

President's Message



To Our Shareholders and Investors

We would like to express our appreciation to all our shareholders and investors for their ongoing support. Tokyo Electron Device's basic policy on management is to contribute to the development of a highly information-oriented society by striving to increase our technological capabilities, focusing on high value-added business and attempting to achieve stable earