by the corporate director in charge of EHS, and promotes environmental activities across the entire Group. The Environment Council, made up of members appointed by the executives of the Group companies, sets targets related to environmental issues, monitors progress and also works to achieve its goals. Furthermore, to continuously

promote our environmental activities, we have operated an environmental management system based on ISO 14001 since fiscal 1998, primarily at our manufacturing subsidiaries. The progress of our activities and legal compliance status are checked through internal audits and third-party audits. Any issues identified through these activities are reviewed by the Environment Council, reported to the Manufacturing Company Presidents' Council and used for promoting environmental activities across the entire Group. Under such an environmental management system, fiscal 2021 was again free from environmental incidents, accidents, violations and associated legal proceedings.

Medium- and Long-term Environmental Goals

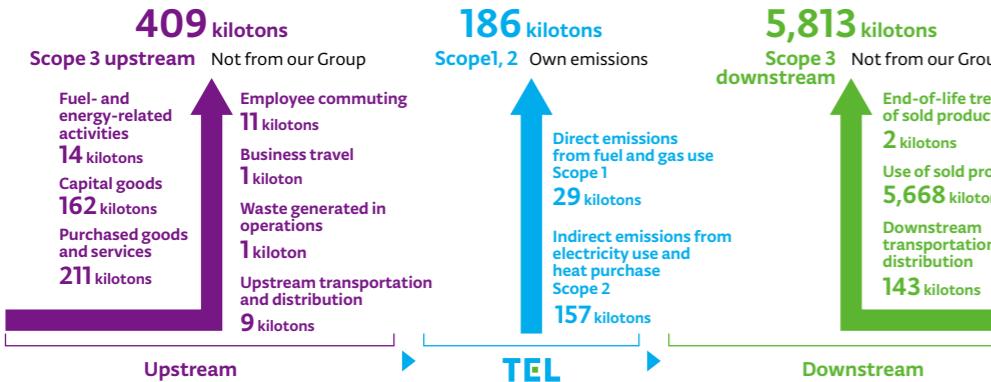
In order to further strengthen our initiatives toward the environment in our products, plants and offices, the contents of the medium-term environmental goals for fiscal 2031 were revised in December 2020. In the goals for products, the reference year for per-wafer CO₂ emissions was changed from fiscal 2014 to fiscal 2019. In addition, in the goals for plants and offices, the total CO₂ emissions reduction goal was changed from 20% reduction to 70% reduction, while reaching a rate of 100% renewable energy usage. At present, we are working on new initiatives toward achieving these revised goals. Specifically, we are planning to introduce renewable energy at our plants and offices in Japan, the United States and China starting from fiscal 2022. This will bring our use of renewable energy company-wide to over 50%, while

dropping our CO₂ emissions by 40%. In terms of products, we are moving ahead with understanding the amount of CO₂ emissions during use of standard equipment and creating a roadmap. We are rolling out activities toward achieving our goals based on this.

We have set the following as a long-term goal to achieve by 2050: "As a leading company in environmental management, we strive to contribute to the development of a dream-inspiring society by proactively promoting the reduction of environmental burden of both our products, plants and offices, and at the same time, providing evolutionary manufacturing technologies that effectively reduce the power consumption of electronic products". We are working on initiatives for this at a company-wide level.

CO₂ Emissions across the Value Chain

Our Scope 3 CO₂ emissions account for approximately 97% of total emissions, and approximately 88% (5,668 kilotons) of that comes from the use of products, so we believe that product development with low CO₂ emissions during operation is critical.



E-COMPASS

We established E-COMPASS (Environmental Co-Creation by Material, Process and Subcomponent Solutions) as a new supply chain sustainability initiative. E-COMPASS aims to align our products and the entire operations more closely with our environmental mandates, strengthen our ties with business

Initiatives Related to Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

We are pursuing ongoing disclosures and initiatives based on the TCFD framework and relating to risks and opportunities that climate change presents to our business.

Status of Initiatives Related to Recommendations of the TCFD

• Governance

Each of our corporate directors for EHS and CSR is working under the supervision of the CEO to monitor progress of goals related to our response to climate change. With the establishment of the EHS Promotion Department and CSR Operations Department at headquarters, these activities are being driven by the entire Group. At the Environmental Council, comprised of members appointed by executives of the Group companies, company-wide goals are set, progress is monitored and the achievement of these goals is promoted.

• Strategy

Utilizing the framework of the TCFD recommendations, we identified the risks and opportunities of climate change that will impact business over the medium to long term. We have evaluated the quantitative impact on business from some of those risks and opportunities, and we aim to continue quantifying others going forward as we investigate relevant measures.

• Risk Management

Through the Manufacturing Company Presidents' Council, we approve company-wide risk management initiatives, from short term to long term, that related divisions and councils recommend, and then apply those initiatives to the facilities and

partners, solidify our industry leadership, and pave the way for a sustainable future. We will utilize every management resource at our disposal to drive the major trends of digitalization and greening of society and actively endeavor to preserve the global environment throughout the supply chain.

Initiatives Related to Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

divisions of the Group companies.

For Scope 1 and 2 CO₂ emissions, we are adopting renewable energy from a global perspective, including the implementation of measures at our key manufacturing sites in Japan with high emissions.

For Scope 3 emissions, we recognize the importance of providing products that generate fewer CO₂ emissions because about 88% of the emissions in our entire value chain are generated during use of products after sale, so we are focusing on development of a range of environmental technologies.

We also formulate business continuity plans in anticipation of natural disasters caused by abnormal weather and other factors, and take measures with our suppliers to ensure that business operations can be maintained.

• Metrics and Targets

To further reinforce our initiatives toward improving environmental performance of products and conserving the environment at our plants and offices, we revised our medium-term environmental goals in December 2020*. While supporting the advancement of information and communications technology through the provision of our semiconductor and FPD production equipment, we are also committed to achieving new environmental goals in keeping with 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."

* Refer to Medium- and Long-term Environmental Goals on p. 35

Examples of Climate Change (Risks and Opportunities) Impacting Business over the Medium to Long term

Scenario	Type	Details
2°C Temperature Increase	Transition risks	<ul style="list-style-type: none"> Increased energy costs in line with taxes on fuel and energy. Assuming our greenhouse gas (GHG) emissions and use of renewable energy remain at fiscal 2021 levels, if a carbon tax were applied, we estimate our costs would increase by 1.1 billion yen/year by fiscal 2026 (assuming a tax of 6,000 yen per ton CO₂) and 2.6 billion yen/year by fiscal 2041 (14,000 yen per ton CO₂) Decreased net sales if we are unable to meet customers' requirements and demands for environmental initiatives Reduced reputation among investors, NGOs and local communities if a response to climate change and other environmental issues is delayed
4°C Temperature Increase	Physical risks	<ul style="list-style-type: none"> Impacts on us, our suppliers and customers from abnormal weather (net sales decrease as a result of supply chain disruptions, operation stoppages, production/shipping delays and other factors)
Common	Opportunities	<ul style="list-style-type: none"> Accelerated efforts to create new value, including innovation toward development of low-GHG products and services, and equipment and technologies that contribute toward the manufacture of low-power consumption devices Gaining superiority and business opportunities through proactive initiatives for climate change and adding value to the market Higher productivity by streamlining operations and reducing related environmental impacts Securing a competitive advantage by building resilience (responsiveness to climate change) into global operations, including working to adopt renewable energy, and improving corporate value through these initiatives



Safety

Approach to Safety

Under the "Safety First" slogan, everyone at Tokyo Electron, from top management to on-site personnel, is actively and continuously improving safety and promoting health, giving safety and health the highest priority when carrying out various types of operations such as development, manufacturing, transportation, installation and maintenance.

Safe Design of Equipment

Taking the entire product life cycle into consideration, we carry out product risk assessments as early as possible in the development phase. Based on the assessment results, we implement safe equipment design¹ to reduce the risks posed to humans. We also examine and ensure compliance with increasingly strict laws and regulations around the globe, and have a system in place for all safety regulations of the regions where our equipment is delivered. Equipment we ship is checked to ensure that it complies with international safety standards such as SEMI S2² and CE marking³ as well as the safety laws and regulations of each country and region.

¹ Safe equipment design: A design concept that eliminates the cause of the machine's harm to humans through the safety design of the machine

² SEMI S2: This is a set of environmental, health and safety guidelines for semiconductor production equipment. It is used mainly by the leading manufacturers of semiconductor equipment in the United States and Europe, not only for semiconductors but also as safe procurement guidelines for electric and electronic device manufacturing equipment around the world.

³ CE marking: When exporting into the European Union, CE marking defines rules for displaying a CE mark as proof that the equipment is safe and complies with EU-defined rules (directives)

Handling of Accidents

We analyze the causes of all accidents and implement corrective measures. We strive to prevent accident recurrence by not only identifying the main cause, but also carrying out multi-faceted cause analysis, targeting the operator who was involved, the facility, the environment, the involved coworkers and the management aspect, and sharing the results with all Group companies.

Safety Education

We are implementing two education programs globally for the establishment of safe work environments. The first is a program on basic safety targeting all employees and the second is a program on advanced safety targeting employees working on manufacturing lines and cleanrooms. To eliminate incidents, we also provide online training and risk assessment training for employees in Japan and overseas. Also, to expand the concept of safe equipment design to our design, manufacture and service operations, we hold a semiannual safe equipment design seminar at our manufacturing sites in Japan, inviting an external guest to speak. Finally, we also promote our initiatives to prevent accidents, such as providing our suppliers and customers with safety information as circumstances demand. As a result of having maintained a high priority on creating safe work environments, TCIR has been maintained at less than the Company's target of 0.5, with 0.27 in fiscal 2021.



Human Rights

Approach to Human Rights

Conscious of our corporate social responsibility, we recognize that it is important to conduct ourselves with a strong sense of integrity. Based on this recognition, we have firmly upheld human rights since our founding, as reflected in the spirit of our Corporate Philosophy and Management Policies. For us, respecting human rights means a significant undertaking, not only to fulfill our responsibility for eliminating adverse impacts on people caused through business activities, but also to respect those people who support our business activities, and contribute to the realization of a sustainable, dream-inspiring society. We incorporate the concept of respect into every aspect of our business activities, and strive to nurture a dynamic corporate culture where each person can realize his or her full potential.

Human Rights Initiatives

In fiscal 2018, we formulated our Human Rights Policy¹, summarizing our approach to human rights. We have specified the human rights we believe are particularly important in business activities as Freedom, Equality & Non-Discrimination; Freely Chosen Employment; Product Safety & Workplace Health and Safety; Freedom of Association; and Appropriate Working Hours & Breaks/Holidays/Vacations. In preparing the Human Rights Policy, we referred to the United Nations' Guiding Principles on Business and Human Rights and the International Bill of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work referred to therein, the Ten Principles of the United Nations Global Compact, and the RBA Code of Conduct².

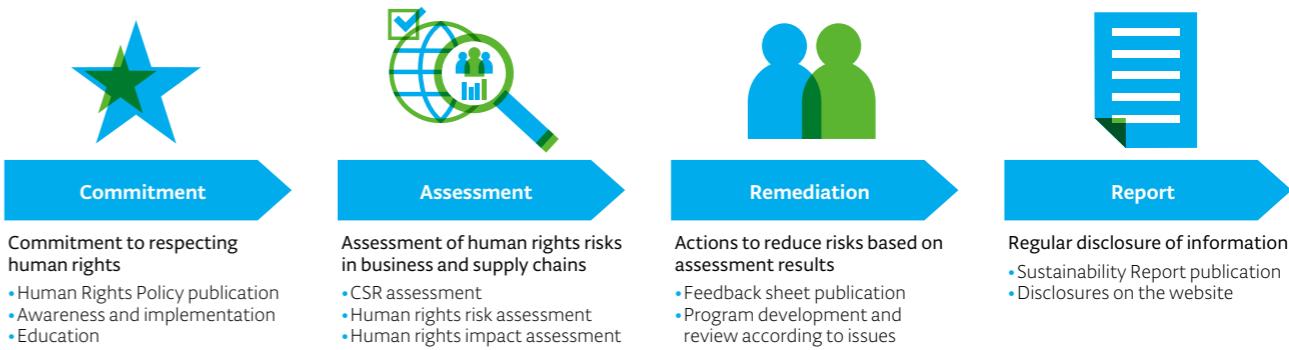
¹ Human Rights Policy: www.tel.com/csr/employee/diversity/

² RBA Code of Conduct: A global initiative with a focus on the electronics industry, the Responsible Business Alliance (RBA) establishes a set of standards for supply chains in the electronics industry for a safe labor environment, to ensure that workers are treated with respect and dignity, and that companies take responsibility for environmental impact in the manufacturing process.

We ensure that our executives and employees, as well as suppliers, are fully aware of this content. Specifically, we publish the Human Rights Policy on our website to make it available to everyone inside and outside the Company, and also implement online human rights training targeting all of our executives and employees. In fiscal 2021, as in the previous fiscal year, we conducted human rights due diligence, as well as risk surveys, and identified and assessed impacts. As part of the surveys, we

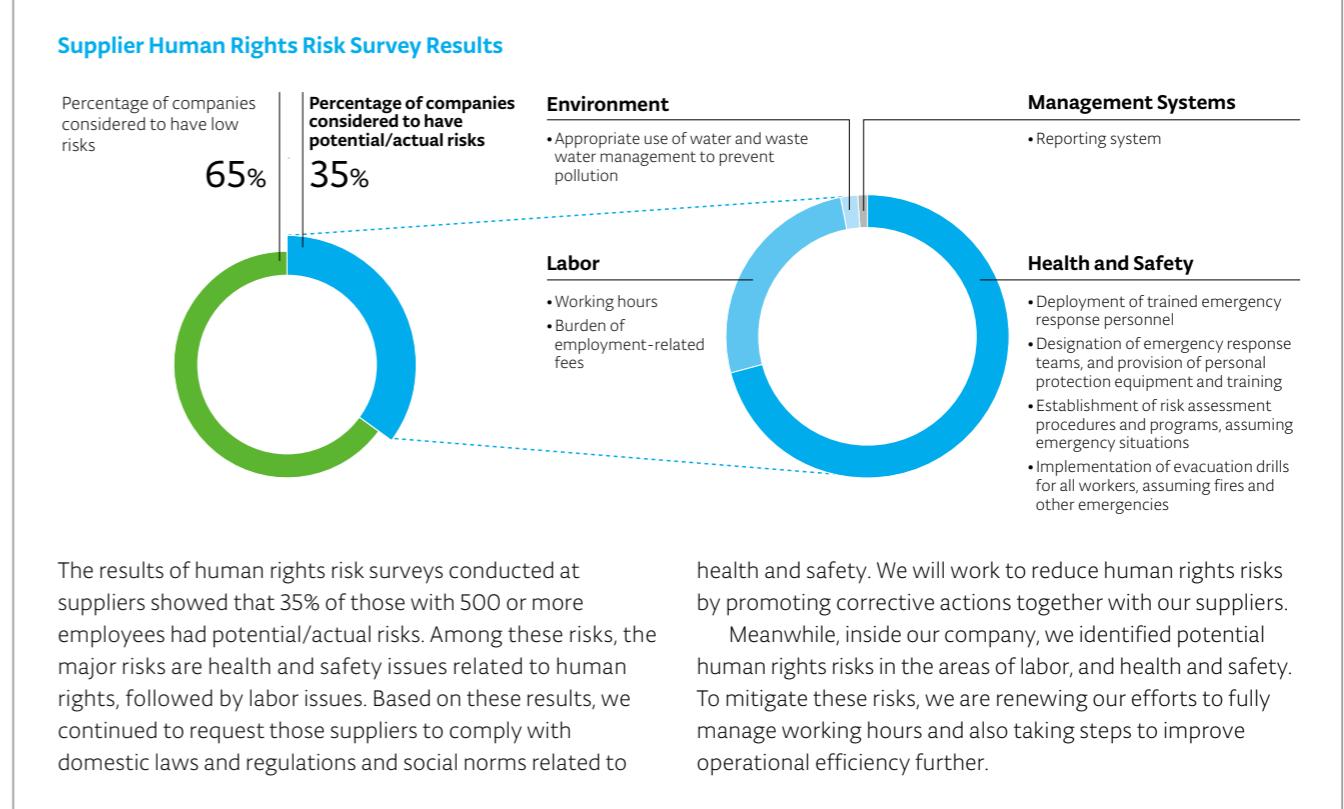
utilized a self-assessment questionnaire (SAQ) for internal use, based on the RBA Code of Conduct, and also reviewed the results of a CSR assessment³ for suppliers of materials, staffing and logistics to assess the current situation throughout the value chain. We are using the results of these surveys to consider corrective actions and reduce human rights risks.

³ Refer to Supply Chain Management on p. 39



We recognize the importance of having highly effective grievance mechanisms related to human rights and are working to establish and operate those mechanisms. In fiscal 2021, we further strengthened our internal and external reporting systems in Japan and overseas for employees and suppliers. By continuing

to conduct human rights due diligence going forward, we will assess and correct any human rights issues we identify in our business activities, and further improve the grievance mechanisms we provide.





Sustainability Initiatives in the Value Chain

Supply Chain Management

Principles and System of Supply Chain Management

The building and maintenance of a supply chain, which responds flexibly to the demands and risks of a diverse society and contributes to the creation of new value, is crucial for the enhancement of our medium- and long-term corporate value. To make our entire supply chain sound and sustainable, we have formulated a procurement policy based on the laws, regulations and social norms of each country, as well as the RBA Code of Conduct, and are promoting activities based on this policy by disseminating it throughout the Company and our suppliers. We also promote improvement activities from various perspectives while valuing continuous communication with diverse suppliers, including materials suppliers that handle parts and raw materials, staffing suppliers that provide services and logistics suppliers that handle physical distribution operations.

We strive to create value in the supply chain by working to build relationships of trust with our suppliers, who support our business as partners, and by working together to conduct operations in compliance with global standards. Under the leadership of the Representative Director, President & CEO, issues identified during various activities are shared with relevant divisions for consideration and action on specific improvements.

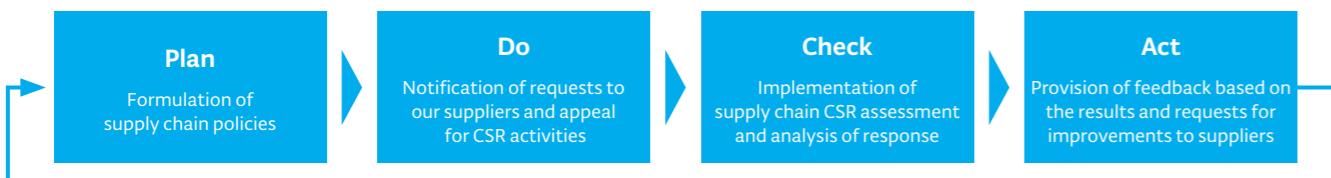
Initiatives in the Supply Chain

CSR Operations

To keep track of our suppliers' engagement in CSR activities, we have conducted a CSR assessment in the areas such as labor, health and safety, the environment and ethics since fiscal 2014. We analyze the results of the assessments, provide feedback and work together with our suppliers to remediate any issues. In fiscal 2019, we completely revised the content of the survey based on audit standards stipulated by the RBA, and have since conducted surveys on materials¹, staffing² and logistics³ suppliers.

In fiscal 2021, with the help and understanding of our suppliers, steps were taken to repay workers with respect to cases of an employment-related expense burden for forced labor and bonded labor, which had been identified in the previous fiscal year and which have been given particular

Supply Chain CSR Process



emphasis in the RBA Code of Conduct. In addition, with respect to cases of false reporting, changes were made in business processes and audits were introduced.

Regarding the human rights issue of "freely chosen employment", we have expressly stipulated our zero tolerance policy for forced labor and bonded labor, and by communicating this to our major suppliers, we are promoting initiatives to ensure that all people in our supply chain can work of their own free will.

¹ Material suppliers: Surveys have been conducted since fiscal 2014 for suppliers accounting for more than 80% of our procurement spend.

² Staffing suppliers: Surveys have been conducted since fiscal 2019 on 100% of employment agencies and contracting companies (internal contractors).

³ Logistics suppliers: Surveys have been conducted since fiscal 2019 on 100% of customs-related operators.

Responsible Procurement of Minerals (Conflict Minerals)

We regard taking action against conflict minerals (3TG⁴) obtained through illegal exploitation, including sources with human rights violations or poor working conditions, as an important part of corporate social responsibility. Our resolute goal is to eliminate the use of raw materials made from these conflict minerals, as well as any parts or components containing them. We conduct surveys on conflict materials using the CMRT⁵ and referring to the OECD⁶ Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

⁴ 3TG: Tantalum, tin, tungsten and gold

⁵ CMRT: Conflict Minerals Reporting Template. Survey format for reporting conflict materials, provided by the Responsible Minerals Initiative (RMI), which has established international guidelines on conflict minerals.

⁶ OECD: Organisation for Economic Co-operation and Development

Procurement BCP

As part of our business continuity plans (BCPs), we collaborate with suppliers for disaster preparation.

We maintain a database of suppliers' production sites so that if a crisis arises, we can promptly identify impacted suppliers and quickly collaborate in recovery efforts. In addition, we conduct BCP assessments on our suppliers, analyze their responses and provide them with feedback to promote further improvement.

Human Resources

Employees Both Create and Fulfill Company Values

A total of 14,479 employees are working at the 76 Tokyo Electron sites located in 18 countries and regions of the world, and we believe that each of them maintaining a high level of engagement and demonstrating their full potential will lead directly to our company's growth. By sharing with our employees the direction toward which management is aiming and providing platforms for direct dialogue through the employee meetings and discussions held every year at each site, we are striving to build mutual trust between the organization and individuals. Furthermore, to realize our Corporate Philosophy, we established TEL Values, which delineate Tokyo Electron's values, the mindset that each employee must possess and the codes of conduct to be passed on to the future. The TEL Values—pride, challenge, ownership, teamwork and awareness—are being put into

practice by our employees all over the world.

We have established TEL UNIVERSITY as an in-house educational establishment, helping employees to independently build their careers and realize their personal goals for their growth and development. Our aim is to stand shoulder to shoulder with each employee, supporting their self-growth and fruitful career development throughout their working life, and create a foundation that enables the organization and individuals to trust each other and grow. We are focusing on employee growth that leads to corporate growth through the following four initiatives: Provision of Personalized Learning Opportunities, Support for Career Development, Leader Programs, and Provision of Global Learning Opportunities.

Corporate Education System (TEL UNIVERSITY)

	Management	Executives	Leaders	Mid-level Employees	Junior Employees/ New Employees
Level-based Programs			Introductory programs (new graduates, mid-career recruits)		
			OJT* programs (new graduates, mid-career recruits)		
		Manager programs		Mid-level employee programs	Junior employee programs
		Leader programs			
Goal-based Programs			Compulsory web-based training		
			Business skills		
			Global communication		
			Employee life support		
			Technical programs (seminars, workshops)		

* OJT: On the Job Training

Diversity and Inclusion

At Tokyo Electron, diversity and inclusion are management pillars that lead to the continuous generation of innovation and increased corporate value. We are actively pursuing them with the strong commitment of our management.

Although the areas of emphasis for diversity and inclusion vary by country, we have taken on gender and nationality as major themes and put the following goals and initiatives in place based on the characteristics of each region.

- In terms of succession planning, we conduct a diversity-conscious talent pipeline (plan for developing human resources) and strive to increase the ratio of women in management positions
- Taking into consideration that many of our employees are engineers, we actively invest in the use of recruiters and branding to hire women at a level that is equal to or greater than the ratio of women in each region (or the ratio of women majoring in science and engineering in the case of engineers)
- We create an organizational structure where even those from outside of Japan can take on corporate roles through the use of technology and shared global human resources systems
- We organize events such as talks on diversity and inclusion from internal and external experts and leaders, generate networking opportunities for employees with similar characteristics and experience, and hold round-table discussions regarding careers before and after taking maternity/paternity leave and childcare leave

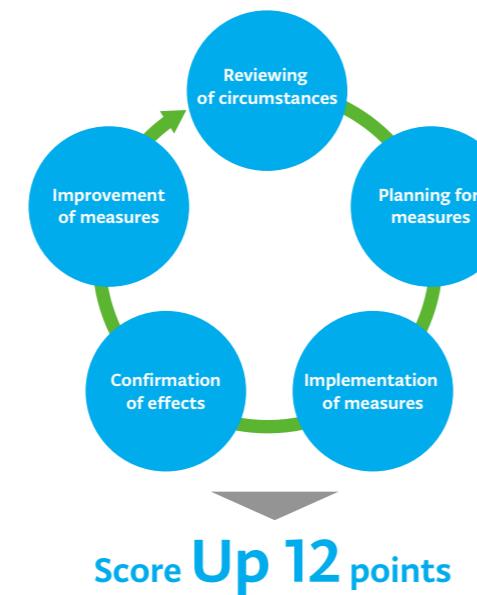


Employee Engagement

Improving employee engagement is essential to maximize corporate performance and achieve sustainable growth. Recognizing that employees both create and fulfill company values for us, we have been regularly conducting engagement surveys since fiscal 2016 to assess the current state of employee engagement and identify issues. Based on the results of the surveys, our management takes the lead in making improvements to foster a better workplace environment and culture. These initiatives resulted in an increase in the employee engagement score of 12 points from fiscal 2016 to fiscal 2021 and a turnover rate of 2.5%.

We plan to continue these initiatives since we believe that improving employee engagement leads to providing increased value to our stakeholders.

Continued Implementation of Engagement Surveys



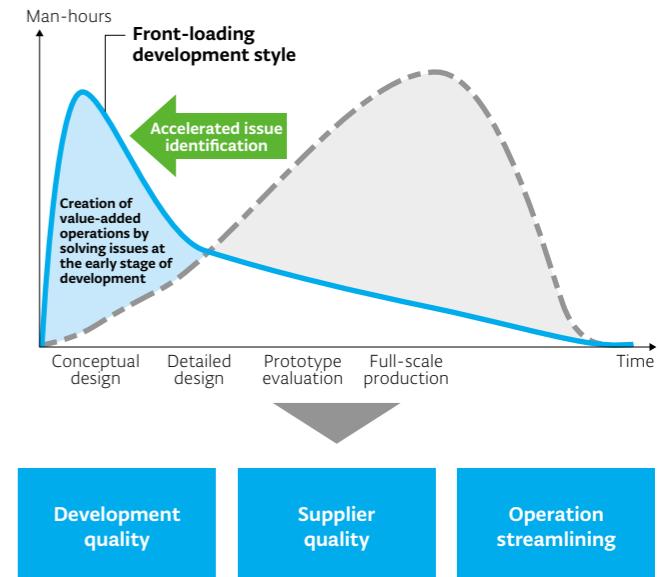
We strive to implement own-process assurance systems by carrying out strict risk management and development/design inspections beginning at the development stage, and also by ensuring verification of customers' operations using simulations. We have also built an important component traceability system as part of our effort to strengthen our information environment. By making it possible to use the One Platform¹ to view such information as past problems and adjustment values used during manufacturing and assembly, as well as important component inspection information from suppliers, we have successfully strengthened our risk management (FMEA²) to prevent various types of non-conformance.

We believe that thorough implementation of these own-process assurance systems and prevention makes it possible for employees to focus on high-value-added business operations and promote initiatives that lead to Shift Left (front-loading). We will continue to strive to provide high-quality and high-value-added products and services to our customers.

¹ One Platform: A platform that makes it possible to easily view multiple different systems as seamless information sources, in order to effectively and efficiently achieve traceability

² FMEA: Failure mode and effects analysis. Method to identify, prevent and mitigate risks in advance.

Shift Left (Front-loading) Initiatives



Development quality

Supplier quality

Operation streamlining

Quality

Initiatives for Quality Improvement

In order to help each of our employees correctly understand and implement quality assurance activities, we realize the importance of correctly defining the ideal form of quality assurance (goals), along with creating an environment and culture for widely disseminating it. From the ideal form, we established "Our Approach to Quality" and "Quality Policy" and communicate the importance of quality to our employees at various opportunities to increase their quality awareness. To carry out correct quality assurance activities, it is important to establish clear rules for what has to be done and correctly implement those rules. To ensure that our employees are always aware of their roles and purposes and correctly perform their work, we are striving to make the rules comprehensive, reassess and deploy our quality education from time to time and visualize appropriate quality information. Based on these foundations, we help our employees mutually enhance awareness about quality in a variety of situations so that their efforts lead to the improvement and growth of our business processes, enabling us to provide product quality and services that surpass customer expectations.

Approach to Quality

We have defined our approach to quality as follows:

"The Tokyo Electron Group seeks to provide the highest-quality products and services. This pursuit of quality begins at development and continues through all manufacturing, installation, maintenance, sales and support processes. Our

employees must work to deliver quality products, quality services and innovative solutions that enable customer success".

Quality Policy

1. Quality Focus

Focusing on quality to satisfy customers, meet production schedules and reduce required maintenance even with temporary cost increases.

2. Quality Design and Assurance

Building quality into products and assuring in-process quality control, from the design and development phase throughout every process.

3. Quality and Trust

When a quality-related problem occurs, working as a team to perform thorough root cause analyses and resolve problems as quickly as possible.

4. Continual Improvement

Ensuring customer satisfaction and trust by establishing quality goals and performance indicators and by implementing continual improvement using the PDCA cycle.

5. Stakeholder Communication

Listening to stakeholder expectations, providing timely product quality information and making adjustments as needed.

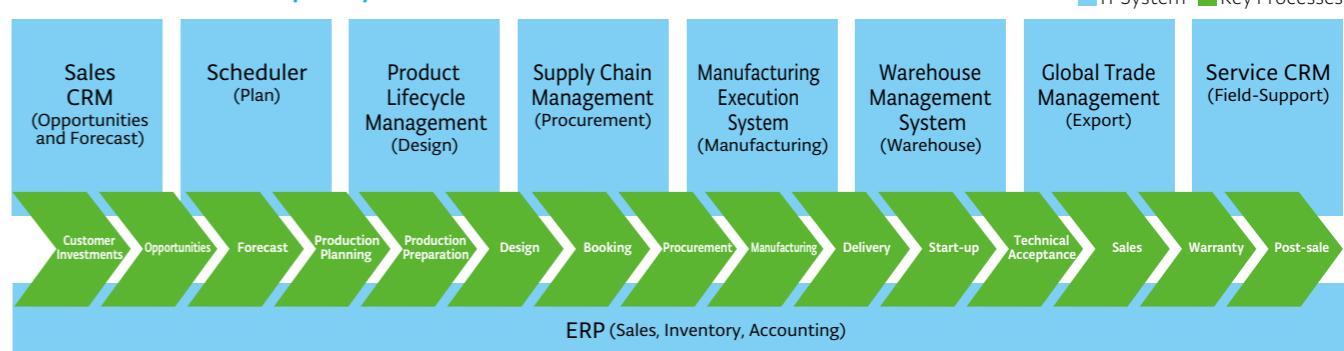
Continuous Improvement of Business Operations

We are currently introducing a new enterprise system (ERP³) to improve productivity and quality further. The new ERPs, being integrated across operational and national boundaries, are aimed at creating the following five benefits: (1) compliance with the new revenue recognition standards in Japan; (2) business and management decision making with quick response to change; (3) large improvements in business operation efficiency; (4) utilization of globally integrated information with an eye toward overall digital transformation; and (5) realization of ultimate work style reform. Beginning with business operational improvement, we are contributing to the resolution of issues from COVID-19 with global progress in the expansion of telecommuting, the shift to online approval operations, and overall digitalization.

In fiscal 2021, we made progress in communication and consensus-building that included our headquarters, manufacturing sites in Japan, and overseas subsidiaries, as well as partner companies, to form a globally unified team toward business innovation. In May 2021, the new ERPs began operation, primarily at our headquarters. While making the most of the knowledge gained from this process and the results, we plan to realize a true globally integrated system, with project members and all our employees working as one.

³ ERP: Enterprise resource planning. A system that integrates the core business operations of an enterprise, such as accounting, personnel, production, logistics and sales, for better efficiency and centralized information.

Overview of the New Enterprise System





Sustainability Initiatives in the Value Chain

Corporate Governance

Corporate Governance Framework

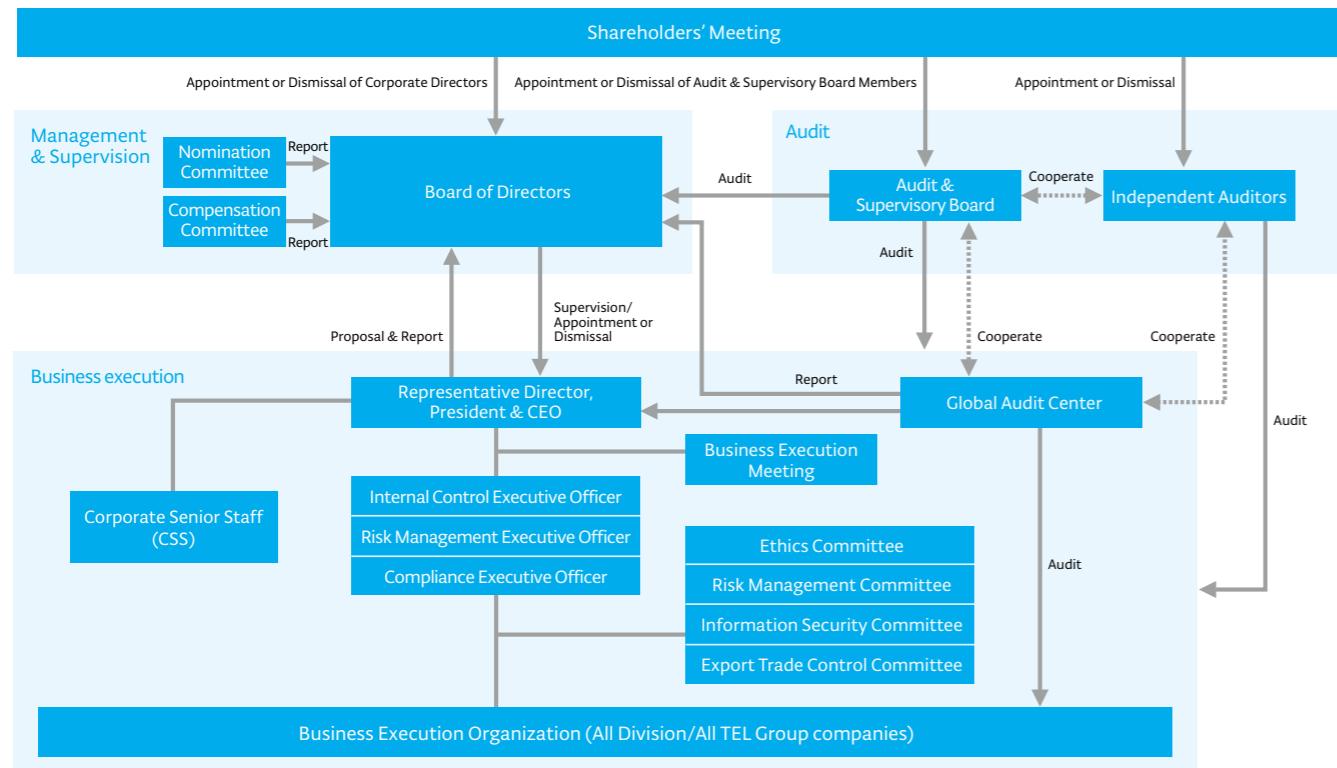
With over 80% of our sales coming from overseas, we regard building governance structure as essential in order to achieve success in global competition and sustainable growth. To that end, we have built a framework to maximize use of worldwide resources, and have worked to incorporate a wide range of opinions to strengthen our management foundation and technology base, establishing a governance structure capable of ensuring that we attain global-level earnings power. We have also established the Corporate Governance Guidelines* which outline this governance structure.

We use the Audit & Supervisory Board System, which consists of a Board of Directors and an Audit & Supervisory Board, and has achieved effective governance based on the supervision of

management by the Audit & Supervisory Board. Furthermore, in addition to the Board of Directors, whose role is to make major operational decisions and play a supervisory role in the executive management's execution, and support appropriate risk-taking by them, we have established systems that facilitate growth-oriented governance directed at sustainable growth, including the following: (1) the Nomination Committee and Compensation Committee to ensure fair, effective, and transparent management; (2) the Corporate Senior Staff (CSS) to formulate and advance company strategy; and (3) the Business Execution Meeting, to play a role in deliberations of the executive management.

* Corporate Governance Guidelines: www.tel.com/about/cg/

Diagram of the Corporate Governance Framework, Internal Control System and Risk Management System



Composition and Results of the Board of Directors, Nomination and Compensation Committees (In fiscal 2021)

	Composition			Number of Times Held
	Corporate Directors	Independent Outside Directors	Speaker/Chairperson	
Board of Directors	8	3	Corporate Director (Non-Executive Director)	12
Nomination Committee	3	1	Corporate Director	10
Compensation Committee	2	2	Independent Outside Director	7

Policies for Allocation of Earnings

Our basic stance is for the appropriate allocation of company earnings to all stakeholders.

Our dividend policy to shareholders is to link dividend payments to business performance on an ongoing basis and maintain a payout ratio of around 50% based on net income attributable to owners of the parent company. Furthermore, we also set the minimum annual dividend at 150 yen per share in light of the stable distribution of dividends.

We effectively use internal capital reserves to raise corporate value through earnings growth by concentrating investment in high-growth areas and provide returns directly to shareholders by linking dividend payments to business performance. Furthermore, we flexibly consider implementing repurchases of treasury stocks as part of returning earnings to shareholders.

Establishment of the Director Compensation System

As our basic policies on executive compensation, we emphasize (1) levels and plans for compensation to secure highly competent management personnel with global competitiveness; (2) high linkage with business performance in the short term and medium- and long-term increase of corporate value aimed at sustainable growth; and (3) securing transparency and fairness in the decision process of compensation and appropriateness of compensation.

Compensation for inside directors consists of fixed basic compensation, annual performance-linked compensation and medium-term performance-linked compensation. Compensation for outside directors consists of fixed basic compensation and non-performance-linked (stock-based) compensation. Compensation for Audit & Supervisory Board members consists solely of fixed basic compensation in consideration of their role being primarily the audit and supervision of management.

In order to secure transparency and fairness in management and appropriateness of compensation, the Compensation Committee, which an independent outside director chairs, utilizes advice from an external expert, compares compensation levels with those of industry peers in Japan and overseas, and analyzes the latest trends and best practices in Japan and overseas (such as reflecting ESG in compensation). The committee then proposes to the Board of Directors a compensation policy for corporate directors, a compensation system that is globally competitive and the most appropriate for us, and individual compensation amounts for the representative directors.

Fixed Basic Compensation

Fixed basic compensation is determined in reference to the compensation standards of industry peers in Japan and overseas. For inside directors, it also depends on the scale of their responsibilities based on the job grade framework provided by the external specialist organization.

Annual Performance-linked Compensation

Annual performance-linked compensation consists of cash bonuses and stock compensation-based stock options at a ratio of approximately 1:1. The specific amounts paid and the numbers of stock options granted are determined based on the results of corporate business performance and individual performance evaluations for the relevant fiscal year. Net income attributable to owners of parent and consolidated ROE are adopted as evaluation indicators for corporate business performance. Evaluation items for individual performance include the degree of contribution to short-term and medium-term management strategy targets (including ESG).

Medium-term Performance-linked Compensation

Medium-term performance-linked compensation is a performance share (stock-based) compensation to motivate recipients to contribute to improving medium-term business performance and raise awareness for enhancing corporate value by sharing the perspective of shareholders through the holding of shares. The number of shares issued to each corporate director varies according to the payout rate based on their respective responsibilities and level of performance goal achievement over the relevant three-year period. Consolidated operating margin and consolidated ROE have been adopted as the indicators for measuring the levels of performance goal achievement which are linked to the Medium-term Management Plan.

Non-performance-linked (Stock-based) Compensation

Non-performance-linked stock-based compensation has been introduced for the purpose of making the compensation system for outside directors more consistent with their expected role of, in addition to supervising management, giving advice to management from the perspective of increasing corporate value over the medium to long term. Under this stock-based compensation system, shares are granted after the expiration of the applicable period (three fiscal years) which is set each year.

	Fixed Basic Compensation	Annual Performance-linked Compensation		Medium-term Performance-linked Compensation	Non-performance-linked Compensation
		Cash Bonuses	Stock Compensation-based Stock Options	Performance Share (Stock-based)	Restricted Stock Units (Stock-based)
Corporate Directors	●	●	●	●	—
Outside Directors	●	—	—	—	●
Audit & Supervisory Board Members	●	—	—	—	—



Sustainability Initiatives in the Value Chain

Process for Evaluating the Effectiveness of the Board of Directors and Management Issues

To evaluate the effectiveness of the Board of Directors, including the Nomination Committee and Compensation Committee, we conduct questionnaire surveys of all corporate directors and Audit & Supervisory Board members, as well as individual interviews with some corporate directors and Audit & Supervisory Board members. We also conduct opinion exchanges and deliberations with a group comprised mostly of outside directors and Audit & Supervisory Board members. The results of this questionnaire, summaries of interviews and the content of deliberations are then shared with the entire Board of Directors before deliberating and comprehensively evaluating the effectiveness of the Board of Directors. We appoint a third party to provide advice on setting assessment items and to

conduct, aggregate and analyze the interviews in an effort to increase objectivity.

In terms of the evaluation results in fiscal 2021, open and dynamic discussions were held at Board of Directors meetings and off-site meetings. We recognize that the Board of Directors, including the Nomination Committee and Compensation Committee, is functioning in an effective manner.

In light of the results of this evaluation, we will continue our efforts to have fuller discussions regarding medium- to long-term management strategies, promote diversity, strengthen group governance at a global level and share appropriate information with the Nomination Committee, Compensation Committee and Board of Directors.

Skills Matrix

In view of our Corporate Philosophy that "We strive to contribute to the development of a dream-inspiring society through our leading-edge technologies and reliable service and support", we are engaged in enhancing our governance structure and in sustainability-focused management in order to respond to changes in the global environment, achieve success in global competition, and realize sustainable growth and increased corporate value over the medium to long term to respond to the

mandate from our stakeholders. We believe that our corporate directors and Audit & Supervisory Board members have the necessary qualifications to realize these initiatives.

Described in detail below, all of them have knowledge of global business, governance, sustainability and so on. In addition to this matrix of individual skills, we also disclose the overall diversity of our Board of Directors in an easy-to-understand format.

	Name	Expertise and Experience*					
		Corporate Management	Semiconductor/FPD	Manufacturing/Development	Sales/Marketing	Finance, Accounting/Engagement with Capital Markets	Legal Affairs/Risk Management
Corporate Directors	Tetsuo Tsuneishi	●	●		●	●	
	Toshiki Kawai	●	●	●	●		
	Sadao Sasaki	●	●	●	●		
	Yoshikazu Nunokawa		●	●	●	●	
	Tatsuya Nagakubo		●			●	●
	Kiyoshi Sunohara		●	●	●		
	Seisu Ikeda		●	●	●		
	Yoshinobu Mitano		●	●	●		
	Charles Ditmars Lake II	Outside	●			●	●
	Michio Sasaki	Outside	●		●		
	Makiko Eda	Outside	●		●		
	Sachiko Ichikawa	Outside				●	●
Audit & Supervisory Board Members	Yoshiteru Harada			●		●	●
	Kazushi Tahara	●	●	●	●		
	Kyosuke Wagai	Outside				●	●
	Masataka Hama	Outside	●			●	
	Ryota Miura	Outside					●

* The six categories of "expertise and experience" are defined as follows:

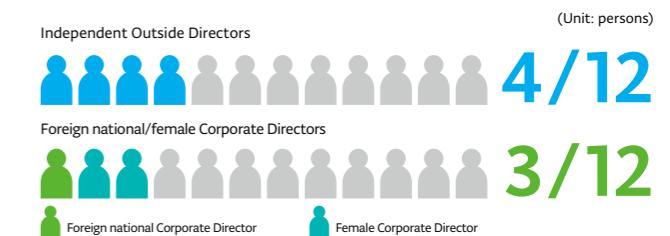
- Corporate management: Having experience in managing an enterprise (experience serving as a representative director or chairperson/president)
- Semiconductor/FPD: Having knowledge of semiconductor/FPD-related industries
- Manufacturing/development: Having knowledge/experience in manufacturing and development at Tokyo Electron and other manufacturers
- Sales/marketing: Having knowledge/experience in sales and marketing at Tokyo Electron and other manufacturers
- Finance/accounting/engagement with capital markets: Having knowledge in financial accounting and M&A, or knowledge/experience in engagement with capital markets
- Legal affairs/risk management: Having knowledge in legal affairs, compliance and risk management

Diversity of Board Members

Expertise and experience of Corporate Directors and Audit & Supervisory Board Members



Independence and diversity of Corporate Directors



Directors and Audit & Supervisory Board Members (As of July 1, 2021)

Directors



Tetsuo Tsuneishi
Corporate Director
Chairman of the Board
Corporate Director,
Tokyo Electron Device Ltd.



Toshiki Kawai
Representative Director
President & CEO
Tokyo Electron Device Ltd.



Sadao Sasaki
Representative Director
President & Representative
Director, Tokyo Electron
Technology Solutions Ltd.



Yoshikazu Nunokawa
Corporate Director



Tatsuya Nagakubo
Corporate Director



Kiyoshi Sunohara
Corporate Director



Seisu Ikeda
Corporate Director



Yoshinobu Mitano
Corporate Director



Charles Ditmars Lake II
Outside Director
Chairman and Representative
Director, Aflac Life Insurance
Japan Ltd.
President, Aflac International
Incorporated
Outside Director, Japan Post Holdings
Co., Ltd.



Michio Sasaki
Outside Director
Director and Vice President,
SHIFT Inc.
Outside Director,
ZUIKO CORPORATION



Makiko Eda
Outside Director
Chief Representative Officer,
World Economic Forum Japan
Outside Director,
FUJIFILM Holdings Corporation
Statutory Auditor, The Board Director Training
Institute of Japan
Outside Director, OLYMPUS CORPORATION



Sachiko Ichikawa
Outside Director
Partner, Tanabe & Partners
Outside Corporate Auditor, Ryohin Keikaku Co., Ltd.
Statutory Auditor, The Board Director Training
Institute of Japan
Outside Director, OLYMPUS CORPORATION

Audit & Supervisory Board Members



Yoshiteru Harada
Audit & Supervisory Board
Member



Kazushi Tahara
Audit & Supervisory Board
Member



Kyosuke Wagai
Audit & Supervisory Board
Member
Representative, Wagai CPA Office
Outside Audit & Supervisory Board
Member, Mochida Pharmaceutical
Co., Ltd.



Masataka Hama
Audit & Supervisory Board
Member
Outside Director, Nissay Asset
Management Corporation



Ryota Miura
Audit & Supervisory Board
Member
Partner, Miura & Partners Legal
Profession Corporation
Corporate Auditor, TECHMATRIX
CORPORATION
Outside Director, Eisai Co., Ltd.

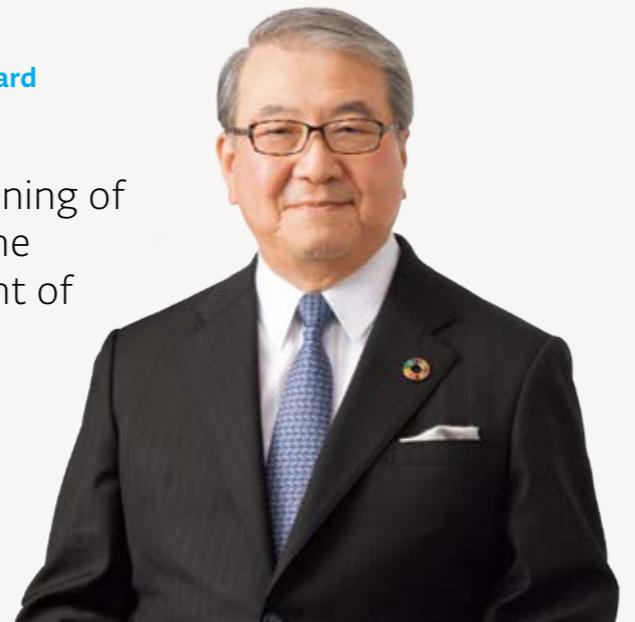


Message from the Chairman of the Board

Further Pursuit of Board Effectiveness and Strengthening of Governance Structure Are the Foundation for Enhancement of Corporate Value

Tetsuo Tsuneishi

Corporate Director
Chairman of the Board



The most important duty of Tokyo Electron's Board of Directors is making decisions on important matters toward enhancing short-, medium- and long-term shareholder value. In fiscal 2021, we achieved the highest net sales and operating income in our corporate history. This was due in large part to the tremendous effort of our executive management and employees. At the same time, I also recognize that the Board of Directors maintained a high level of effectiveness and made decisions on important directions and strategies after wide-ranging discussions, all of which also contributed to our good performance.

Priority issues for further growth, medium- to long-term management strategies and initiatives regarding sustainability were also discussed and deliberated in depth. All corporate directors and Audit & Supervisory Board members engaged in discussions based on their diverse insights and experience with a global perspective and strong awareness of Tokyo Electron's corporate culture to arrive at our directions for growth and many important resolutions.

Through our discussions about short-, medium- and long-term value creation, we made the decision to issue the Integrated Report starting from this year in addition to our annual Sustainability Report to allow us to accurately communicate these initiatives to our stakeholders.

Corporate Director
Chairman of the Board

Japan's Corporate Governance Code was revised in June 2021, and the Tokyo Stock Exchange will also be carrying out a transition to new market segments (Prime, Standard and Growth) in April 2022. To further improve the effectiveness of the Board of Directors, we are also working on initiatives for the new recommended items in the revised Corporate Governance Code. Together with the introduction of a skills matrix for corporate directors, we are also overseeing successor training plans as appropriate. In addition, we seek to strengthen diversity by positioning the development and appointment of global human resources and the promotion of gender diversity as key issues that must be addressed. As for the important matter of risk management, we will broadly identify risks on a company-wide basis, including overseas sites, and respond to them appropriately. At the same time, we will evolve and further strengthen our Group's governance.

To correctly grasp the trends of the rapidly growing global ICT industry, meet the expectations of the capital market, achieve sustainable growth and improve our medium- to long-term corporate value, our Board of Directors will undertake management with world-class effectiveness so as to always make the best decisions at the right time regarding important management issues.

Compliance

Approach to Compliance

To practice Tokyo Electron's Corporate Philosophy, it is vital that each employee performs their daily duties with strong interest in and a deep understanding of compliance. We established "Tokyo Electron's Code of Ethics" as a code of conduct to ensure that our employees are aware of the risks around them and conduct themselves appropriately. We have built a global system that can directly raise questions and concerns about compliance and business ethics to quickly address potential problems.

Compliance System

In order to effectively promote a global compliance program, we have appointed a Chief Compliance Officer (CCO) and established a dedicated Compliance Department at our headquarters. Additionally, people responsible for compliance (Regional Compliance Controllers) have been appointed at key overseas sites, creating a system for direct reporting to the Chief Compliance Officer and Compliance Department.

Compliance Initiatives

Business Ethics

In addition to establishing the Code of Ethics as standards of conduct by which executives and employees should abide and distributing it in the form of booklets, we also strive for understanding and awareness by regularly obtaining confirmation of compliance from all executives and employees. In fiscal 2021, we made a full-fledged revision on the content to what is required as a global company and changed the booklet design to make it easier to understand.

Initiatives for Anti-Bribery and Corruption and for Competition Laws

We have established the "Global Anti-Bribery and Corruption Policy" as well as the "Gifts and Entertainment Guidelines", and the "Global Competition Law Policy" and the "Guidelines". In addition, we also regularly conduct training to promote understanding and awareness.

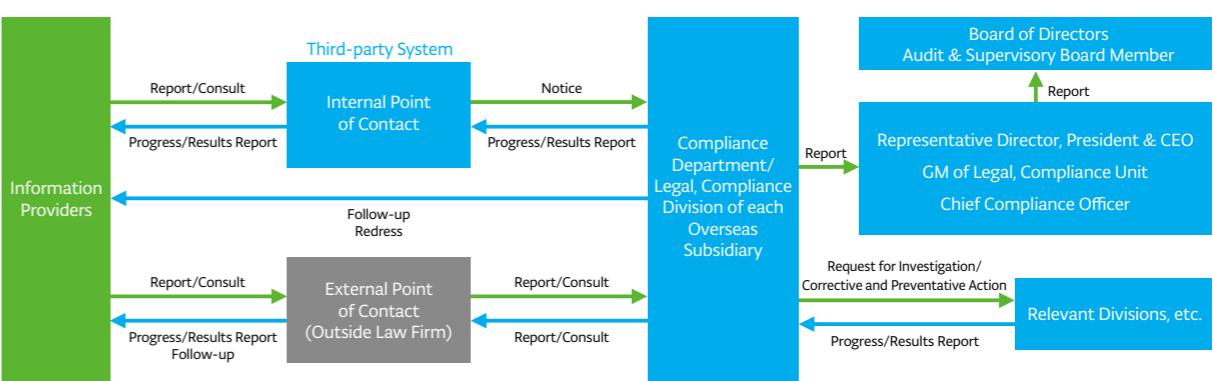
Internal Reporting System

Preventing problems from occurring and resolving them before they become significant requires a system that allows employees to raise questions and concerns about business ethics and compliance without reservation or hesitation and to discuss them fully. For this reason, we have established an internal reporting system that ensures complete confidentiality, anonymity and the prohibition of retribution, so that employees can safely and reassuringly provide information and seek redress outside the chain of command about behavior that is, or may be, in violation of laws, regulations or business ethics.

Specifically, we have established and are operating the Tokyo Electron Group Ethics & Compliance Hotline—a global common internal point of contact that uses a third-party system that is also accessible to our suppliers—as well as an external point of contact that allows direct consultation with an outside law firm.

Reports and consultations received via these points of contact are handled with sincerity and investigations are undertaken in accordance with internal regulations. If a compliance violation is found, disciplinary action is taken in accordance with the Rules of Employment, and preventive measures and corrective measures, such as improvements to the workplace environment, are implemented as necessary.

Response to Internal Reports





Sustainability Initiatives in the Value Chain

Risk Management

Approach to Risk Management

Reflecting changes in society and the business environment, the risks facing businesses are growing increasingly complex and diverse. Tokyo Electron considers understanding and appropriately addressing the risks that it may face in its businesses, as well as their impacts, to be essential to its sustainable growth.

Risk Management System and Initiatives

In order to promote more effective risk management, we carry out enterprise risk management¹ through a body established within the General Affairs Department at our headquarters. This body works with the respective departments responsible for each operation to identify a wide range of risks arising in business activities, such as compliance risk, human resource and labor risk, and business continuity risk. It then classifies risks with high impact and probability as our key risks.

The body also formulates and executes measures to minimize these key risks, monitors the effect of said measures, as well as works to understand the status of risk control, and implements the PDCA cycle for risk management.

In fiscal 2021 we introduced CSA² and started a risk management committee. We will continue these activities going forward. By continuing to strengthen and progress risk

management activities throughout our Group, we will implement risk management that is more effective than ever before.

¹ Enterprise risk management: Group-wide systems and processes related to risk management activities

² CSA: Control Self-Assessment. Internal risks and controls are evaluated and monitored by those who are actually performing the duties with the goal of building and maintaining an autonomous risk management system.

Auditing by the Internal Audit Department

The Global Audit Center serves as the internal audit department for the entire Group and implements audits based on the audit plan. Based on the results of these audits, it provides instructions for making improvements as needed, confirms the progress of these improvements, and provides any necessary support. The Group's internal control over financial reporting in fiscal 2021 was also evaluated as effective by the independent auditors.

Risk Management Initiatives

We conduct Group-wide reviews to identify the current status of risk management as well as any potential and actual risks surrounding the Company in the future. Based on the results of the reviews, we have identified the following 13 risks as having potential to cause significant issues to our financial condition, operating results and cash flows, and are working to address them.

Item	Main Potential Risks	Main Risk Management Initiatives
4. Procurement, Production and Supply	Interruptions in production due to a natural disaster or delays in component procurement due to deterioration in the business conditions of a supplier or an increase in demand that exceeds the supplier's supply capacity could lead to delays in the supply of products to customers	<ul style="list-style-type: none"> Formulate BCPs, establish alternate production capabilities, develop multiple sources of important parts, seismically reinforce plants, etc. Build a system for the stable supply of products by sharing forecasts based on demand projections with suppliers to ensure the early procurement of parts and production leveling
5. Safety	Safety-related problems with the Company's products could lead to damages suffered by customers, liability for damages and a decline in credibility	<ul style="list-style-type: none"> Based on the "Safety First"³ approach, thoroughly implement safety design at the product development stage, promote safety training and establish a reporting system in the event of an accident
6. Quality	The occurrence of a product defect could lead to liability for damages, costs for countermeasures and a decline in credibility	<ul style="list-style-type: none"> Establish a quality assurance system and a world-class service system Resolve technical issues from the product development and design stage Investigate the cause of any defects and implement measures to prevent the same or similar defects from occurring Monitor the quality status of suppliers, conduct audits and provide support for improvement
7. Laws and Regulations	Violations of the laws and regulations of the countries and regions where the Company does business could lead to diminished public confidence in the Company, fines, liability for damages or restrictions on business activities	<ul style="list-style-type: none"> Monitor compliance activities at key sites in and outside Japan under the direction of the Chief Compliance Officer Have assessments conducted by external experts and report identified issues to the CEO, Board of Directors and Audit & Supervisory Board for swift and effective action
8. Intellectual Property Rights	The inability to obtain exclusive rights to proprietary technologies could lead to reduced product competitiveness. Furthermore, infringement of the intellectual property rights of third parties could lead to liability for damages	<ul style="list-style-type: none"> Advance the R&D strategy, business strategy and intellectual property strategy in an integrated manner to build an appropriate intellectual property portfolio
9. Information Security	Breaches of information or the suspension of services due to unauthorized access by cyberattack, natural disasters or other factors could lead to diminished public confidence in the Company or liability for damages	<ul style="list-style-type: none"> Establish an information security system that conforms to global standards by launching a dedicated security organization and having security assessments conducted by external experts Establish globally standardized rules and regulations for information management
10. Human Resources	The inability to recruit and retain necessary human resources on an ongoing basis or the inability to create an environment where people with diverse values and expertise can play an active role could lead to diminished product development capability or customer support quality	<ul style="list-style-type: none"> Make ongoing improvements to work environments and promote health and productivity management, including having top management share direction through regular employee meetings, establishing training plans for the next generation of human resources, visualizing career paths for employees and offering attractive remuneration and benefits
11. Environmental Issues	The inability to respond appropriately to each country's climate change policies, environmental laws and regulations, and customer needs could lead to additional related costs such as for developing new products or changing specifications, as well as to reduced product competitiveness and diminished public confidence in the Company	<ul style="list-style-type: none"> Set industry-leading medium- to long-term environmental goals⁴ Reduce greenhouse gas emissions from product use. Reduce overall energy consumption and increase the ratio of renewable energy used at plants and offices Provide technologies that help reduce the power consumption of semiconductors
12. The Novel Coronavirus (COVID-19)	The spread of COVID-19 could slow the Company's business activities or lead to the deterioration of global economic conditions	<ul style="list-style-type: none"> Establish an Emergency Task Force headed by the CEO Restrict travel to high infection-risk countries and regions, maintain supply chains and thoroughly implement infection prevention measures at plants and offices
13. Other Risks	Business could be influenced by global and regional political conditions, economic conditions, financial and stock markets, foreign exchange fluctuations and other factors	<ul style="list-style-type: none"> Take necessary measures to counter such risks

³ Safety First: Company slogan that prioritizes the safety of every person connected with our business activities

⁴ Refer to Medium- and Long-term Environmental Goals on p.35



Information Security

As the data society develops and the importance of information security increases, we take active measures to use data including digital transformation and achieve information security effectively.

Main activities



Creating information security systems

We established a system centered around the Vice President and General Manager, Information Security, and are implementing integrated security measures on a global scale.



Establishment of global rules

We established global standardized information security rules and regularly conduct checks on compliance status and provide education for all relevant parties.



Information security management

We identify risks by conducting periodic risk assessments and internal audits and implement technological, human, organizational and physical security measures.



Supply chain security

We respond to customer requests and monitor the status of security at suppliers so that we can securely use confidential information and customer information in our business activities without compromising utility.



Responses to security threats

To respond to cyberattacks and information leaks, which are major security threats in modern society, we actively introduce advanced technologies and have specialized organizations create systems to establish mechanisms for reliable monitoring.

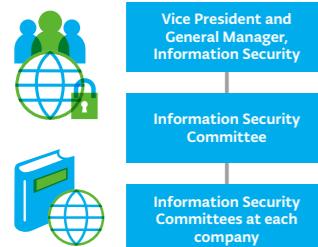


Increasing resilience

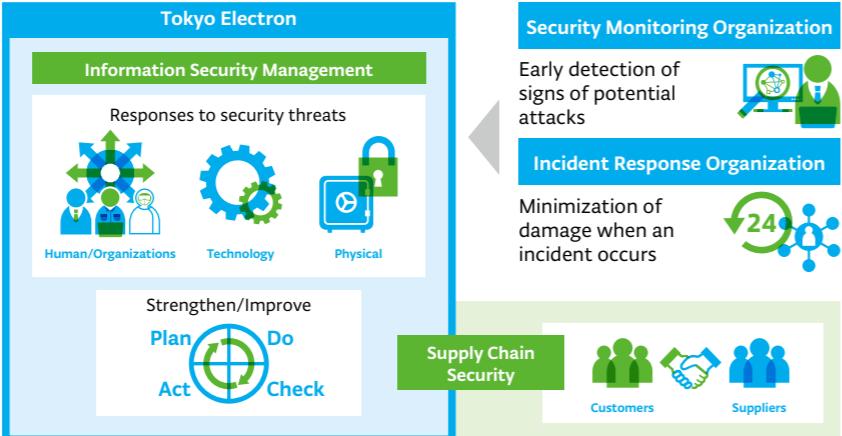
To prepare for the occurrence of security incidents, we established a specialized incident response organization and have established systems so that we can share incident information at an early stage and promptly respond and recover.

Overview of Information Security

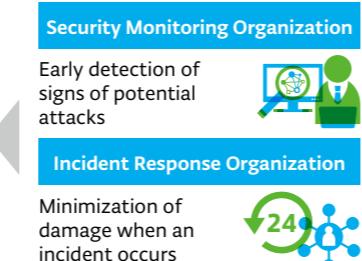
Mechanisms that support information security activities



Day-to-day activities implemented globally



Systems established in preparation for emergencies



Engagement with Capital Markets

Our management actively engages in Investor Relations (IR) and Shareholder Relations (SR) activities to contribute to our sustainable growth and increase corporate value over the medium to long term. The Chairman of the Board, CEO and corporate director in charge of finance serve as spokespersons as required at IR conferences in and outside Japan and strive to engage directly with investors. In addition to holding quarterly earnings release conferences, we actively share our business strategies and growth story at the Medium-term Management Plan briefings and on IR day.

The IR Department, which was established under the direct control of the CEO, also appropriately supplements the explanation through individual interviews and regularly reports opinions from investors to management so that feedback can be of use in management.

As a part of our shareholder relations activities, company executives play a central role in active and constructive dialogue with our major institutional investors and proxy-advisory firms. In addition to explaining the Shareholders' Meeting agenda, we continuously engage in dialogue on a wide range of topics including the business environment, ESG and sustainability initiatives, and respond to business risks and opportunities including social and environmental issues in order to deepen mutual understanding. To encourage active discussion and facilitate smooth and efficient voting at Shareholders' Meetings, we send convocation notices at an early stage and also post the notice in both Japanese and English on our website to provide information to shareholders in a timely manner. In addition, we analyze the results of the exercise of voting rights and report to the Board of Directors to further enhance engagement with investors.

Evaluation from Third-party Institutions

Our sustainability initiatives have received high appraisal from evaluation organizations around the world. We have continued to be selected as a constituent stock under leading global ESG investment indices, including the DJSI¹ Asia Pacific Index, FTSE4Good Index² and MSCI World ESG Leaders Indexes³, Euronext Vigeo World 120 Index⁴ and STOXX Global ESG Leaders indices⁵, and in 2021, we were also rated as a low-risk company in Sustainalytics' ESG Risk Ratings⁶.

We also ranked number 1 among Japanese companies in the second ROESG Rankings⁷ (2020 edition) implemented by Nikkei Inc. and QUICK Corp. ESG Research Center, with our superior capital efficiency and dedication to ESG engagement earning a significantly high score.

Additionally, all Group companies operating in Japan once again received recognition as top 500 companies under the 2021 Certified Health & Productivity Management Outstanding Organizations Recognition Program⁸.

¹ DJSI: Dow Jones Sustainability Indices. An ESG (environmental, social and governance) investment index of S&P Dow Jones Indices LLC. The DJSI Asia Pacific covers companies in that region.

² FTSE4Good Index: An index related to environmental performance and corporate social responsibility developed by FTSE Russell.

³ MSCI World ESG Leaders Indexes: Companies that have high ESG performance are selected from the MSCI Global Sustainability Index, an ESG investment index developed by Morgan Stanley Capital International (MSCI). Please check the link for the logo's disclaimer: www.tel.com/csr/review/

⁴ Euronext Vigeo World 120 Index: An index selected by NYSE Euronext and Vigeo Eiris composed of 120 companies that excel from an ESG perspective.

⁵ STOXX Global ESG Leaders indices: STOXX, a subsidiary of Deutsche Börse, selects companies that meet its evaluation standards based on the results of research from the ESG research company Sustainalytics.

⁶ Sustainalytics' ESG Risk Ratings: An ESG risk measured for institutional investors by Sustainalytics in the Netherlands. The rating is based on a company's exposure to industry-specific material ESG risks and how well a company is managing those risks.

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⁷ Nihon Keizai Shimbun, March 29, 2021. ROESG: An integrated index of management sustainability that integrates ROE, which is an indicator of capital efficiency, and ESG, a non-financial index of sustainability.

⁸ Certified Health & Productivity Management Outstanding Organizations Recognition Program: The program publicly recognizes particularly outstanding organizations that are practicing health-oriented business management, based on initiatives attuned to local health-related challenges and on health-promotion initiatives led by the Nippon Kenko Kaigi

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2021 MSCI ESG Leaders Indexes Constituent
EURONEXT VIE INDICES WORLD 120

STOXX RATED
Member 2020 / 2021
ESG Leaders Indices

Aiming to Be a Truly Excellent Global Company

The world is currently pushing firmly ahead with implementing information and communication technologies (ICT) and digital transformation (DX) as well as taking action to realize a carbon-free society in order to build a strong and resilient society in which economic activities do not stop under any circumstances.

Semiconductors are growing even more important as social infrastructure with increasing technological demands such as larger capacity, higher speed, higher reliability and lower power consumption. The applications of displays, which form the interface between people and data, are also expanding.

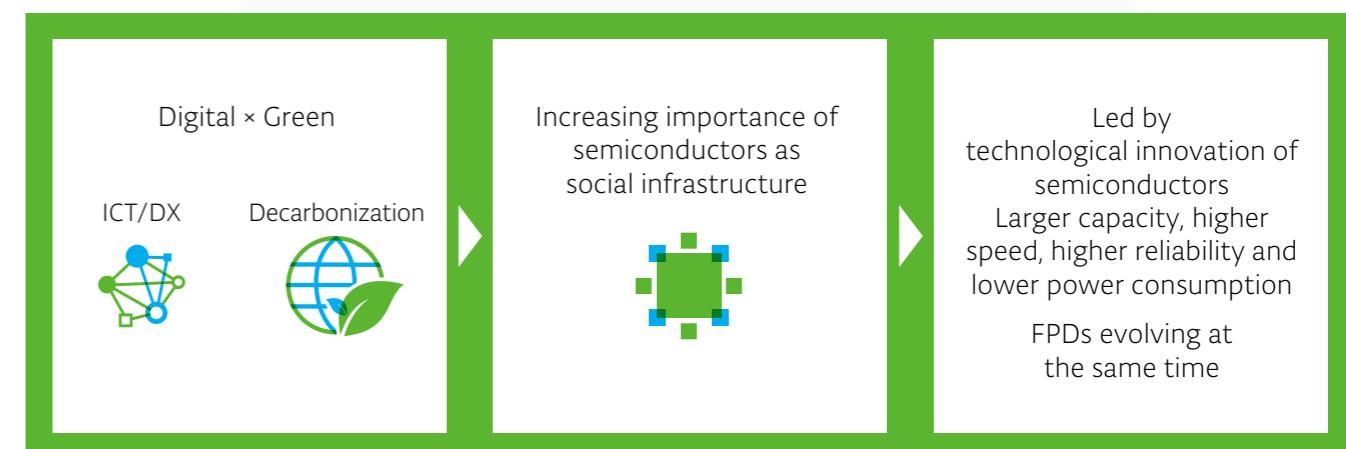
Tokyo Electron will strive toward medium- to long-term profit expansion and continuous corporate value enhancement by promoting technological innovation to apply its expertise as a manufacturer of semiconductor and flat panel display (FPD) production equipment and using all management resources, including its employees who create and fulfill company values.

Based on these activities, we will practice our Corporate Philosophy—which specifies our mission in society and the purpose of our existence—and meet the expectations of all of our stakeholders.

We will start our 60th fiscal year in April of next year. Going forward, we will continue to take on challenges and evolve to be a truly excellent global company that is loved and highly trusted by all stakeholders.

Corporate Philosophy

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



Create social value and economic value by promoting technological innovation to utilize expertise as a semiconductor and FPD production equipment manufacturer and all management resources

Medium- to long-term profit expansion and continuous corporate value enhancement

Practice our Corporate Philosophy to meet the expectations of all stakeholders surrounding the Company

TEL

Financial Review

Operating Results

During fiscal 2021, although the global economy was affected by the novel coronavirus (COVID-19) pandemic, there are signs of a return to positive economic growth, driven by the implementation of economic stimulus policies by national governments.

In the electronics industry, where Tokyo Electron operates, the market for semiconductor production equipment is expanding as demand for semiconductors increases, driven by the transition to a data-driven society due to the expansion of the use of information and communication technologies (ICT) such as IoT, AI and 5G. Although it will be necessary to continue to monitor the impact of COVID-19, the market for semiconductor production equipment is expected to grow further.

In this environment, the consolidated operating results for fiscal 2021 were as follows.

Net sales for the fiscal year increased 24.1% from the previous fiscal year to 1,399.1 billion yen. Domestic net sales increased 22.1% from the previous year to 197.5 billion yen, while overseas net sales increased 24.5% to 1,201.5 billion yen to account for

85.9% of net sales.

Cost of sales increased 23.5% to 834.1 billion yen and gross profit increased 25.0% to 564.9 billion yen. As a result, the gross profit margin expanded by 0.3 points to 40.4%. Selling, general and administrative (SG&A) expenses increased 13.8% to 244.2 billion yen, while the ratio to consolidated net sales declined by 1.6 points to 17.5%.

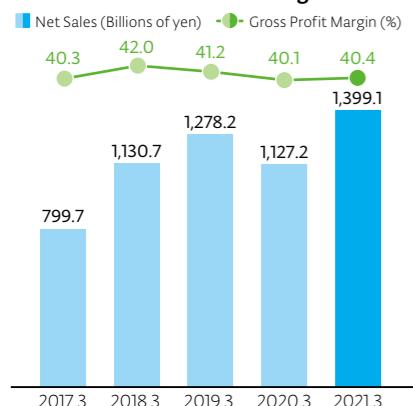
As a result, operating income increased 35.1% to 320.6 billion yen and operating margin increased 1.9 points to 22.9%. After netting of non-operating income of 5.4 billion yen and non-operating expenses of 4.0 billion yen, ordinary income increased 31.5% to 322.1 billion yen. Income before income taxes was 317.0 billion yen (year-on-year growth of 29.6%) and net income attributable to owners of parent was 242.9 billion yen (year-on-year growth of 31.2%).

As a result, net income per share was 1,562.20 yen compared to net income per share of 1,170.57 yen in the previous fiscal year.

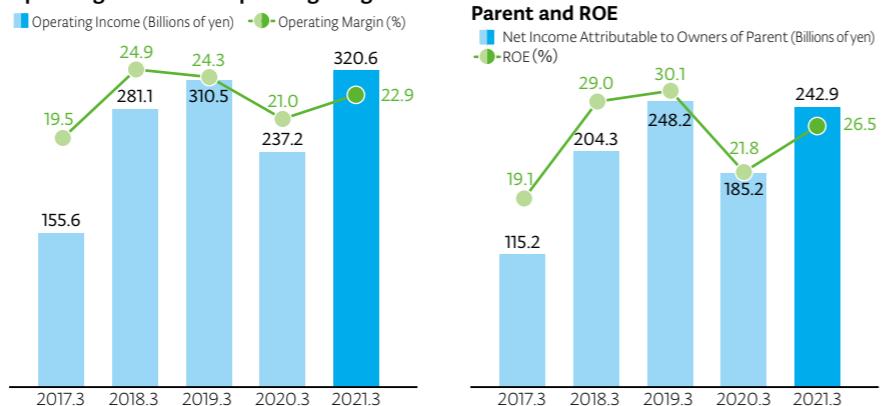
Sales and Income

	Millions of yen				
	2017.3	2018.3	2019.3	2020.3	2021.3
Net sales	¥799,719	¥1,130,728	¥1,278,240	¥1,127,286	¥1,399,102
Gross profit	322,291	475,032	526,183	451,941	564,945
Gross profit margin	40.3%	42.0%	41.2%	40.1%	40.4%
Selling, general and administrative expenses	166,594	193,860	215,612	214,649	244,259
Operating income	155,697	281,172	310,571	237,292	320,685
Operating margin	19.5%	24.9%	24.3%	21.0%	22.9%
Income before income taxes	149,116	275,242	321,508	244,626	317,038
Net income attributable to owners of parent	115,208	204,371	248,228	185,206	242,941

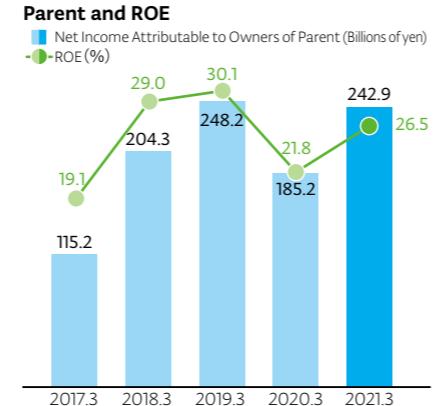
Net Sales and Gross Profit Margin



Operating Income and Operating Margin



Net Income Attributable to Owners of Parent and ROE



Financial Conditions

Total current assets at the end of fiscal 2021 were 1,015.6 billion yen, an increase of 53.2 billion yen compared to the end of the previous fiscal year. This was mainly due to an increase of 41.5 billion yen in trade notes and accounts receivable, an increase of 36.6 billion yen in cash and deposits, an increase of 23.2 billion yen in inventories, and a decrease of 44.8 billion yen in short-term investments.

Net property, plant and equipment increased by 21.3 billion yen from the end of the previous fiscal year, to 196.9 billion yen. Investments and other assets increased by 72.2 billion yen from the end of the previous fiscal year, to 212.6 billion yen.

As a result, total assets increased by 146.8 billion yen from the end of the previous fiscal year, to 1,425.3 billion yen.

Total current liabilities decreased by 54.9 billion yen from the end of the previous fiscal year, to 327.6 billion yen. This was largely due to a decrease in customer advances of 53.6 billion yen.

Total non-current liabilities increased by 6.9 billion yen from the end of the previous fiscal year, to 73.1 billion yen.

Total net assets increased by 194.8 billion yen from the end of previous fiscal year, to 1,024.5 billion yen. This was largely due to an increase of 242.9 billion yen in net income attributable to owners of parent, a decrease resulting from the payment of 109.5 billion yen in year-end dividends for the previous fiscal year and an interim dividend for fiscal 2021, and an increase of 45.9 billion yen in net unrealized gains on investment securities. As a result, the equity ratio was 71.1%.

Cash Flows

Cash and cash equivalents at the end of fiscal 2021 increased by 18.0 billion yen compared to the end of the previous fiscal year, to 265.9 billion yen. The combined balance including 45.5 billion yen in time deposits and short-term investments with maturities of more than three months that are not included in cash and cash equivalents was 311.5 billion yen, a decrease of 26.8 billion yen from the end of the previous fiscal year. The overall situation regarding cash flows for the fiscal year was as described below.

Cash flows from operating activities were positive 145.8 billion yen, a decrease of 107.2 billion yen compared to the same period of the previous fiscal year. The major positive factors were 317.0 billion yen in income before income taxes, 33.8 billion yen in depreciation and amortization. The major negative factors were 87.7 billion yen in payment of income taxes, a decrease in customer advances of 54.8 billion yen, an increase in trade notes and accounts receivable of 37.7 billion yen, and an increase in inventories of 17.2 billion yen.

Cash flows from investing activities were negative 18.2 billion yen compared to positive 15.9 billion yen in the same period of the previous fiscal year. This was largely due to the payment of 53.8 billion yen for the purchase of property, plant and equipment, and an inflow of 44.9 billion yen from a decrease in short-term investments.

Cash flows from financing activities were negative 114.5 billion yen compared to negative 250.3 billion yen in the same period of the previous fiscal year. This was largely due to the payment of 109.5 billion yen in dividends.

Financial Conditions

	2017.3	2018.3	2019.3	2020.3	2021.3
Total current assets	¥775,938	¥946,597	¥982,897	¥962,484	¥1,015,696
Net property, plant and equipment	100,441	125,952	150,069	175,580	196,967
Total investments and other assets	81,067	130,246	124,661	140,431	212,699
Total assets	957,447	1,202,796	1,257,627	1,278,495	1,425,364
Total current liabilities	247,770	368,452	304,882	382,578	327,661
Total liabilities	311,447	431,287	369,510	448,802	400,801
Total net assets	645,999	771,509	888,117	829,692	1,024,562

Note: From fiscal 2019, the Company applied the Accounting Standards Board of Japan's "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASB) Statement No.28, revised on February 16, 2018. Total current assets, total investments and other assets, total assets and total liabilities for fiscal 2018 have been restated in accordance with the revised accounting standard

Cash Flows

	2017.3	2018.3	2019.3	2020.3	2021.3
Cash flows from operating activities	¥136,948	¥186,582	¥189,572	¥253,117	¥145,888
Cash flows from investing activities	(28,893)	(11,833)	(84,033)	15,951	(18,274)
Cash flows from financing activities	(39,380)	(82,549)	(129,761)	(250,374)	(114,525)
Cash and cash equivalents at end of year	164,366	257,877	232,634	247,959	265,993

Management Discussion and Analysis of State of Operating Results

Our operating results for fiscal 2021 were a record-high 1,399.1 billion yen, an increase of 24.1% from the previous fiscal year, due to active capital expenditure by customers in both the semiconductor and flat panel display (FPD) production equipment markets.

Together with the significant increase in net sales, operating income also reached 320.6 billion yen, an increase of 35.1% from the previous fiscal year, and the operating margin was 22.9%, an increase of 1.9 points from the previous fiscal year. This was mainly due to the increase in gross profit margin from the increase in net sales of key fields, and the decrease in the ratio of selling, general and administrative expenses arising from the increase in net sales. Total R&D expenses increased by 16.3 billion yen (13.6%) from the previous fiscal year to a record-high of 136.6 billion yen in order to achieve the financial model of the Medium-term Management Plan as well as to achieve further growth in the future.

Net income attributable to owners of parent—which is operating income with non-operating profit and loss and unusual or infrequent profit and loss reflected less tax expenses—was 242.9 billion yen, and its ratio against net sales was 17.4%, an increase of 1.0 points from the previous fiscal year. Net income per share was 1,562.20 yen due to the increase in profits as well as the impact of the purchase of treasury stock conducted in the previous fiscal year.

The following is our understanding, analysis and consideration about the state of operating results for each segment. Please note that segment profit corresponds to income before income taxes on the consolidated statements of income.

Semiconductor Production Equipment

Due to the expanded use of ICT mentioned above, capital expenditure in semiconductors for logic/foundry has been robust in a wide range of areas, from the leading-edge to mature generations of semiconductors. In addition, capital expenditure in NAND increased significantly during fiscal 2021, reflecting the transition to a data-driven society. Furthermore, capital expenditure in DRAM that had been adjusted also started to recover due to an improvement in the supply and demand balance toward the second half of fiscal 2021. Consequently, net sales in this segment during the fiscal 2021 were 1,315.2 billion yen (year-on-year growth of 24.0%). Segment profit was 362.5 billion yen, an increase of 34.0% from the previous fiscal year. Amid active capital expenditure by customers on new equipment, as a result of smooth progress in sales strategies within key fields, net sales in fiscal 2021 increased significantly, especially in sales for logic/foundry and NAND. In addition, net sales for used equipment and modifications as well as parts and services also grew steadily due to the increase in cumulative number of equipment installed and high equipment utilization by customers.

Segment profit margin was 27.6% in fiscal 2021, an increase of 2.1 points from 25.5% in the previous fiscal year. This was mainly due to the decrease in the ratio of fixed costs arising from the significant increase in net sales.

FPD Production Equipment

The FPD production equipment market underwent positive growth year-on-year, with an increase in capital expenditure in small- to medium-sized OLED panels for mobile devices in addition to robust capital expenditure in large-sized LCD panels for televisions. Consequently, net sales in this segment during the fiscal 2021 were 83.7 billion yen (year-on-year growth of 26.8%). Segment profit was 8.8 billion yen, a

decrease of 16.7% from the previous fiscal year. The significant growth in this segment's net sales was due to the increase in capital expenditure on small- to medium-sized OLED panels for mobile devices as well as robust capital expenditure on large-sized LCD panels for televisions.

Segment profit margin was 10.5% in fiscal 2021, a decrease of 5.5 points from 16.0% in the previous fiscal year. This was mainly due to inventories—manufactured during the previous fiscal year when our plant utilization rate was temporary low—being realized as cost of sales in fiscal 2021.

Management Discussion and Analysis of State of Financial Conditions and Cash Flows, and Information Related to Sources of Capital and Fluidity of Funds

Regarding our financial conditions, total assets stood at 1,425.3 billion yen at the end of fiscal 2021, an increase of 146.8 billion yen from the end of the previous fiscal year. This was mainly due to the increase in trade notes and accounts receivable, inventories, property, plant and equipment, and investment securities included in investments and other assets. Trade notes and accounts receivable reached 191.7 billion yen, an increase of 41.5 billion yen from the end of the previous fiscal year, due to the significant increase in net sales during the fourth quarter against the backdrop of rapid growth in the market for semiconductor production equipment. Inventories reached 415.3 billion yen, an increase of 23.2 billion yen from the end of the previous fiscal year, in reflection of the robust demand for equipment and parts—which will continue into the following fiscal year—as well as a result of incorporating measures such as leveling of production.

Net property, plant and equipment increased 21.3 billion yen year-on-year to 196.9 billion yen, in reflection of the completion of new buildings at our Yamanashi and Tohoku plants aimed

at enhancing our production capacities, as well as other works such as the ongoing construction of the Technology Innovation Center at our Miyagi plant.

Investment securities increased 66.6 billion yen year-on-year to 105.0 billion yen due to the higher market prices of strategically-held listed shares. Due to these factors, total assets increased since the end of the previous fiscal year, but as the increase in net sales was greater, the turnover period for total assets decreased from 414 days in the previous fiscal year to 372 days, improving asset efficiency.

Regarding cash flows, the balance of cash and cash equivalents including deposits and short-term investments with original maturities of more than three months decreased 26.8 billion yen year-on-year to 311.5 billion yen. This was mainly due to a concentration of equipment shipments in the fourth quarter of the previous fiscal year and a portion of payments from customers for sales in fiscal 2021 being recognized as customer advances in the previous fiscal year.

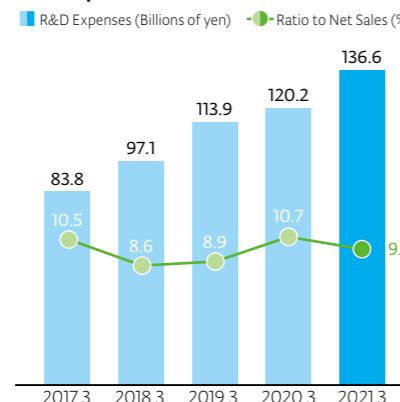
Given that the required working capital is increasing, such as an increasing level of inventories due to business expansion, we continued to invest in growth, including the enhancement of our production capabilities in preparation for higher demand and research and development. At the same time, we returned 109.5 billion yen to our shareholders based on our shareholder return policy of a 50% dividend payout ratio. These were all covered using cash on hand obtained through business operations. We will continue to undertake investments for future growth and aggressive shareholder return while maintaining our solid financial foundation built through high profit margins.

Return on equity (ROE), one of our management indicators, increased from 21.8% in the previous fiscal year to 26.5%, improving capital efficiency. This was due to the increase in the ratio of net income attributable to owners of parent against net sales as well as the decrease in the turnover period for total assets.

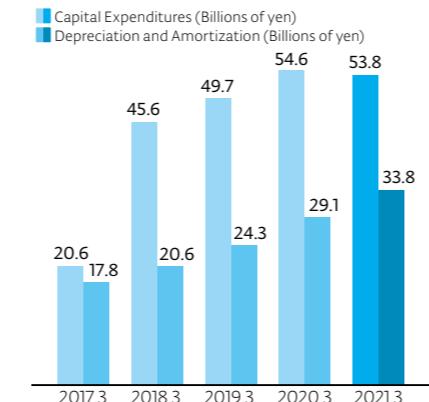
Selling, General and Administrative Expenses and Ratio to Net Sales



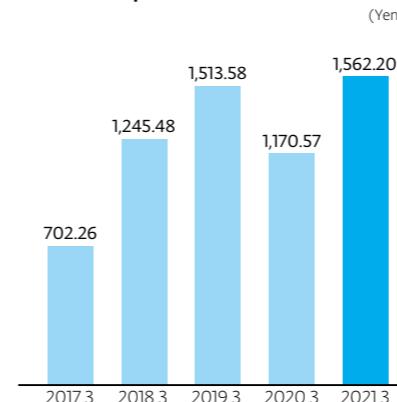
R&D Expenses and Ratio to Net Sales



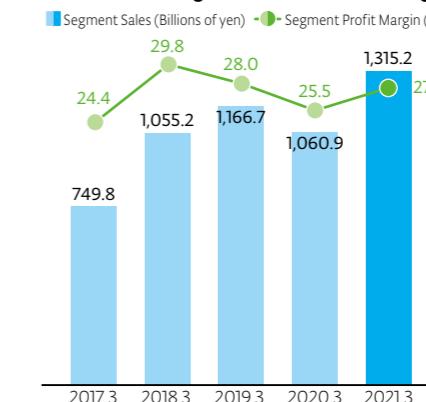
Capital Expenditures and Depreciation and Amortization



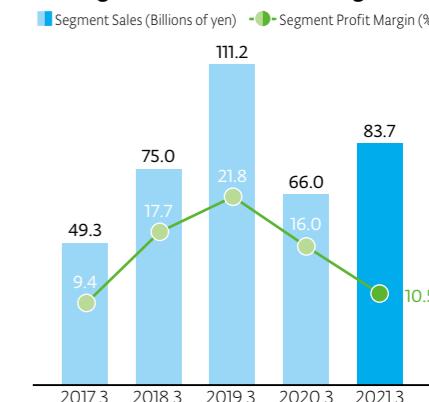
Net Income per Share



Semiconductor Segment Sales and Profit Margin



FPD Segment Sales and Profit Margin



Note: Segment profit corresponds to income before income taxes on the consolidated statements of income.

Note: Segment profit corresponds to income before income taxes on the consolidated statements of income.

Consolidated Eleven-Year Summary

Tokyo Electron Limited and Subsidiaries
As of and for the years ended March 31

	Thousands of U.S. dollars				Millions of yen							
	2021	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Net sales ¹	\$12,637,546	¥1,399,102	¥1,127,286	¥1,278,240	¥1,130,728	¥799,719	¥663,949	¥613,125	¥612,170	¥497,300	¥633,091	¥668,722
Semiconductor production equipment	11,879,691	1,315,200	1,060,997	1,166,781	1,055,234	749,893	613,033	576,242	478,842	392,027	477,873	511,332
FPD production equipment	756,682	83,772	66,092	111,261	75,068	49,387	44,687	32,710	28,317	20,077	69,889	66,721
PV production equipment	—	—	—	—	—	—	—	3,618	3,806	83	—	—
Electronic components and computer networks	—	—	—	—	—	—	—	—	100,726	84,665	84,868	90,216
Other	1,172	129	197	197	425	438	6,229	555	479	448	461	453
Operating income	2,896,628	320,685	237,292	310,571	281,172	155,697	116,789	88,113	32,205	12,549	60,443	97,870
Income (loss) before income taxes	2,863,679	317,038	244,626	321,508	275,242	149,116	106,467	86,828	(11,756)	17,767	60,602	99,579
Net income (loss) attributable to owners of parent	2,194,393	242,941	185,206	248,228	204,371	115,208	77,892	71,888	(19,409)	6,076	36,726	71,924
Comprehensive income (loss)	2,762,183	305,801	187,084	242,696	206,152	119,998	60,984	80,295	(10,889)	15,826	36,954	69,598
Domestic sales	1,784,543	197,566	161,812	208,796	148,760	101,122	121,808	95,046	161,631	118,504	171,364	182,165
Overseas sales	10,853,002	1,201,535	965,474	1,069,443	981,967	698,597	542,141	518,079	450,539	378,796	461,727	486,557
Depreciation and amortization ²	305,696	33,843	29,107	24,323	20,619	17,872	19,257	20,878	24,888	26,631	24,198	17,707
Capital expenditures ³	486,576	53,868	54,666	49,754	45,603	20,697	13,341	13,184	12,799	21,774	39,541	39,140
R&D expenses	1,234,295	136,648	120,268	113,980	97,103	83,800	76,287	71,350	78,664	73,249	81,506	70,568
Total assets ⁶	12,874,753	1,425,364	1,278,495	1,257,627	1,202,796	957,447	793,368	876,154	828,592	775,528	783,611	809,205
Total net assets	9,254,475	1,024,562	829,692	888,117	771,509	645,999	564,239	641,163	590,614	605,127	598,603	584,802
Number of employees	14,479	13,837	12,742	—	11,946	11,241	10,629	10,844	12,304	12,201	10,684	10,343
U.S. dollars												
Yen												
Net income (loss) per share of common stock:												
Basic	\$14.11	¥1,562.20	¥1,170.57	¥1,513.58	¥1,245.48	¥702.26	¥461.10	¥401.08	¥(108.31)	¥33.91	¥205.04	¥401.73
Diluted ⁴	14.03	1,553.29	1,164.02	1,507.22	1,241.22	700.35	460.00	400.15	—	33.85	204.72	401.10
Net assets per share of common stock	58.82	6,512.18	5,267.96	5,371.78	4,674.49	3,919.50	3,428.37	3,567.23	3,225.92	3,309.58	3,275.14	3,198.66
Cash dividends per share of common stock	7.05	781.00	588.00	758.00	624.00	352.00	237.00	143.00	50.00	51.00	80.00	114.00
Number of shares outstanding (thousands)	157,210	157,210	165,210	—	165,210	165,210	165,211	180,611	180,611	180,611	180,611	180,611
Number of shareholders	29,547	30,348	50,843	—	35,186	21,937	24,664	20,829	30,563	41,287	42,414	44,896
%												
ROE	26.5	21.8	30.1	—	29.0	19.1	13.0	11.8	(3.3)	1.0	6.3	13.3
Operating margin	22.9	21.0	24.3	—	24.9	19.5	17.6	14.4	5.3	2.5	9.5	14.6
Equity ratio ⁶	71.1	64.1	70.0	—	63.8	67.2	70.9	73.0	69.8	76.5	74.9	70.8
Total asset turnover (times) ⁶	1.03	0.89	1.04	—	1.05	0.91	0.80	0.72	0.76	0.64	0.79	0.89
U.S. dollars												
Thousands of yen												
Net sales per employee	\$872,818	¥96,629	¥81,468	¥100,317	¥94,653	¥71,143	¥62,466	¥56,540	¥49,754	¥40,759	¥59,256	¥64,655

¹ From fiscal 2015, Electronic components and computer networks were excluded because Tokyo Electron Device Limited, a former consolidated subsidiary, became an equity method affiliate. Photovoltaic panel (PV) production equipment was included in FPD production equipment until fiscal 2012 but from fiscal 2016, it has been included in Other.

² Depreciation and amortization does not include amortization and loss on impairment of goodwill.

³ Capital expenditures only represent the gross increase in property, plant and equipment.

⁴ Dilution is not assumed for the year ended March 31, 2014.

⁵ The amounts in this summary in millions and thousands of yen; thousands of U.S. dollars; and thousands of shares as of and for the years ended March 31, 2016 and prior are rounded to the nearest unit. Such amounts as of and for the years ended March 31, 2017 and onward are truncated at the nearest unit. Accordingly, totals for the years ended March 31, 2017 and onward do not necessarily agree with the sum of the corresponding individual amounts.

⁶ From fiscal 2019, the Company applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Statement No. 28, revised on February 16, 2018) released by the ASB. Accordingly, total assets, equity ratio and total asset turnover for fiscal 2018 have been restated.

Sustainability Data

Social

Tokyo Electron Limited and Subsidiaries

As of and for the years ended March 31

* ● denotes data in the "Tokyo Electron Sustainability Report 2021" with third-party assurance. www.tel.com/csr/report/

Composition of Employees

	2017	2018	2019	2020	2021
Regular employees (Region/Group)	Number of regular employees	10,920	11,696	12,469	13,542
	Japan	6,967	7,268	7,526	7,806
	Rest of Asia	1,850	2,218	2,832	3,494
	Europe and Middle East	448	492	513	528
Employees (Employment type/Japan)	North America	1,655	1,718	1,598	1,714
	Number of employees	7,288	7,516	7,797	8,100
	Regular employees	6,967	7,268	7,526	7,806
	Men	6,079	6,292	6,479	6,681
Employees (Employment type/Japan)	Women	888	976	1,047	1,125
	Non-regular employees	321	248	271	294
	Men	209	181	220	263
	Women	112	67	51	31

Recruitment/Employment (Japan)

	2017	2018	2019	2020	2021
New graduates hired	Number hired	72	167	199	281
	Under 30 yrs old	72	163	198	252
	Men	70	131	166	233
	Women	2	32	32	47
	30–49 yrs old	0	4	1	1
	Men	0	4	1	1
	Women	0	0	0	0
	50 and over yrs old	0	0	0	0
	Men	0	0	0	0
	Women	0	0	0	0
Career-track recruits	Percentage of women	2.8	19.2	16.1	16.7
	Number hired	279	262	239	150
	Under 30 yrs old	102	102	85	42
	Men	85	85	67	35
	Women	17	17	18	7
	30–49 yrs old	170	156	145	96
	Men	155	135	119	82
	Women	15	21	26	14
	50 and over yrs old	7	4	9	12
	Men	6	3	5	10
Employees with disabilities	Women	1	1	4	2
	Percentage of women	11.8	14.9	20.1	15.3
	Percentage hired (TEL)	2.13	2.22	2.18	2.06
	Percentage hired (Group)	1.98	1.91	2.04	2.01
Female managers (Group) ^{2,3}	Number of people	42	20	22	23
	Percentage	1.6	1.8	2.0	2.2
Reemployment system	Number of users	125	156	201	242
	Men	123	155	196	235
	Women	2	1	5	7
		8			

¹ Percentage of female managers Calculation method: Number of female managers/Number of managers × 100

² Grade resetting through global human resources system since FY2018 ³ As of March 31

	2017	2018	2019	2020	2021
Second career support system	Number of users	34	31	30	23
Men		30	30	28	18
Women		4	1	2	5
Percentage of regular employees who received regular performance and career evaluations		100.0	100.0	100.0	100.0

Employee Retention (Japan)

	2017	2018	2019	2020	2021
Employee retention	Retention after three years of joining TEL ¹	92.9	93.4	93.0	93.8
	Men	94.1	94.3	93.5	94.6
	Women	85.2	87.1	88.0	88.6
	Average service years	17 yrs. 1 mo.	17 yrs. 1 mo.	17 yrs. 2 mos.	17 yrs. 2 mos.
Turnover ²	Men	17 yrs. 4 mos.	17 yrs. 4 mos.	17 yrs. 5 mos.	17 yrs. 7 mos.
	Women	15 yrs. 5 mos.	15 yrs. 8 mos.	15 yrs. 11 mos.	15 yrs. 10 mos.
	Employee turnover	102	103	108	82
	Men	82	82	88	54
Turnover percentage	Women	20	21	20	28
		1.4	1.4	1.4	1.0

¹ Average in recent five years ² Turnover due to personal circumstances

Work-life Balance (Japan)

	2017	2018	2019	2020	2021
Childcare leave	Annual paid leave	Take-up rate ³	64.1	64.3	67.2
	Number of those who took leave	586	639	605	901
	Men	499	556	507	773
	Women	87	83	98	128
	Paternity leave	Number of those who took leave	179	180	155
	Number of those who took leave	44	41	56	46
	Men	2	4	8	12
	Women (percentage who took leave)	42 (95.5)	37 (92.5)	48 (100.0)	34 (97.1)
	Number of those who returned to work after leave	44	44	43	48
	Men	2	6	6	8
Shorter working hour system	Women	42	38	37	40
	Percentage reinstated	93.6	93.6	93.5	94.1
	Retention rate	95.7	90.0	88.9	93.3
	Number of those who used	170	176	153	149
	Men	23	24	8	11
	Women	147	152	145	138
	Number of those who took leave	464	455	517	625
	Men	263	281	334	428
	Women	201	174	183	197
	Number of those who took leave	106	120	129	125
Childcare support leave	Men	16	19	26	29
	Women	90	101	103	99
	Number of those who took leave	2	3	5	2
	Men	1	2	2	0
	Women	1	1	3	2
	Number of those who took leave	50	47	63	95
	Men	31	25	38	56
	Women	19	22	25	39
	Number of those who used	0	0	2	0
	Men	0	0	0	1
Shorter working hour system for nursing care	Women	0	0	2	1
	Number of those who took leave	50	47	63	95
	Men	31	25	38	56
	Women	19	22	25	39

³ Take-up rate of annual paid leave Calculation method: (Days of paid leave taken by employees*)/(Days of paid leave provided to employees*) × 100 * Incl. non-regular employees

Customers

	2017	2018	2019	2020	2021
Percentage of respondents who selected "Very Satisfied" or "Satisfied" in the customer satisfaction survey	67.6	59.4	84.4	93.3	96.7

Products/Innovation

	2017	2018	2019	2020	2021
Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services	0	0	0	0	0
Number of active issued patents	16,023	16,767	17,473	18,137	18,692
Japan	4,984	5,091	5,304	5,348	5,484
North America	4,224	4,321	4,415	4,606	4,822
Europe	199	185	179	191	206
Korea	2,672	2,864	3,076	3,223	3,363
Taiwan	2,387	2,675	2,817	2,948	2,925
China	1,557	1,631	1,682	1,821	1,892

	2016	2017 ¹	2018	2019 ¹	2020 ¹
Global patent application rate	70.0	76.1	81.2	79.8	74.3
Patent application success rate	Japan	66.5	71.5	82.9	83.1
North America	72.3	78.0	85.1	85.5	87.3

¹ Calendar year when patents were filed/granted

	2017	2018	2019	2020	2021
Percentage of employees who received training on basic safety	100	100	100	100	100
Percentage of employees who received training on advanced safety	100	100	100	100	100
Lost time incident rate (LTIR)	0.46	0.77	0.40	0.51	0.63
Number of workplace injuries per 200,000 work hours (TCIR)	0.28	0.38	0.20	0.23	0.27

	2017	2018	2019	2020	2021
Percentage of new important suppliers screened using social criteria	100	100	100	100	100
Rate of improvement after supply chain CSR assessment (including green procurement survey)	16.9	20.7	— ²	35.8	23.1
Rate of improvement after supply chain BCP assessment	32.3	21.2	19.4	16.0	20.3
Number of identified RMAP conformant smelters (rate of identification)	237 (100)	249 (100)	253 (100)	261 (100)	236 (100)

² Unable to compare with previous fiscal year due to comprehensive revisions, including the survey

	2017	2018	2019	2020	2021
Total number of critical incidents notified to Board of Directors	1	0	0	0	0
Total number of incidents subject to legal action on the basis of anti-competitive conduct, antitrust activity, or monopolistic practices where the governance body's involvement was revealed	0	0	0	0	0
Number of executive officers who received training on anti-corruption ³	12	13	0	0	15
Total number (percentage) of directors who provided instructions on the body's policies and procedures in relation to anti-corruption ³	11 (100)	12 (100)	12 (100)	11 (100)	11 (100)

	2017	2018	2019	2020	2021
Total number (percentage) of directors who received training on anti-corruption ³	9 (81.8)	9 (75.0)	0 (0)	11 (100)	0 (0)
Payment to industry groups, etc. (thousand yen) ⁴	19,676	20,543	21,093	29,927	32,036
Payment to politically affiliated organizations (yen)	—	0	0	0	0
Average tenure of directors	—	8.04	7.36	4.84	6.09
Average rate of attendance for board meetings	—	99.46	98.24	99.39	98.96

³ Scope: Japan ⁴ Industry groups were reviewed from FY2017

	2017	2018	2019	2020	2021
Education on TEL's Code of Ethics/pledge rate ⁵	—	—	—	—	98.8
Percentage of employees who have consented to the information security agreement	99.9	99.9	100.0	100.0	99.4
Significant fines and non-monetary sanctions for non-compliance with laws and regulations in the social and economic area	0	0	0	0	0

⁵ Scope: Global

	2017	2018	2019	2020	2021
Spending on social contribution (million yen) ⁶	242	238	281	250	244
Cash donations	17	13	11	4	13
Community investment (charitable expenses for long-term cause for community)	43	49	55	68	62
Charity donations (providing donations/relief supplies to charity organizations)	40	38	34	28	25
Commercial initiatives (charitable expenses with anticipated effects on business growth)					

⁶ Spending on social contribution activities excluding disaster relief contributions**Environment**

Tokyo Electron Limited and Subsidiaries

As of and for the years ended March 31

^{*} ● denotes data in the "Tokyo Electron Sustainability Report 2021" with third-party assurance. www.tel.com/csr/report/**Greenhouse Gas Consumption/Emissions**

	Scope	2017	2018	2019	2020	2021
CO ₂ from energy consumption	Emissions metric (sales) (t-CO ₂ /billion yen)	1.77	1.34	1.24	1.38	1.21
	Emissions (kt-CO ₂)	141	152	159	155	169
CO ₂ by scope	Japan	110	119	127	127	138
	Overseas	31	33	32	28	31
Scope 1 emissions (kt-CO ₂)	8	9	9	11	12	●
Japan, energy-derived	6	7	7	10	10	●
Overseas, energy-derived	2	2	2	2	2	●
Scope 2 ¹ emissions (kt-CO ₂)	133	143	150	144	157	●
Japan	104	112	120	118	128	●
Overseas	29	31	30	26	29	●
Scope 3 ² emissions (kt-CO ₂)	4,028	5,855	6,467	5,874	6,222	●
Emissions (kt-CO ₂) (Japan)	28	26	47	59	70	●
HFCs	3	3	3	6	5	●
PFCs	8	11	18	24	30	●
SF6	9	4	11	11	7	●
Other	8	8	15	18	28	●
Scope 1 ³ emissions (kt-CO ₂)	9	8	15	16	17	●

¹ Scope 1: Direct GHG emissions from use of fuel and gas owned or controlled by TELCalculation method: Emissions = \sum (fuel consumed × CO₂ emission factor)

Emission factor based on Japan's Act on Promotion of Global Warming Countermeasures

² Scope 2: Indirect GHG emissions from use of electricity purchased by TELCalculation method: Emissions = \sum (purchased electricity × CO₂ emission factor)

Adjusted emission factors for the electrical power providers concerned based on Japan's Act on Promotion of Global Warming Countermeasures were used as the emission factor for Japan

Emission factors based on values from the Emissions Factors 2019 edition published by the International Energy Agency (IEA) were used as the emission factor for overseas electricity consumption

³ Scope 3: Emissions from corporate value chains (excluding scope 1 and 2 emissions), such as product transportation, employee business travel, and major outsourced production processes

The entire scope is divided into 15 categories, of which calculations were made for categories 1, 2, 3, 4, 5, 6, 7, 9, 11, and 12. Calculations for categories 8, 10, 13, 14, and 15 were not made as they are either not included in TEL's activities or have already been included in other categories.

⁴ Scope 1: Non-energy-derived CO₂ and greenhouse gases other than CO₂Calculation method: Emissions = \sum (consumption × emission per unit consumption – amount recovered and properly treated) × global warming factor

Global warming factor is based on Japan's Act on Promotion of Global Warming Countermeasures

Resource Consumption

	Scope	2017	2018	2019	2020	2021

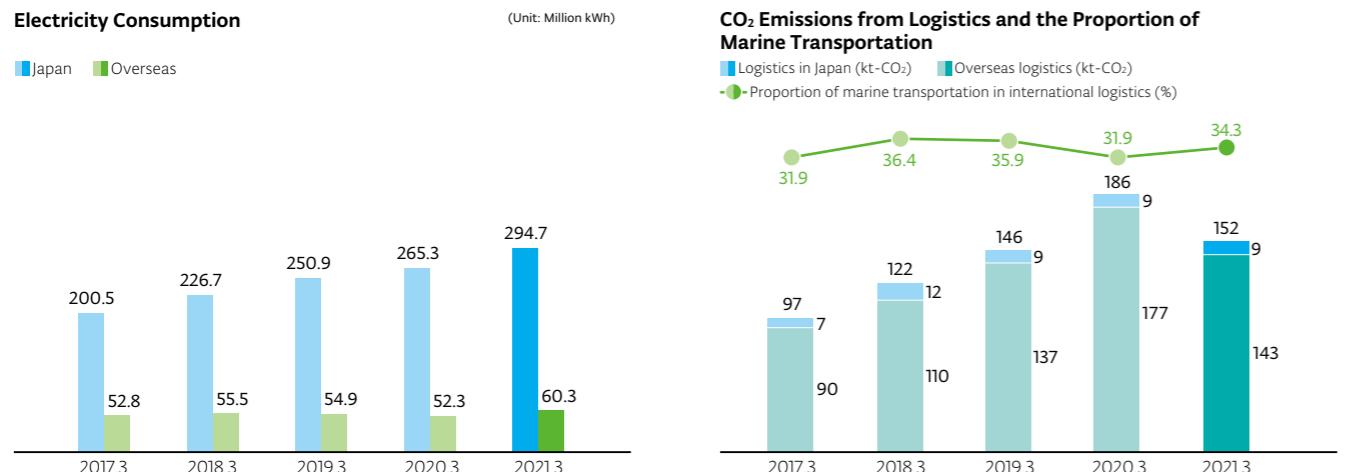
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Energy Consumption/Generation

Scope		2017	2018	2019	2020	2021
Energy	Emissions metric (sales) (kL/billion yen)	0.84	0.66	0.63	0.75	0.68
	Consumption (crude oil equivalent) (kL)	67,457	75,033	80,918	84,931	94,640
	Japan	52,676	59,613	65,757	70,520	78,035
Electricity	Overseas	14,781	15,420	15,161	14,411	16,605
	Consumption (MWh)	253,300	282,274	305,795	317,614	354,961
	Japan	200,547	226,747	250,911	265,293	294,652
Gas	Overseas	52,753	55,527	54,884	52,321	60,309
	Consumption (crude oil equivalent) (kL)	2,877	3,083	2,991	3,565	3,820
	Japan	1,666	1,947	1,948	2,611	2,728
Fuel	Overseas	1,211	1,136	1,043	954	1,092
	Consumption (crude oil equivalent) (kL)	797	875	915	1,482	1,560
	Japan	796	874	915	1,481	1,560
Green power	Overseas	1	1	0	1	0
	Purchase (MWh)	3,334	3,458	3,834	3,334	4,980
	Japan	0	0	0	0	0
PV power generation system	Overseas	3,334	3,458	3,834	3,334	4,980
	Power generation (MWh)	4,436	4,414	4,392	3,804	4,068
	Japan	4,436	4,414	4,392	3,804	4,068
Power sales	Overseas	0	0	0	0	0
	Power sales (MWh) ¹	1,346	1,386	1,382	1,225	1,285
	Japan	1,346	1,386	1,382	1,225	1,285
Environmental Impact of Logistics	Overseas	0	0	0	0	0
	* Heating, cooling and steam not sold					

Environmental Impact of Logistics

Scope		2017	2018	2019	2020	2021
CO ₂	Emissions (kt-CO ₂)	97	122	146	186	152
	Japan	7	12	9	9	9
	Overseas	90	110	137	177	143
Proportion of marine transportation (international)		31.9	36.4	35.9	31.9	34.3

Electricity Consumption**Amount of Waste Generated**

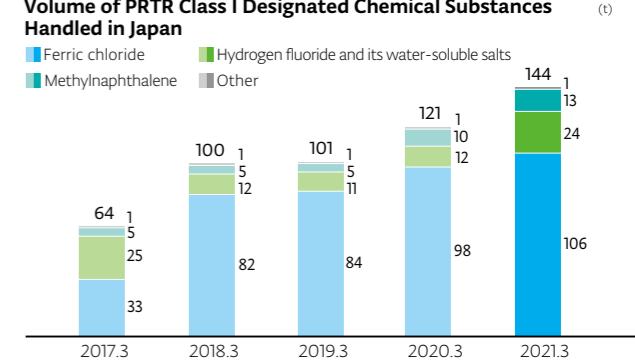
Scope		2017	2018	2019	2020	2021
Waste	Amount generated (t)	12,318	14,435	14,960	13,989	14,997
	Japan	11,393	13,694	14,208	12,973	13,705
	Overseas	925	741	752	1,016	1,292
Specially controlled industrial waste	Emissions (t) (Japan)	3,683	4,904	6,619	5,911	6,718
	Recycled amount (t)	12,128	14,211	14,770	13,748	14,814
	Japan	11,281	13,561	14,092	12,831	13,587
Recycling	Overseas	847	650	678	917	1,227
	Amount of waste (t)	190	224	190	241	183
	Japan	112	133	116	142	118
Incinerated and landfill waste	Overseas	78	91	74	99	65
	Water discharge volume (thousand m ³)	874	905	1,006	1,078	1,195
	Japan	709	759	850	900	1,006
Water discharges	Overseas	165	146	156	178	189

Chemical Substances Consumption/Emissions (Japan)

Scope		2017	2018	2019	2020	2021
PRTR Class I designated chemical substances	Volume handled (t)	64	100	101	121	144
	Ferric chloride	33	82	84	98	106
	Hydrogen fluoride and its water-soluble salts	25	12	11	12	24
	Methylnaphthalene	5	5	5	10	13
	VOCs ¹	0.0	0.0	0.0	0.1	0.1
	Other	1	1	1	1	1
	Amount transported (waste amount) (t)	59	95	96	111	131
	Consumption (t)	5	5	5	10	13
	NOx	Emissions (t)	7.9	11.5	9.6	11.9
SOx	Emissions (t)	2.5	2.7	2.8	4.0	4.9

¹ VOCs: Volatile Organic Compounds**Other**

Scope		2017	2018	2019	2020	2021
ISO 14001	Number of certified offices	8	9	9	9	11
	Japan	5	5	5	5	5
	Overseas	3	4	4	4	6
Biodiversity	Number of ecosystem tours ²	18	22	17	18	18
	Number of ecosystem tour participants ²	396	718	595	368	52
Environmental laws and regulations	Number of breaches of environmental laws and regulations	0	0	0	0	0
	Amount of fines for breaches of laws and regulations	0	0	0	0	0
	Total product shipment (t) ²	20,445	34,110	32,715	31,184	28,862

² Scope: Japan**Recycling Rate/Generation of Incinerated and Landfill Waste in Japan**¹ Incinerated and landfill waste (t)² Recycling rate (%): (Recycled amount/Amount of waste generated) × 100**Volume of PRTR Class I Designated Chemical Substances Handled in Japan**

Consolidated Subsidiaries (As of March 31, 2021)

Japan

- Tokyo Electron Technology Solutions Ltd.
- Tokyo Electron Kyushu Ltd.
- Tokyo Electron Miyagi Ltd.
- Tokyo Electron FE Ltd.
- Tokyo Electron BP Ltd.
- Tokyo Electron Agency Ltd.

U.S.

- Tokyo Electron U.S. Holdings, Inc.
- Tokyo Electron America, Inc.
- TEL Technology Center, America, LLC
- TEL Venture Capital, Inc.
- TEL Manufacturing and Engineering of America, Inc.

Europe

- Tokyo Electron Europe Ltd.
- Tokyo Electron Israel Ltd.
- TEL Magnetic Solutions Ltd.

Asia

- Tokyo Electron Korea Ltd.
- Tokyo Electron Taiwan Ltd.
- Tokyo Electron (Shanghai) Ltd.
- Tokyo Electron (Kunshan) Ltd.
- Tokyo Electron Singapore Pte. Ltd.

27 consolidated subsidiaries in total, including the above 19 companies

Stock Information (As of March 31, 2021)

Corporate Name and Head Office

Tokyo Electron Limited
Akasaka Biz Tower
3-1 Akasaka 5-chome, Minato-ku,
Tokyo 107-6325, Japan

Established

November 11, 1963

Annual General Meeting of Shareholders

June

Common Stock

Stock trading unit	100 shares
Authorized	300,000,000 shares
Issued	157,210,911 shares
Number of shareholders	29,547

Common Stock Listed on

Tokyo Stock Exchange 1st Section
(Stock code: 8035)

Independent Auditor

KPMG AZSA LLC

Administrator of Shareholders' Register

Sumitomo Mitsui Trust Bank, Limited
4-1 Marunouchi 1-chome, Chiyoda-ku,
Tokyo, Japan

Direct mail and inquiries to:
Sumitomo Mitsui Trust Bank, Limited
8-4 Izumi 2-chome, Suginami-ku,
Tokyo, 168-0063, Japan
Tel (toll free): 0120-782-031 (available only
in Japan)

Website

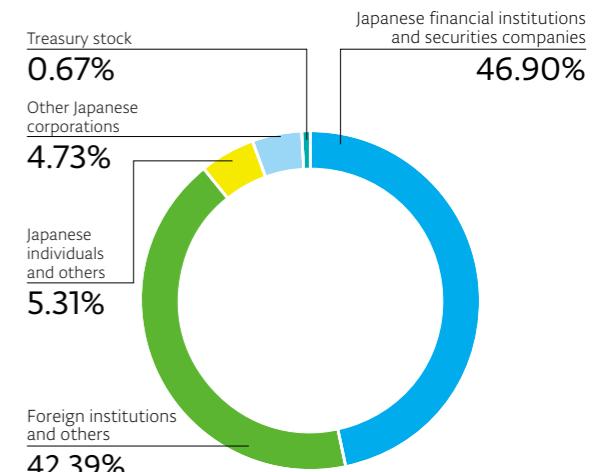
www.tel.com

Major Shareholders

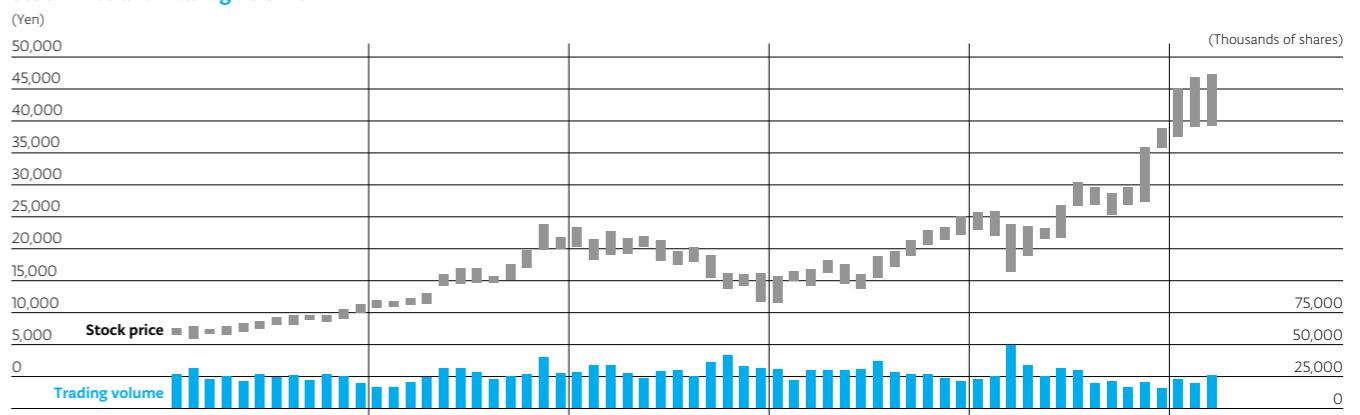
	Number of shares held (thousands)	Voting share ratio (%)
The Master Trust Bank of Japan Limited (trust account)	31,205	19.98
Custody Bank of Japan, Ltd. (trust account)	13,232	8.47
JP Morgan Chase Bank 385632	8,301	5.31
TBS HOLDINGS, INC.	5,991	3.83
Custody Bank of Japan, Ltd. (trust account 7)	3,852	2.46
Custody Bank of Japan, Ltd. (securities investment trust account)	2,903	1.85
STATE STREET BANK WEST CLIENT - TREATY 505234	2,416	1.54
Custody Bank of Japan, Ltd. (trust account 4)	2,325	1.48
SSBTC CLIENT OMNIBUS ACCOUNT	2,233	1.43
JP Morgan Chase Bank 385781	1,837	1.17

Notes: 1. Shares of less than one thousand have been rounded down in the "Number of shares held."
2. Voting share ratios are calculated excluding treasury stock (1,044,374 shares). Figures are truncated after the second decimal place. Treasury stock excludes the 615,237 Company shares owned by the executive compensation Board Incentive Plan (BIP) trust account and the share-delivering Employee Stock Ownership Plan (ESOP).

Distribution of Ownership among Shareholders



Stock Price and Trading Volume



Financial Section

Consolidated Balance Sheets

Tokyo Electron Limited and Subsidiaries As of March 31, 2021 and 2020

ASSETS	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021	2021	2020	2021
Current assets:				LIABILITIES AND NET ASSETS		
Cash and cash equivalents	¥ 265,993	¥ 247,959	\$ 2,402,611	Current liabilities:		
Short-term investments	45,559	90,447	411,524	Trade notes and accounts payable	¥ 90,606	¥ 95,938
Trade notes and accounts receivable	191,700	150,134	1,731,556	Income taxes payable	49,272	52,654
Allowance for doubtful accounts	(99)	(105)	(896)	Customer advances	81,722	135,326
Inventories	415,344	392,064	3,751,640	Accrued employees' bonuses	34,254	29,139
Prepaid consumption tax	82,704	69,034	747,033	Accrued warranty expenses	14,415	14,534
Other current assets	14,493	12,949	130,915	Other current liabilities	57,389	54,986
Total current assets	1,015,696	962,484	9,174,386	Total current liabilities	327,661	382,578
Property, plant and equipment:				Non-current liabilities:		
Land	26,929	26,298	243,245	Net defined benefit liabilities	62,248	60,745
Buildings	208,475	179,379	1,883,073	Other liabilities	10,891	5,478
Machinery and equipment	197,982	173,505	1,788,295	Total non-current liabilities	73,140	66,224
Construction in progress	22,391	29,413	202,253	Total liabilities	400,801	448,802
Other property, plant and equipment	6,002	4,139	54,218	Net assets:		
Total property, plant and equipment	461,780	412,736	4,171,084	Shareholders' equity		
Less: Accumulated depreciation	264,812	237,156	2,391,951	Common stock	54,961	54,961
Net property, plant and equipment	196,967	175,580	1,779,133	Authorized: 300,000,000 shares		
Investments and other assets:				Issued: 157,210,911 and 157,210,911 shares		
Investment securities	105,065	38,374	949,011	as of March 31, 2021 and 2020, respectively		
Deferred tax assets	53,128	64,729	479,892	Capital surplus	78,011	78,011
Net defined benefit assets	12,021	5,837	108,581	Retained earnings	835,240	702,990
Intangible assets	17,163	10,921	155,033	Treasury stock, at cost	(30,744)	(29,310)
Other assets	26,728	21,980	241,431	1,659,611 and 1,685,556 shares		
Allowance for doubtful accounts	(1,407)	(1,413)	(12,716)	as of March 31, 2021 and 2020, respectively		
Total investments and other assets	212,699	140,431	1,921,233	Accumulated other comprehensive income		
Total assets	¥1,425,364	¥1,278,495	\$12,874,753	Net unrealized gains on investment securities	66,124	20,126
				Net deferred losses on hedging instruments	(79)	(52)
				Foreign currency translation adjustments	10,441	(4,111)
				Accumulated remeasurements of defined benefit plans	(978)	(3,313)
				Share subscription rights	11,585	10,391
				Total net assets	1,024,562	829,692
				Total liabilities and net assets	¥1,425,364	¥1,278,495
						\$12,874,753

See accompanying Notes to Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements.

Financial Section

Consolidated Statements of Income

Tokyo Electron Limited and Subsidiaries Years ended March 31, 2021 and 2020

	Millions of yen	Thousands of U.S. dollars	
	2021	2020	2021
Net sales	¥ 1,399,102	¥ 1,127,286	\$ 12,637,546
Cost of sales	834,157	675,344	7,534,615
Gross profit	564,945	451,941	5,102,930
Selling, general and administrative expenses	244,259	214,649	2,206,302
Operating income	320,685	237,292	2,896,628
Other income (expenses):			
Interest and dividend income	1,300	1,920	11,742
Share of profit of associates accounted for using the equity method	1,110	794	10,027
Revenue from grants	1,130	1,330	10,214
Gain on sales of property, plant and equipment	24	34	221
Gain (loss) on change in equity	(7)	136	(63)
Foreign exchange gain (loss), net	(3,147)	2,539	(28,428)
Commission for purchases of treasury stock	—	(174)	—
Additional payment of customs duty	—	(173)	—
Loss on sales and disposal of property, plant and equipment	(1,354)	(483)	(12,234)
Provision for loss on liquidation of subsidiaries and associates	(3,327)	—	(30,053)
Other, net	622	1,408	5,624
Income before income taxes	317,038	244,626	2,863,679
Income taxes:			
Current	82,568	65,177	745,806
Deferred	(8,471)	(5,757)	(76,520)
Net income	242,941	185,206	2,194,393
Net income attributable to owners of parent	¥ 242,941	¥ 185,206	\$ 2,194,393
	Yen	U.S. dollars	
Per share of common stock:			
Net income — basic	¥ 1,562.20	¥ 1,170.57	\$ 14.11
Net income — diluted	1,553.29	1,164.02	14.03
Net assets	6,512.18	5,267.96	58.82
Cash dividends	781.00	588.00	7.05

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Tokyo Electron Limited and Subsidiaries Years ended March 31, 2021 and 2020

	Millions of yen	Thousands of U.S. dollars	
	2021	2020	2021
Net income	¥ 242,941	¥ 185,206	\$ 2,194,393
Other comprehensive income (loss):			
Net unrealized gains on investment securities	45,982	7,099	415,345
Net deferred gains on hedging instruments	32	6	294
Foreign currency translation adjustments	14,536	(8,461)	131,299
Remeasurements of defined benefit plans	2,266	3,278	20,474
Share of other comprehensive income of associates accounted for using the equity method	41	(45)	375
Total other comprehensive income (loss)	62,860	1,878	567,789
Comprehensive income	305,801	187,084	2,762,183
Total comprehensive income attributable to:			
Owners of parent	305,801	187,084	2,762,183

See accompanying Notes to Consolidated Financial Statements.

Financial Section

Consolidated Statements of Changes in Net Assets

Tokyo Electron Limited and Subsidiaries Years ended March 31, 2021 and 2020

Millions of yen										
Shareholders' equity				Accumulated other comprehensive income				Share subscription rights	Total net assets	
Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on investment securities	Net deferred losses on hedging instruments	Foreign currency translation adjustments	Accumulated remeasurements of defined benefit plans			
Balance as of March 31, 2019	¥54,961	¥78,011	¥748,827	¥(11,821)	¥13,024	¥(34)	¥4,366	¥(6,585)	¥7,368	¥888,117
Cash dividends	—	—	(95,513)	—	—	—	—	—	—	(95,513)
Net income attributable to owners of parent	—	—	185,206	—	—	—	—	—	—	185,206
Purchase of treasury stock	—	—	—	(154,096)	—	—	—	—	—	(154,096)
Disposal of treasury stock	—	—	(1,616)	2,684	—	—	—	—	—	1,067
Cancellation of treasury stock	—	—	(133,922)	133,922	—	—	—	—	—	—
Others	—	—	10	—	—	—	—	—	—	10
Net changes except for shareholders' equity	—	—	—	—	7,102	(17)	(8,478)	3,271	3,022	4,900
Balance as of March 31, 2020	¥54,961	¥78,011	¥702,990	¥(29,310)	¥20,126	¥(52)	¥(4,111)	¥(3,313)	¥10,391	¥829,692
Cash dividends	—	—	(109,542)	—	—	—	—	—	—	(109,542)
Net income attributable to owners of parent	—	—	242,941	—	—	—	—	—	—	242,941
Purchase of treasury stock	—	—	—	(4,339)	—	—	—	—	—	(4,339)
Disposal of treasury stock	—	—	(1,149)	2,906	—	—	—	—	—	1,757
Net changes except for shareholders' equity	—	—	—	—	45,998	(26)	14,553	2,335	1,194	64,054
Balance as of March 31, 2021	¥54,961	¥78,011	¥835,240	¥(30,744)	¥66,124	¥(79)	¥10,441	¥(978)	¥11,585	¥1,024,562

Thousands of U.S. dollars

Thousands of U.S. dollars										
Shareholders' equity				Accumulated other comprehensive income				Share subscription rights	Total net assets	
Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on investment securities	Net deferred losses on hedging instruments	Foreign currency translation adjustments	Accumulated remeasurements of defined benefit plans			
Balance as of March 31, 2020	\$496,442	\$704,642	\$6,349,840	\$(264,753)	\$181,798	\$(477)	\$(37,141)	\$(29,927)	\$93,860	\$7,494,285
Cash dividends	—	—	(989,453)	—	—	—	—	—	—	(989,453)
Net income attributable to owners of parent	—	—	2,194,393	—	—	—	—	—	—	2,194,393
Purchase of treasury stock	—	—	—	(39,201)	—	—	—	—	—	(39,201)
Disposal of treasury stock	—	—	(10,379)	26,252	—	—	—	—	—	15,873
Net changes except for shareholders' equity	—	—	—	—	415,482	(236)	131,452	21,091	10,787	578,577
Balance as of March 31, 2021	\$496,442	\$704,642	\$7,544,401	\$(277,701)	\$597,281	\$(714)	\$94,310	\$(8,836)	\$104,648	\$9,254,475

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Tokyo Electron Limited and Subsidiaries Years ended March 31, 2021 and 2020

	Millions of yen	Thousands of U.S. dollars
	2021	2020
Cash flows from operating activities:		
Income before income taxes	¥ 317,038	¥ 244,626
Depreciation and amortization	33,843	29,107
Amortization of goodwill	199	196
Increase (decrease) in accrued employees' bonuses	4,612	(3,802)
Provision for loss on liquidation of subsidiaries and associates	3,327	—
Interest and dividend income	(1,300)	(1,920)
Increase in trade notes and accounts receivable	(37,736)	(5,370)
Increase in inventories	(17,226)	(44,065)
Increase (decrease) in trade notes and accounts payable	(8,255)	22,337
Increase in prepaid consumption tax	(13,549)	(19,508)
Increase (decrease) in accrued consumption tax	(5,699)	6,140
Increase (decrease) in customer advances	(54,851)	58,630
Other, net	11,590	6,308
Subtotal	231,990	292,679
Receipts from interest and dividends	1,669	2,326
Income taxes paid	(87,772)	(41,888)
Net cash provided by operating activities	145,888	253,117
Cash flows from investing activities:		
Payment for purchases of short-term investments	(45,568)	(100,449)
Proceeds from maturities of short-term investments	90,506	170,000
Payment for purchases of property, plant and equipment	(53,806)	(49,369)
Payment for acquisition of intangible assets	(7,124)	(3,383)
Other, net	(2,281)	(845)
Net cash provided by (used in) investing activities	(18,274)	15,951
Cash flows from financing activities:		
Payment for purchases of treasury stock	(4,339)	(154,096)
Dividends paid	(109,542)	(95,513)
Other, net	(643)	(764)
Net cash used in financing activities	(114,525)	(250,374)
Effect of exchange rate changes on cash and cash equivalents	4,946	(3,369)
Net increase in cash and cash equivalents	18,033	15,324
Cash and cash equivalents at beginning of year	247,959	232,634
Cash and cash equivalents at end of year	¥ 265,993	¥ 247,959
See accompanying Notes to Consolidated Financial Statements.		

Notes to Consolidated Financial Statements

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2021 and 2020

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Tokyo Electron Limited (hereinafter "the Company") and its subsidiaries (hereinafter collectively referred to as "Tokyo Electron") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The Company uses financial statements prepared by foreign subsidiaries in accordance with International Financial Reporting Standards or U.S. generally accepted accounting principles for the preparation of the consolidated financial statements, together with adjustment for certain items which are required to be adjusted in the consolidation process.

The accompanying consolidated financial statements have been restructured and translated into English from the statutory Japanese language consolidated financial statements. Some supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The amounts in the consolidated financial statements and associated notes shown in millions and thousands of yen; thousands of U.S. dollars; and thousands of shares as of and for the years ended March 31, 2021 and 2020 are truncated at the nearest unit. Accordingly, totals do not necessarily agree with the sum of the corresponding individual amounts.

U.S. dollar amounts included herein are solely for the convenience of readers and are presented at the rate of ¥110.71 to \$1.00, the approximate rate as of March 31, 2021. The translation should not be construed as a representation that the Japanese yen amounts shown could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 27 and 29 subsidiaries as of March 31, 2021 and 2020, respectively. All significant inter-company transactions and account balances have been eliminated through consolidation procedures.

There are 9 affiliates accounted for using the equity method as of March 31, 2021 and 2020.

The fiscal year-end of all entities is March 31, except for 3 consolidated foreign subsidiaries. Financial statements provisionally closed for the period ending March 31 are used for those subsidiaries.

(b) Foreign currency translation

All assets and liabilities denominated in foreign currencies are translated into Japanese yen at the year-end rates, except for those hedged by forward exchange contracts, which are translated at the contracted rates. Resulting exchange gains and

losses are included in earnings for the year.

Revenue and expense items are translated at the rates that approximate those prevailing at the time of the transactions.

The balance sheet accounts of foreign subsidiaries are translated into Japanese yen at the rates of exchange in effect at the balance sheet date, except for shareholders' equity accounts, which are translated at the historical rates. Revenue and expense accounts of foreign subsidiaries are translated at average rates of exchange in effect during the year. Resulting translation adjustments are presented in net assets as a component of accumulated other comprehensive income (loss) in the consolidated balance sheets.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash, short term deposits and low-risk financial instruments with original maturities of three months or less.

(d) Short-term investments

Short-term investments consist of short term deposits and low-risk financial instruments with original maturities of more than three months.

(e) Investment securities

Tokyo Electron examines the intent of holding each security and classifies those securities as trading securities, held-to-maturity debt securities or other securities. Tokyo Electron has no trading securities as of March 31, 2021 and 2020. Held-to-maturity debt securities are stated mainly at amortized cost. Other securities with market prices are valued at fair value at the balance sheet date. The differences between the book value and fair value of other securities, net of applicable income taxes, are presented in net assets as a component of accumulated other comprehensive income (loss) in the consolidated balance sheets. Other securities without market prices are valued at cost using the weighted-average method.

The cost of sold securities is calculated using the weighted average method.

(f) Inventories

Inventories are stated at the lower of cost, determined by principally the specific identification method, or net selling price, which is defined as selling price less estimated additional manufacturing costs and estimated direct selling expenses.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of buildings, machinery and equipment of the Company and its domestic subsidiaries is computed using the declining-balance method, except for buildings acquired since April 1, 1998 and facilities attached to buildings and structures acquired since April 1, 2016 which are depreciated using the straight-line method, based on the estimated useful lives of assets. Foreign subsidiaries mainly apply the straight-line method over the estimated useful lives of assets.

Estimated useful lives of property, plant and equipment are as follows:

Buildings	2 to 60 years
Machinery and equipment	2 to 20 years

(h) Intangible assets (excluding goodwill)

Intangible assets are amortized by the straight-line method over their estimated useful lives.

(i) Goodwill

Goodwill is evaluated on an individual basis and amortized by the straight-line method over a period not exceeding 20 years.

(j) Impairment of fixed assets

Tokyo Electron evaluates the carrying value of fixed assets held for use in the business and idle assets.

If the carrying value of a fixed asset is impaired, a loss is recognized based on the amount by which the carrying value exceeds its recoverable amount, being the higher of the net selling price or the value in use of the assets. Net selling price is determined using the fair value less disposal costs and value in use is based on the total amount of discounted cash flows estimated to be generated from the continuing use of the individual assets or the asset group and the disposal of the assets.

(k) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debts with respect to ordinary receivables, and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(l) Accrued employees' bonuses

The provision for accrued employees' bonuses is provided based on the estimated payments to be made in respect of the fiscal year.

(m) Employee benefits

The Company and its domestic subsidiaries provide defined benefit plans for their employees. Expected benefits are attributed to accounting periods by the benefit formula basis. Prior service costs are charged to earnings on a straight-line basis, beginning from the fiscal year in which they are incurred, over a fixed number of years (4 years) within the average remaining years of service of employees when the changes occur. Actuarial differences are charged to earnings on a straight-line basis, beginning from the following fiscal year after they are incurred, over a fixed number of years (4 years) within the average remaining years of service of employees when the differences occur.

The provision for accrued pension and severance costs for directors and audit & supervisory board members of the Company and its domestic subsidiaries is calculated in accordance with internal regulations.

The Company and certain domestic subsidiaries decided to discontinue the payment of severance pay for directors and audit & supervisory board members after April 1, 2005, and at the general shareholders' meeting in June 2005, it was resolved that the severance pay for directors and audit & supervisory board members until March 31, 2005 would be paid at the termination of their service and the decision regarding the payment amount for each director and audit & supervisory board member was delegated to the board of directors and audit & supervisory board members. The accruals for severance costs for directors and audit & supervisory board members are included in Net defined benefit liabilities in the consolidated balance sheets.

(n) Accrued warranty expenses

Tokyo Electron's products are generally subject to warranty, and Tokyo Electron accrues estimated warranty costs when product revenue is recognized. Estimated after-sale repair expenses over warranty periods are accrued based on the historical ratio of actual repair expenses to corresponding sales.

(o) Derivatives and hedge accounting

The Company and certain subsidiaries (hereinafter "the Group") make use of derivatives in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates. The amount of derivatives is limited to the extent of foreign currency assets, liabilities and actual orders or forecasted transactions, and the Group does not trade in derivatives for speculative purposes.

Derivatives are carried at fair value in the consolidated balance sheets with changes in unrealized gain or loss charged or credited to earnings, except for those which meet the criteria for hedge accounting. Unrealized gains or losses on hedging instruments, net of taxes, are reported in net assets as a component of accumulated other comprehensive income (loss) in the consolidated balance sheets. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(p) Income taxes

Tokyo Electron records deferred tax assets and liabilities on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and net operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates and laws which are expected to be in effect when net operating loss carryforwards and temporary differences are expected to be realized.

(q) Revenue recognition

Revenue from Semiconductor and FPD (Flat Panel Display) production equipment is principally recognized at the time of the customer confirmation of set-up and testing of products. Revenue from equipment not requiring substantial installation is recognized at the time of shipment. Service revenue for maintenance is recognized ratably over the term of the maintenance contract.

(r) Research and development expenses

Research and development expenses are charged to earnings as incurred and amounted to ¥136,648 million (\$1,234,295 thousand) and ¥120,268 million for the years ended March 31, 2021 and 2020, respectively.

(s) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements to conform with the presentation used for the year ended March 31, 2021.

Tokyo Electron adopted "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) for the consolidated financial statements for the fiscal year ended March 31, 2021 and, therefore, Significant Accounting Estimates is presented as note 3. below. The note does not include information for the prior consolidated fiscal year in accordance with the transitional provision set out in paragraph 11 of the Accounting Standard.

3. Significant Accounting Estimates

1. Valuation of inventories

(1) Carrying amounts in the consolidated financial statements as of March 31, 2021
¥415,344 million (\$3,751,640 thousand)

(2) Information on the nature of significant accounting estimates for identified items

Inventories are principally stated at cost on the consolidated balance sheet. When the net selling price for inventory decreases below its cost at the end of the fiscal year, the Company writes down inventories in an amount equal to the difference between the cost of the inventory and the net selling price.

Inventories aged over a certain holding period are classified based on the use and salability and are then systematically written down according to their classification.

The carrying amount of inventories to be disposed of is written down to the estimated disposal value.

The valuation of inventories is based on forecasts of future demand and prospects of market environment. The semiconductor industry, where Tokyo Electron operates, is influenced by the short-term unbalance between supply and demand, and the market could undergo significant fluctuations. Unforeseen rapid contraction of the semiconductor market could lead to additional write downs of inventories in the consolidated financial statements for the next fiscal year.

2. Accrued warranty expenses

(1) Carrying amounts in the consolidated financial statements as of March 31, 2021
¥14,415 million (\$130,209 thousand)

(2) Information on the nature of significant accounting estimates for identified items

The Company accrues estimated warranty costs. Estimated after-sale repair expenses over warranty periods are accrued based on the historical ratio of actual repair expenses to

corresponding sales.

Tokyo Electron's products are based on the integration of numerous leading-edge technologies. The occurrence of unforeseen defects could lead to additional after-sale repair expenses in the consolidated financial statements for the next fiscal year.

4. Change in Accounting Policies and Adoption of New Accounting Standards**Year ended March 31, 2020**

Certain consolidated overseas subsidiaries adopted IFRS 16 "Leases" from the beginning of the fiscal year ended March 31, 2020, and recognize all leases as a lessee in principle as assets and liabilities on the balance sheets.

Tokyo Electron elected to use the transitional approach to recognize the cumulative effect of initially applying this standard at the date of initial application. Right-of-use assets were recognized at the same value as lease liabilities and, therefore, there was no impact on retained earnings at the beginning of the fiscal year ended March 31, 2020.

The effect of this change on the consolidated financial statements is immaterial.

5. Additional Information

Transactions of Delivering the Company's Own Stock to Employees, etc. through Trusts

Tokyo Electron introduced stock delivering schemes (hereinafter "the Schemes") from the fiscal year ended March 31, 2019 as a common global incentive plan. The purpose of the Schemes is to encourage the directors of the Company and its subsidiaries (excluding outside directors), executive officers and senior and mid-level employees to contribute to improving medium-term business performance, as well as to share a shareholder perspective by holding Company shares and raising awareness towards enhancing corporate value.

For the Company's outside directors, the Company has introduced non-performance-linked stock-based compensation from the fiscal year ended March 31, 2021 as a system that is more consistent with their expected role of advising management from the perspective of increasing corporate value over the medium- to long-term, in addition to management supervision. In accordance with that objective, the Company partially modified the Schemes and the Company's outside directors are now within the scope.

Tokyo Electron adopted the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc. through Trusts" (PITF No. 30, March 26, 2015) for the accounting treatment of the Schemes.

1. Executive compensation BIP (Board Incentive Plan) Trust
(1) Overview of the transactions

The Executive compensation BIP Trust which the Company established acquires the Company's shares, and delivers and provides shares of the Company and monetary compensation corresponding to the cash conversion value of the Company's shares to the directors of the Company and its subsidiaries in

accordance with the share delivery rules.

(2) The Company's shares held by the trust

Tokyo Electron recorded the Company's shares held by the trust in "Treasury stock, at cost" under "Net assets" at the book value in the trust (excluding ancillary expenses). The book value and the number of such treasury shares were ¥1,744 million (\$15,757 thousand) and 80,538 shares, respectively, as of March 31, 2021, and were ¥1,154 million and 60,538 shares, respectively, as of March 31, 2020.

2. Share-delivering ESOP (Employee Stock Ownership Plan) Trust

(1) Overview of the transactions

The Share-delivering ESOP Trust which the Company established acquires the Company's shares, and delivers and provides shares of the Company and monetary compensation corresponding to the cash conversion value of the Company's shares to the general managers, senior employees and mid-class employees of the Company and its subsidiaries based on their position and attainment of performance targets in accordance with the share delivery rules.

(2) The Company's shares held by the trust

Tokyo Electron recorded the Company's shares held by the trust in "Treasury stock, at cost" under "Net assets" at the book value in the trust (excluding ancillary expenses). The book value and the number of such treasury shares were ¥11,507 million (\$103,944 thousand) and 534,699 shares, respectively, as of March 31, 2021, and were ¥7,840 million and 411,492 shares, respectively, as of March 31, 2020.

6. Accounting Standards Issued but Not yet Adopted

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020 (hereinafter, "Statement No.29"))

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021 (hereinafter, "Guidance No.30"))

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) collaborated on a project to develop a single, comprehensive revenue recognition model and jointly issued new revenue recognition standards "Revenue from Contracts with Customers" (IFRS 15 published by IASB, ASC Topic 606 published by FASB) in May 2014. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018 and Topic 606 is effective for annual reporting periods beginning after December 15, 2017.

Considering the above circumstances, the Accounting Standard Board of Japan (ASBJ) also developed a new revenue recognition standard and issued Statement No.29 together with Guidance No.30.

ASBJ's basic policy in developing the new revenue recognition

standards is to first incorporate the core principle of IFRS 15 in the light of improving the international comparability of financial statements and then add additional alternative treatments to the extent that international comparability would not be impaired where any business practices operated in Japan need to be considered.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019 (hereinafter, "Statement No.30"))

"Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)

"Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) have provided similar detailed guidance for fair value measurement (IFRS 13 "Fair Value Measurement" published by IASB, ASC Topic 820 "Fair Value Measurement" published by FASB).

Considering the above circumstances, the Accounting Standard Board of Japan (ASBJ) issued Statement No.30 and the other standards above to enhance consistency between Japanese accounting standards and international accounting standards regarding guidance for fair value of financial instruments and required disclosures.

ASBJ's basic policy in developing the new fair value measurement standards is to basically incorporate all principles of IFRS 13 in light of improving the international comparability of financial statements by using a unified measuring method, and then provide other treatments for individual items to the extent that international comparability would not be significantly impaired where any business practices operated in Japan need to be considered.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries have not determined the effects of these new standards on the consolidated financial statements yet.

7. Securities

Other securities as of March 31, 2021 and 2020 are as follows:

	Millions of yen	
2021:	Cost	Carrying value
Non-current		
Securities with carrying value exceeding acquisition cost		
Equity securities	¥8,123	¥103,607
Securities with carrying value not exceeding acquisition cost		
Equity securities	1,051	1,037
Other	274	274
Total	¥9,449	¥104,920

	Millions of yen	
2020:	Cost	Carrying value
Non-current		
Securities with carrying value exceeding acquisition cost		
Equity securities	¥7,991	¥37,013
Securities with carrying value not exceeding acquisition cost		
Equity securities	1,053	1,031
Other	330	330
Total	¥9,375	¥38,374

	Thousands of U.S. dollars	
2021:	Cost	Carrying value
Non-current		
Securities with carrying value exceeding acquisition cost		
Equity securities	\$73,372	\$935,845
Securities with carrying value not exceeding acquisition cost		
Equity securities	9,494	9,375
Other	2,483	2,483
Total	\$85,350	\$947,704

Held-to-maturity securities classified as current assets are ¥125,014 million (\$1,129,207 thousand) and ¥188,500 million as of March 31, 2021 and 2020, respectively.

Reconciliation of held-to-maturity securities as of March 31, 2021 and 2020 to the amounts of short-term investments in the consolidated balance sheets are as follows:

	Millions of yen		
	2021	2020	2021
Held-to-maturity (current)	¥125,014	¥188,500	¥1,129,207
Deposits and low-risk financial instruments with original maturities of three months or less	(80,000)	(108,500)	(722,608)
Deposits with original maturities of more than three months	545	10,447	4,925
Short-term investments	¥45,559	¥90,447	\$411,524

For the years ended March 31, 2021 and 2020, there was no Net loss on devaluation of investment securities.

For the year ended March 31, 2021 and 2020, the Company sold available-for-sale securities and the amounts were immaterial.

8. Inventories

Inventories as of March 31, 2021 and 2020 are as follows:

	Thousands of U.S. dollars		
	2021	2020	2021
Finished products	¥269,772	¥267,625	\$2,436,749
Work in process, raw materials and supplies	145,571	124,439	1,314,891
Total	¥415,344	¥392,064	\$3,751,640

The amounts of change in inventory provision included in cost of sales in the consolidated statements of income for the years ended March 31, 2021 and 2020 were an increase of ¥3,223 million (\$29,112 thousand) and an increase of ¥2,290 million, respectively.

9. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2021 and 2020.

10. Short-term Borrowings

There are no short-term borrowings classified as current liabilities as of March 31, 2021 and 2020.

As of March 31, 2021 and 2020, Tokyo Electron had unused lines of credit amounting to ¥276,952 million (\$2,501,604 thousand) and ¥126,929 million, respectively.

11. Employee Benefits

The Company and its domestic subsidiaries provide a cash balance plan and a non-contributory retirement and severance benefit plan as defined benefit plans, and provide a defined contribution plan as defined contribution plans for their employees. Further, certain consolidated overseas subsidiaries provide defined benefit plans and defined contribution plans for their employees.

Defined benefit plans

(1) Movement of defined benefit obligations

	Thousands of U.S. dollars		
	2021	2020	2021
Balance at April 1, 2020 and 2019	¥118,729	¥118,461	\$1,072,434
Service cost	6,179	6,160	55,813
Interest cost	814	596	7,355
Actuarial gain (loss)	1,834	(2,528)	16,574
Benefits paid	(4,498)	(3,531)	(40,632)
Foreign currency exchange rate changes	830	(618)	7,503
Other	322	189	2,911
Balance at March 31, 2021 and 2020	¥124,212	¥118,729	\$1,121,960

(2) Movement of plan assets

	Thousands of U.S. dollars		
	2021	2020	2021
Balance at April 1, 2020 and 2019	¥63,931	¥60,925	\$577,467
Expected return on plan assets	1,335	1,266	12,058
Actuarial gain (loss)	4,404	(1,551)	39,787
Employer contributions	5,042	5,046	45,546
Benefits paid	(1,434)	(1,130)	(12,957)
Foreign currency exchange rate changes	844	(608)	7,624
Other	(28)	(16)	(252)
Balance at March 31, 2021 and 2020	¥74,095	¥63,931	\$669,275

(3) Reconciliation from defined benefit obligations and plan assets to net defined benefit liabilities (assets)

	Thousands of U.S. dollars		
	2021	2020	2021
Funded defined benefit obligations	¥63,053	¥58,536	\$569,536
Plan assets	(74,095)	(63,931)	(669,275)
Funded status	(11,042)	(5,395)	(99,738)
Unfunded defined benefit obligations	61,158	60,193	552,424
Net defined benefit liabilities at March 31, 2021 and 2020	¥50,116	¥54,797	\$452,685
Net defined benefit liabilities	62,137	60,635	561,266
Net defined benefit assets	(12,021)	(5,837)	(108,581)
Net defined benefit liabilities at March 31, 2021 and 2020	¥50,116	¥54,797	\$452,685

Note: The provision for accrued pension and severance costs for directors and audit & supervisory board members of ¥110 million (\$995 thousand) and ¥110 million as of March 31, 2021 and 2020 is not included.

(4) Defined benefit costs

	Thousands of U.S. dollars		
	2021	2020	2021
Service cost	¥6,179	¥6,160	\$55,813
Interest cost	814	596	7,355
Expected return on plan assets	(1,335)	(1,266)	(12,058)
Net actuarial gain amortization	676	3,104	6,106
Prior service cost amortization	338	338	3,058
Other	522	410	4,721
Total defined benefit costs for the years ended March 31, 2021 and 2020	¥7,195	¥9,344	\$64,995

(5) Remeasurements of defined benefit plans

	Thousands of U.S. dollars		
	2021	2020	2021
Prior service cost	¥338	¥338	\$3,058
Actuarial gain	2,997	4,322	27,073
Total	¥3,335	¥4,660	\$30,131

(6) Accumulated remeasurements of defined benefit plans

	Thousands of U.S. dollars		
	2021	2	

12. Income Taxes

Significant components of the deferred tax assets and liabilities as of March 31, 2021 and 2020 are as follows:

	Millions of yen	Thousands of U.S.dollars	
	2021	2020	2021
Deferred tax assets			
Elimination of unrealized profit in inventories	¥32,723	¥30,607	\$295,574
Net defined benefit liabilities	19,305	18,843	174,381
Devaluation of inventories	8,792	7,543	79,419
Software	7,522	3,732	67,945
Accrued employees' bonuses	7,480	6,616	67,566
Net operating loss carryforwards	5,260	9,168	47,513
Accrued warranty expenses	4,023	4,069	36,343
Other	19,091	14,641	172,444
Total gross deferred tax assets	104,199	95,221	941,189
Less valuation allowance	(4,762)	(8,392)	(43,017)
Total deferred tax assets	99,436	86,828	898,171
Deferred tax liabilities			
Net unrealized gains on investment securities	(29,164)	(8,886)	(263,433)
Undistributed earnings of subsidiaries	(10,570)	(8,165)	(95,483)
Other	(6,590)	(5,081)	(59,527)
Total deferred tax liabilities	(46,326)	(22,134)	(418,445)
Net deferred tax assets	¥53,110	¥64,694	\$479,726

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which temporary differences become deductible and net operating loss carryforwards are available to be utilized. For assessment of the realizability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, future estimated taxable income, tax planning strategies and level of net operating loss carryforwards, if any, in accordance with accounting principles generally accepted in Japan.

Based on the level of historical taxable income and future estimated taxable income over the periods which the temporary differences are deductible and net operating loss carryforwards are available to be utilized, management believes Tokyo Electron will realize the benefits of deferred tax assets, net of valuation allowance, as of March 31, 2021 and 2020.

The Company and its wholly-owned domestic subsidiaries apply a consolidated tax filing system for corporate tax purposes.

The Company and its domestic subsidiaries calculated the amounts of deferred tax assets and deferred tax liabilities based on the Income Tax Act prior to amendment regarding the transition to group tax sharing system established in "Act for Partial Amendment of the Income Tax Act, etc." (Act No.8 of 2020) and the items for which the single tax payment system was amended in line with the transition to group tax sharing system, in accordance with the treatment specified by paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No.39,

March 31, 2020) instead of the provision of paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASB) Guidance No. 28, February 16, 2018).

Significant components of the difference between the statutory and effective tax rates for the years ended March 31, 2021 and 2020 are as follows:

	2021	2020
Statutory tax rate in Japan	30.62%	30.62%
Adjustments:		
Tax credits	(7.52)	(5.96)
Difference in statutory tax rates of subsidiaries	(1.14)	(1.52)
Undistributed earnings of subsidiaries	0.74	0.25
Others, net	0.67	0.90
Effective tax rate	23.37%	24.29%

13. Net Assets

Net assets comprises four subsections, which are shareholders' equity, accumulated other comprehensive income, share subscription rights and non-controlling interests.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the board of directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital which is included in capital surplus.

In cases where dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal reserve must be set aside as additional paid-in capital or legal reserve. Legal reserve is included in retained earnings in the accompanying consolidated balance sheets.

Both appropriations of legal reserve and additional paid-in capital used to eliminate or reduce a deficit generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal reserve may not be distributed as dividends. All additional paid-in capital and legal reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The Company is subject to restriction of dividends based on the Japanese Corporate Act, which restricts the amount of dividends to retained earnings on a consolidated basis.

The Company's articles allow for the distribution of earnings to shareholders on dates other than the mid-term and year-end, by a resolution of the board of directors in accordance with Japanese laws and regulations.

At the board of directors' meeting held on May 13, 2021, the distribution of cash dividends amounting to ¥65,746 million (\$593,858 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2021 since they are recognized in the period in which they are resolved at the board of directors' meeting. The dividends of ¥65,746 million include ¥259 million (\$2,339 thousand) related to treasury stock held by the BIP/ESOP Trusts.

14. Other Comprehensive Income

Other comprehensive income for the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen	Thousands of U.S.dollars	2021	2020	Thousands of U.S.dollars	
Net unrealized gains on investment securities						
Net unrealized gains arising during the year			¥66,262	¥10,339	\$598,521	
Reclassification adjustments			0	(102)	0	
Sub-total, before tax			66,262	10,236	598,521	
Tax expense			(20,279)	(3,136)	(183,176)	
Sub-total, net of tax			45,982	7,099	415,345	
Net deferred gains on hedging instruments						
Net deferred gains arising during the year			47	9	425	
Reclassification adjustments			—	—	—	
Sub-total, before tax			47	9	425	
Tax expense			(14)	(3)	(130)	
Sub-total, net of tax			32	6	294	
Foreign currency translation adjustments						
Adjustments during the year			13,448	(8,495)	121,473	
Reclassification adjustments			69	33	623	
Sub-total, before tax			13,517	(8,461)	122,097	
Tax expense			1,018	—	9,202	
Sub-total, net of tax			14,536	(8,461)	131,299	
Remeasurements of defined benefit plans						
Adjustments during the year			2,321	1,217	20,967	
Reclassification adjustments			1,014	3,443	9,164	
Sub-total, before tax			3,335	4,660	30,131	
Tax expense			(1,069)	(1,382)	(9,657)	
Sub-total, net of tax			2,266	3,278	20,474	
Share of other comprehensive income of associates accounted for using the equity method						
Adjustments during the year			41	(45)	375	
Total other comprehensive income				¥62,860	¥1,878	\$567,789

15. Share Subscription Rights**Stock option plan**

The Company's shareholders have approved annual stock option plans for directors and selected employees since the year ended March 31, 1999. The options under the plans vest immediately or over three-year period with restriction on exercise up to three years after the date of grant, and have an exercise period of seventeen years from the date on which the

options become exercisable.

Options to purchase 130,800 shares and 360,400 shares of the Company were authorized and granted at exercise prices of ¥1 (\$0.01) and ¥1 for the years ended March 31, 2021 and 2020, respectively.

A summary of stock options outstanding and exercisable as of March 31, 2021 and 2020 is as follows:

	2021		2020	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
	Yen	U.S.dollars		Yen
Outstanding at the beginning of year	866,900	¥1	\$0.01	688,700
Granted	130,800	1	0.01	360,400
Exercised	169,600	1	0.01	182,200
Expired (forfeited)	—	—	—	—
Outstanding at the end of year	828,100	1	0.01	866,900
Exercisable at the end of year	117,000	1	0.01	141,900

Amounts expensed related to stock options

The amounts expensed related to stock options for the years ended March 31, 2021 and 2020, are as follows:

	Thousands of yen	U.S. dollars	
	2021	2020	2021
Selling, general and administrative expenses	¥2,884	¥4,059	\$26,056

Valuation method of fair value per unit of stock options

Fair value as of the grant date for stock options granted for the year ended March 31, 2021 was ¥22,054 (\$199.21) per unit, which was evaluated as follows:

(1) Valuation method used: Black-Scholes model

(2) Major underlying assumptions and estimates:

	16th Stock Acquisition Rights
Volatility (Note 1)	36.18%
Expected residual period (Note 2)	5.49 years
Expected dividends (Note 3)	¥ 673 (\$6.08) per share
Risk-free interest rate (Note 4)	(0.12)%

Notes: 1. Calculated based on the stock price performance for the period corresponding to the expected residual period (from December 2014 to June 2020).

2. Calculated based on past actual results and forecast of the exercise of stock options.

3. Based on the dividends paid for the years ended March 31, 2020 and 2019.

4. Based on Japanese government bond yield corresponding to the expected residual period.

(3) Method of estimating the number of vested stock options

It is not necessary to estimate the number of vested stock options as the rights to exercise stock options are vested immediately when granted.

16. Leases

Future minimum lease payments on non-cancelable operating leases are as follows:

	Thousands of U.S. dollars	Millions of yen	U.S. dollars
	2021	2020	2021
Due within one year	¥4,601	¥3,915	\$41,563
Due over one year	10,051	7,608	90,792
Total	¥14,653	¥11,523	\$132,356

Note: Certain consolidated overseas subsidiaries adopt IFRS 16 "Leases". Accordingly, leases as a lessee are not included in the amounts above, since they are now recorded on the balance sheets in principle.

17. Fair Value of Financial Instruments

Policy for financial instruments

Tokyo Electron limits its fund management to short-term bank deposits and low-risk financial instruments.

Trade receivables, which consist of notes and accounts receivable, are exposed to credit risk in the event of non-performance by the counterparties. Execution and management of credit risk, maturity and receivable balance are conducted pursuant to the internal management rules for credit control. Credit risk of major customers is assessed on a regular basis.

Short-term investments consist of short term deposits and low-risk financial instruments and Tokyo Electron trade with highly-rated financial institutions to mitigate credit risks.

Investment securities consist of mainly equity interests in listed companies exposed to equity market risks. Conditions, including market prices, for these investment securities are monitored on a regular basis.

Trade payables, which consist of notes and accounts payable, mainly mature within one year. Trade payables are exposed to liquidity risks which are managed through activities such as implementing cash management plans.

See note 18 for detailed discussion on derivative financial instruments.

Fair value of financial instruments

Carrying amount and estimated fair value of financial instruments as of March 31, 2021 and 2020 are set out below. Fair value of financial instruments which is practically difficult to estimate are excluded.

	Millions of yen	Carrying amount	Estimated fair value ¹
2021:			
Assets			
Cash and cash equivalents	¥265,993	¥265,993	
Short-term investments	45,559	45,562	
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥99 million)	191,601	191,601	
Investment securities	103,781	103,781	
Liabilities			
Trade notes and accounts payable	90,606	90,606	
Derivatives (see note 18)			
Hedge accounting not applied	600	600	
Hedge accounting applied	—	—	

	Millions of yen	Carrying amount	Estimated fair value ¹
2020:			
Assets			
Cash and cash equivalents	¥247,959	¥247,959	
Short-term investments	90,447	90,162	
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥105 million)	150,029	150,029	
Investment securities	37,030	37,030	
Liabilities			
Trade notes and accounts payable	95,938	95,938	
Derivatives (see note 18)			
Hedge accounting not applied	125	125	
Hedge accounting applied	(47)	(47)	

	Thousands of U.S. dollars	
	Carrying amount	Estimated fair value ¹
2021:		
Assets		
Cash and cash equivalents	\$2,402,611	\$2,402,611
Short-term investments	411,524	411,544
Trade notes and accounts receivable, net of allowance for doubtful accounts (\$896 thousand)	1,730,659	1,730,659
Investment securities	937,417	937,413
Liabilities		
Trade notes and accounts payable	818,413	818,413
Derivatives (see note 18)		
Hedge accounting not applied	5,424	5,424
Hedge accounting applied	—	—

Notes: 1. Fair value calculation of financial instruments

Cash and cash equivalents, short-term investments, trade notes and accounts receivable and trade notes and accounts payable.

The carrying amounts approximate fair value because of the short maturity of these instruments.

Investment securities

The fair values of marketable securities are based on quoted market prices.

See note 7 for further information by classification of investment securities.

Derivatives

See note 18 for detailed discussion on derivative financial instruments.

2. The following financial instruments are not included in the above as they do not have quoted market prices and therefore it is considered extremely difficult to measure their fair value.

	Millions of yen	Reported amount in balance sheet	Thousands of U.S. dollars
	2021	2020	2021
Unlisted stocks	¥1,008	¥1,014	\$9,110
Other	274	330	2,483
Total	¥1,283	¥1,344	\$11,594

3. Maturities of financial assets and securities are as follows:

	Millions of yen	Within 1 year	After 1through 5 years
2021:			
Cash and cash equivalents	¥265,993	¥—	
Short-term investments	45,559	—	
Trade notes and accounts receivable	191,700	—	
Investment securities	—	144	

	Millions of yen	Within 1 year	After 1through 5 years
2020:			
Cash and cash equivalents	¥247,959	¥—	
Short-term investments	90,447	—	
Trade notes and accounts receivable	150,134	—	

	Thousands of U.S. dollars	Within 1 year	After 1through 5 years

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2. Derivative financial instruments designated as hedging instruments

The contract amounts of forward foreign exchange contracts, entered into to hedge future transactions and receivables and payables denominated in foreign currencies that have been translated by the corresponding contracted rates, are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Contract amount due after 1 year	Fair value	Contract amount	Contract amount due after 1 year	Fair value
2021:						
Monetary assets and liabilities in foreign currency (Note)						
Sell U.S. dollars	1,804	—	—	16,299	—	—
Total	¥1,804	¥—	¥—	\$16,299	\$—	\$—
2020:						
Future transactions denominated in a foreign currency						
Sell U.S. dollars	¥4,281	¥—	¥(47)			
Monetary assets and liabilities in foreign currency (Note)						
Sell U.S. dollars	1,818	—	—			
Total	¥6,100	¥—	¥(47)			

Note: The fair value of these derivative financial instruments, which is based on the quoted foreign exchange rates, is included in the carrying value of hedged assets and liabilities.

19. Segment Information**General information about reportable segments**

A reportable segment is a component or an aggregated component of Tokyo Electron. For each of the components, discrete financial information is available and the operating result is regularly reviewed by management to make decisions about resources to be allocated to the segment and assess its performance.

The operation of Tokyo Electron consists of segments by products and services based on business units (BUs), and Tokyo Electron identifies as a reportable segment, "semiconductor production equipment (SPE)" and "flat panel display (FPD) production equipment".

Products of the SPE segment consist of coater/developers, etch systems, deposition systems, cleaning systems used in wafer processing, wafer probers used in the wafer testing process and other semiconductor production equipment, such as wafer bonders/debonders. The SPE segment principally develops, manufactures, and sells such products, and provides services on them.

Products of the FPD production equipment segment consist of coater/developers, etch/ash systems used in the manufacture of flat panel displays and inkjet printing systems used in the manufacture of OLED displays. The FPD production equipment segment principally develops, manufactures, and sells such products, and provides services on them.

Basis of measurement of reportable segment net sales, segment profit (loss), segment assets and other items

The accounting policies applied in each reportable segment are generally consistent with those applied for the preparation of the consolidated financial statements. Intersegment sales or transfers are determined by negotiation between the Tokyo Electron group companies considering current market prices. Assets in common use have not been allocated to each reportable segment, while costs associated with those assets have been allocated to reportable segments on a systematic basis.

Information about reportable segment net sales, segment profit (loss), segment assets and other items

Reportable segment information as of and for the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen						
	Reportable Segment	Semiconductor production equipment	FPD production equipment	Other	Total	Adjustments	Consolidated
2021:							
Net sales							
Sales to external customers	¥1,315,200	¥83,772	¥129	¥1,399,102	¥—	¥1,399,102	
Intersegment sales or transfers	—	—	21,952	21,952	(21,952)	—	
Total	1,315,200	83,772	22,082	1,421,055	(21,952)	1,399,102	
Segment profit	362,526	8,823	534	371,884	(54,846)	317,038	
Segment assets	626,957	29,405	3,276	659,638	765,725	1,425,364	
Depreciation and amortization	17,919	1,492	199	19,611	14,231	33,843	
Amortization of goodwill	199	—	—	199	—	199	
Capital expenditures, including intangible assets	23,485	1,256	107	24,849	39,913	64,762	

	Millions of yen						
	Reportable Segment	Semiconductor production equipment	FPD production equipment	Other	Total	Adjustments	Consolidated
2020:							
Net sales							
Sales to external customers	¥1,060,997	¥66,092	¥197	¥1,127,286	¥—	¥1,127,286	
Intersegment sales or transfers	—	—	19,292	19,292	(19,292)	—	
Total	1,060,997	66,092	19,489	1,146,578	(19,292)	1,127,286	
Segment profit	270,496	10,589	852	281,937	(37,310)	244,626	
Segment assets	538,532	42,215	2,864	583,612	694,882	1,278,495	
Depreciation and amortization	16,072	1,242	194	17,509	11,598	29,107	
Amortization of goodwill	196	—	—	196	—	196	
Capital expenditures, including intangible assets	21,082	4,035	284	25,403	33,312	58,715	

	Thousands of U.S. dollars						
	Reportable Segment	Semiconductor production equipment	FPD production equipment	Other	Total	Adjustments	Consolidated
2021:							
Net sales							
Sales to external customers	¥11,879,691	¥756,682	¥1,172	¥12,637,546	¥—	¥12,637,546	
Intersegment sales or transfers	—	—	198,292	198,292	(198,292)	—	
Total	11,879,691	756,682	199,464	12,835,838	(198,292)	12,637,546	
Segment profit	3,274,560	79,696	4,831	3,359,088	(495,408)	2,863,679	
Segment assets	5,663,057	265,604	29,594	5,958,256	6,916,497	12,874,753	
Depreciation and amortization	161,864	13,481	1,800	177,145	128,550	305,696	
Amortization of goodwill	1,802	—	—	1,802	—	1,802	
Capital expenditures, including intangible assets	212,132	11,351	971	224,455	360,521	584,977	

Notes: 1. "Other" includes all other operating segments which are not included in the reportable segments, including group-wide logistic services, facility maintenance and insurance.
 2. (1) "Adjustments" for segment profit totaling ¥(54,846) million (\$495,408 thousand) and ¥(37,310) million for the years ended March 31, 2021 and 2020, respectively, mainly consists of research and development costs of ¥(21,669) million (\$195,732 thousand) and ¥(19,796) million for the years ended March 31, 2021 and 2020, respectively, pertaining to the Company's fundamental research and element research, provision for loss on liquidation of subsidiaries and associates of ¥(3,327) million (\$30,053 thousand) for the year ended March 31, 2021 and other general and administrative costs that do not belong to the reportable segments.
 (2) "Adjustments" for segment assets totaling ¥765,725 million (\$6,916,497 thousand) and ¥694,882 million as of March 31, 2021 and 2020, respectively, mainly consist of cash and cash equivalents, short-term investments and buildings not allocated to any of the reportable segments.
 (3) "Adjustments" for capital expenditures totaling ¥39,913 million (\$360,521 thousand) and ¥33,312 million for the years ended March 31, 2021 and 2020, respectively, mainly consist of capital expenditures for buildings not allocated to any of the reportable segments.

Other information

(1) Domestic and overseas net sales by destination for the years ended March 31, 2021 and 2020 are as follows:

2021:	Millions of yen							
	Japan	North America	Europe	South Korea	Taiwan	China	Other	Total
Net sales	¥197,566	¥152,073	¥63,502	¥285,261	¥249,766	¥398,491	¥52,439	¥1,399,102

Notes: 1. Sales are classified in countries or regions based on location of customers.

2. Net sales of North America include sales in the U.S.A. of ¥15,659 million.

2020:	Millions of yen							
	Japan	North America	Europe	South Korea	Taiwan	China	Other	Total
Net sales	¥161,812	¥205,804	¥58,899	¥154,801	¥261,116	¥249,234	¥35,617	¥1,127,286

Notes: 1. Sales are classified in countries or regions based on location of customers.

2. Net sales of North America include sales in the U.S.A. of ¥205,783 million.

2021:	Thousands of U.S. dollars							
	Japan	North America	Europe	South Korea	Taiwan	China	Other	Total
Net sales	\$1,784,543	\$1,373,624	\$573,593	\$2,576,656	\$2,256,042	\$3,599,415	\$473,669	\$12,637,546

Note: Net sales of North America include sales in the U.S.A. of \$1,369,877 thousand.

(2) Net property, plant and equipment by location as of March 31, 2021 and 2020 are as follows:

2021:	Millions of yen		
	Japan	Other	Total
Property, plant and equipment	¥155,637	¥41,330	¥196,967

2020:	Millions of yen		
	Japan	Other	Total
Property, plant and equipment	¥139,098	¥36,481	¥175,580

2021:	Thousands of U.S. dollars		
	Japan	Other	Total
Property, plant and equipment	\$1,405,813	\$373,319	\$1,779,133

(3) Major customer information

Net sales to external customers that represent 10 percent or more of net sales are as follows:

Name of customer	Related reportable segment	Millions of yen		Thousands of U.S. dollars	
		2021	2021	2021	2021
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD production equipment	¥256,656	\$2,318,276		
Intel Corporation	Semiconductor production equipment	193,706	1,749,671		
Taiwan Semiconductor Manufacturing Company Ltd.	Semiconductor production equipment	164,340	1,484,426		

Note: The amounts include sales to the customer and its subsidiaries.

Name of customer	Related reportable segment	Millions of yen	
		2020	
Intel Corporation	Semiconductor production equipment	¥230,340	
Taiwan Semiconductor Manufacturing Company Ltd.	Semiconductor production equipment	187,890	
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD production equipment	120,127	

Note: The amounts include sales to the customer and its subsidiaries.

Information about reportable segment goodwill

Reportable segment information about amortization of goodwill for the years ended March 31, 2021 and 2020, and unamortized balances as of March 31, 2021 and 2020 are as follows:

2021:	Millions of yen		
	Semiconductor production equipment	FPD production equipment	Total
Amortization of goodwill	¥199	¥—	¥199
Goodwill	733	—	733

2020:	Millions of yen		
	Semiconductor production equipment	FPD production equipment	Total
Amortization of goodwill	¥196	¥—	¥196
Goodwill	910	—	910

2021:	Thousands of U.S. dollars		
	Semiconductor production equipment	FPD production equipment	Total
Amortization of goodwill	\$1,802	\$—	\$1,802
Goodwill	6,621	—	6,621

20. Per-Share Information

Net income per share and net assets per share are computed based on the weighted-average number of shares of common stock outstanding during each year. Net income-diluted per share is computed based on the weighted-average number of shares of common stock outstanding during each year after incorporating the dilutive potential effect of shares of common stock to be issued upon the exercise of stock options.

Dividends per share has been presented on an accruals basis and include, in each fiscal year ended March 31, dividends approved or to be approved after March 31 but applicable to the year then ended.

The basis for the calculation of net income per share for the fiscal years ended March 31, 2021 and 2020 is as follows:

	Thousands of U.S. dollars		
	2021	2020	2021
Net income per share of common stock - Basic			
Net income attributable to owners of parent	¥242,941	¥185,206	¥2,194,393
Less components not pertaining to holders of common stock	—	—	—
Net income pertaining to holders of common stock	¥242,941	¥185,206	¥2,194,393
Weighted-average number of shares of common stock outstanding (thousands)	155,511	158,219	
Net income per share of common stock - Diluted			
Adjustment of net income attributable to owners of parent	—	—	—
Increase in number of common stock (Thousands of share)	892	889	
Increase in number of share subscription rights (Thousands of share)	892	889	

Note: The shares of the Company held by "Executive compensation BIP Trust" and "Share-delivering ESOP Trust", which are recorded in "Treasury stock, at cost" under shareholders' equity, are included in the treasury stock which is deducted in calculating the per-share information.

The number of treasury shares deducted in the calculation of net assets per share was 615 thousand shares and 472 thousand shares as of March 31, 2021 and 2020, respectively, and the average number of treasury shares deducted in the calculation of net income per share and fully diluted net income per share was 568 thousand shares and 398 thousand shares for the fiscal years ended March 31, 2021 and 2020, respectively.

Business-Related and Other Risks

The following are recognized as the main risks that may have a critical impact on Tokyo Electron's financial condition, operating results or cash flow. This is not a comprehensive list of all risks pertaining to us and there are also risks which are not listed.

(1) Market changes

The semiconductor market is expected to further grow in the medium to long term due to continuing technological innovation amid an accelerating transition to a data-driven society backed by the spread of information and communication technology applications such as IoT, AI and 5G; progress in digital transformation (DX); and response to sustainability transformation (SX). However, a wide range of factors—including the global economy, demand for end products, trade and tariff policies, and geopolitical factors—can cause short-term supply and demand to become unbalanced and generate significant fluctuations in market size. Rapid contraction of the semiconductor market could lead to results such as overproduction, increases in dead inventory or losses from bad debts resulting from the worsening of a customer's financial position. On the other hand, a rapid increase in demand that we cannot respond to could lead to situations such as an inability to provide products to customers in a timely manner resulting in lost opportunities. Both of these circumstances can adversely affect our business performance.

To respond to such market fluctuations, we constantly work to appropriately adjust our capital investment, personnel, inventory plans and other aspects of our businesses based on understanding of the latest market conditions through periodically reviewing the market environment and orders received at Board of Directors and other important meetings.

In addition, a large portion of our sales are to major, leading-edge semiconductor manufacturers. As such, our performance tends to be impacted by changes in capital investment by these major customers.

We have established an Account Sales Division, which works in close coordination with major customers and quickly grasps trends in their capital investment outlook, as well as a Global Sales Division, which responds to a wide range of customer needs from around the world and cultivates new customers emerging in step with growth in semiconductor demand. Through such efforts, we strive to strengthen and expand our sales framework and customer base.)

(2) Geopolitics

We undertake businesses in various countries and regions, and a high proportion of sales comes from overseas. Amid growing international attention on semiconductors, countries and regions are seen to be embarking on measures—including the domestication of semiconductor-related businesses, prioritization of domestically manufactured products, tightening of export controls and strengthened environmental regulations—from perspectives such as industrial policy, national security and environmental policy. Our business performance may therefore be affected if our business activities are restricted as a result of those measures.

We grasp the implementation moves of regulations regarding import and export of products and technological development by carefully watching policy and diplomatic trends of countries, anticipating the impacts when policies and regulations are introduced and considering countermeasures. At the same time, in addition to the early identification of risks, we also strive to take fast and appropriate response when risks occur, including communicating our opinions to the policy-making authorities through means such as public comments for the healthy development of the semiconductor industry.

(3) Research and Development

Through ongoing R&D investment in leading-edge technologies, we quickly bring to market new products incorporating such technologies, succeeding in capturing high market share in each product category and achieving a high profit margin. However, delays in the launch of new products that meet customers' technological needs, the mismatch of newly developed products with such needs, or the launch of new technologies or products by competitors before our launches could negatively affect the competitiveness of our products, impede the recovery of R&D costs or otherwise affect our business performance.

We have established a Corporate Innovation Division, which develops innovative technology and makes groundbreaking technology proposals that integrate the products and technologies of each development division as part of a Group-wide development framework. In addition, we have in place a system that constantly provides highly competitive Next-generation products that meet future needs ahead of our competitors through initiatives such as conducting joint research with global research institutions and sharing technology roadmaps spanning multiple technology generations with leading-edge customers.

(4) Procurement, Production and Supply

Our key production sites are located in Japan, and we supply products to customers in and outside Japan. As such, earthquakes, floods or other natural disasters, acts of terrorism, unavoidable events like infectious disease outbreaks or other such accidents occurring in Japan could cause interruptions in production that, if not promptly resolved, could delay the supply of products to customers. Furthermore, the stable supply of components and such provided by suppliers is indispensable to stable production. Therefore, in addition to the risk of disasters, accidents or other similar events, delays in component procurement due to the worsening of a supplier's business conditions, demand that exceeds supply capabilities arising from the expansion of the semiconductor market or similar factors could result in delays in the supply of products to customers and affect our business performance.

We formulate and periodically review business continuity plans (BCPs) and undertakes measures such as establishing alternate production capabilities, developing multiple sources of important parts, seismically reinforcing its plants, and maintaining backups of information systems. In addition, we also seek to procure components early and level production

by sharing forecasts with suppliers that consider our customers' investment plans as well as semiconductor demand projections. Through these and other measures, we strive to maintain stable product supply.

(5) Safety

Our business performance may be affected if problems related to the safety of our products occur, including damage to customers, order cancellations, liability for damages or decline in our credibility.

Our "Safety First" approach entails the constant consideration of safety and health in the execution of business activities, including development, manufacturing, sales, services and management. In accordance with this approach, we work continuously to improve the safety of our products. Measures to this end include thoroughgoing safety design at the product development phase, promotion of safety training and maintaining an accident reporting system.

(6) Quality

Our products are based on the integration of numerous leading-edge technologies. The occurrence of defects could lead to recalls, liability for damages based on quality responsibility, additional costs related to implementing defect countermeasures, decline in our credibility, or otherwise affect our business performance.

Based on a uniform Group-wide quality control policy, we provide quality training for our employees and suppliers and strive to constantly maintain a quality assurance system, including ISO 9001 certification, as well as a world-class service system. In development, we introduce collaboration with sales and service departments from the initial stages of product development and design to solve technological issues. Furthermore, we mitigate and address risks such as by using simulation technology for thorough validation. When defects occur, we investigate the root of the problem and take thoroughgoing measures to prevent recurrences and the occurrence of similar defects. Similarly, in managing the quality of procured components, we constantly monitor the state of supplier quality and conduct audits, improvement support and other measures.

(7) Laws and Regulations

We operate globally and are therefore subject to the various laws and regulations of the countries and regions where we do business, including those regarding imports and exports, the environment, competition, labor, corruption, bribery and transfer pricing taxation. We strive to ensure compliance with such laws and regulations. However, violations of such laws or regulations could result in consequences such as diminished public confidence in us, fines, liability for damages or restrictions on business activities. Furthermore, national security policies of countries and unanticipated future legal amendments or tightening of regulations could, if not appropriately responded to, result in liability for costs related to such response or restrictions on business activities, or otherwise affect our business performance.

We have built a system for monitoring compliance activities at each of the key sites in and outside Japan under the direction of a Chief Compliance Officer. We conduct compliance assessments by external experts, report the identified issues to the CEO, Board of Directors and Audit & Supervisory Board, and carry out swift and effective measures as well as further enhancement of systems.

(8) Intellectual Property Rights

Our products are based on the integration of numerous leading-edge technologies. Obtaining and legally protecting our intellectual property rights and preventing infringements of such rights by third parties are crucial to differentiating and reinforcing the competitiveness of our products. Infringements by us of the intellectual property rights of third parties could lead to restrictions on the production and sale of our products or liability for damages, or otherwise affect our business performance.

By advancing R&D strategy, business strategy and intellectual property strategy in an integrated manner, we strive to build an appropriate intellectual property portfolio and obtain exclusive rights to numerous proprietary technologies to capture high market share and achieve high profit margins in each of our product fields.

(9) Information Security

In the course of its business activities, we may obtain, hold and utilize confidential information, customer information and personal information. Incidents—such as the breach of information and service disruption—caused by unauthorized access or operation due to cyberattacks and other causes, human errors, natural disasters or other reasons could result in diminished public confidence in us, liability for damages or other consequences which may otherwise affect our business performance.

Together with seeking organizational reinforcement such as by creating a dedicated department centered on the Information Security Committee, we are building an information security system based on global standards, by conducting security assessments by external experts. In addition, beside technological aspects such as the introduction of an anomaly detection system in preparation for the occurrence of incidents, we are also taking measures from operational aspects, such as establishing globally standardized rules and regulations for information management and guidelines for response during the occurrence of incidents.

(10) Human Resources

Securing and developing diverse human resources in and outside Japan and the practice of diversity and inclusion are crucial to the continued innovation and growth of our global businesses. The inability to recruit and retain the necessary human resources on an ongoing basis or the inability to create an environment where human resources with diverse values and expertise can apply their individualities can lead to diminished product development capability or customer support quality. This may result in not being able to realize an organization with competitive advantage or other such consequences that may affect our business performance.

Business-Related and Other Risks

We believe that our employees are the source of ongoing value creation and that increasing employee engagement is one of the most important factors in increasing corporate value. Specifically, we undertake measures such as the sharing of direction by top management through regular employee meetings, the building of plans to continuously develop next-generation human resources, the visualization of employee career paths, and the provision of attractive remuneration and benefits. We are also advancing ongoing measures to improve work environments as well as health and productivity management, including steps to prevent excessively long work hours and workplace harassment.

(11) Environmental Issues

Globally, there are growing requests from society, including our stakeholders, related to sustainability. Given this, difficulties in adequately responding to requirements accompanying the transition to a carbon-free society—including the climate change policies and environmental laws and regulations of countries, industry standards of conduct, technological innovation and customer needs—could result in costs for additional responses such as new product development, specification change and modifications, reduced product competitiveness, diminished public confidence in us or other consequences that may otherwise affect our business performance.

Together with striving to comply with environmental laws and regulations and industry standards of conduct, we set our own industry-leading medium- to long-term environmental goals and work to reduce greenhouse gas emissions from the use of our products. We also seek to increase the ratio of renewable energy usage and reduce energy consumption at our plants and offices. In addition, we work to protect the global environment through our business activities by such means as providing technologies to reduce semiconductor power consumption, promoting used equipment and parts businesses, reducing equipment size, increasing productivity by improving throughput, reviewing packaging and promoting modal shifts.

(12) The Novel Coronavirus (COVID-19)

The spread of COVID-19 could affect our business continuity, including our manufacturing and sales activities. In addition, restrictions on the worldwide movement of people and things, the deterioration of global economic conditions, and other such impacts from the spread of COVID-19 could affect our business performance.

Centered on the Emergency Task Force headed by the CEO, we are implementing related countermeasures, including restricting travel to high infection-risk countries and regions, taking steps to maintain supply chains, and thorough infection prevention measures at our plants and offices.

(13) Other Risks

Our businesses are influenced by many factors, including the global and regional political conditions, economic conditions, financial and stock markets, commodity and real estate markets, foreign exchange rates, the success or failure of corporate acquisitions, major lawsuits, and competition over standardization. We expect that such factors will sometimes affect our business performance and take the necessary measures to counter such risks.

Independent Auditor's Report



To the Board of Directors of Tokyo Electron Limited:

Opinion

We have audited the accompanying consolidated financial statements of Tokyo Electron Limited ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of the valuation of inventories in the semiconductor production equipment business

The key audit matter	How the matter was addressed in our audit
In the consolidated balance sheet for the current fiscal year, the Company recognized Inventories of ¥415,344 million, which represented approximately 29% of total assets in the consolidated financial statements. Most of the inventories belonged to the semiconductor production equipment business.	The primary procedures we performed to assess whether the Company's valuation of inventories in the semiconductor production equipment business was reasonable included the following: (1) Internal control testing We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the valuation of inventories. In this assessment, we focused our testing on controls designed to determine the rates of write-down for each holding period on the carrying amount of inventories aged over a certain holding period and to identify finished goods and work in process inventories to be disposed of in a comprehensive manner.
As described in Note 3 "Significant Accounting Estimates, 1. Valuation of inventories" to the consolidated financial statements, inventories are measured in principle at the lower of either the acquisition cost or the net selling price at the end of the fiscal year. However, inventories aged over a certain holding period are classified based on the use and salability and are then systematically written down according to their classification. In addition, the carrying amount of inventories to be disposed of is written down to the estimated disposal value.	 (2) Assessment of whether the valuation of inventories aged over a certain holding period was reasonable The rates of write-down by holding period adopted by management in applying the method that writes down the carrying amount of inventories on a systematic basis according to their holding periods were determined based on management's forecasts of future demand and prospects of market environment. In order to assess the reasonableness of assumptions underlying the rates of write-down determined by management, we: • evaluated the rates of write-down by holding period determined by management by referencing published demand forecasts for semiconductor production equipment and the customers' capital investment plans; and • compared the amount of the write-down of inventories aged over a certain holding period, calculated using the rates of write-down by holding period determined by management, with our own estimate of the write-down of those inventories.
The valuation of inventories aged over a certain holding period and the identification of finished goods and work in process inventories to be disposed of are based on management's forecasts of future demand and prospects of market environment. Among the markets in which the Group participate, the semiconductor market is susceptible to significant fluctuations due to a short-term imbalance between supply and demand, which could result in an unforeseen rapid market contraction. Therefore, the forecasts of future demand and prospects of market environment involve uncertainty and management's judgment thereon may have a significant effect on the valuation of inventories.	 (3) Assessment of whether finished goods and work in process inventories to be disposed of were identified in a comprehensive manner Among finished goods and work in process inventories aged over a certain holding period, we assessed the accuracy of management's sales forecasts by comparing the past forecast for a selection of finished goods and work in process inventories held for a long period with actual sales results and examining the causes of variances between the two. In order to assess the reasonableness of assumptions related to sales forecasts adopted by management in identifying finished goods and work in process inventories to be disposed of, we primarily: • evaluated the basis for management judgment on its sales forecasts for finished goods and work in process inventories held for a long period by inquiring of management and inspecting relevant documents.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

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Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 17, 2021

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.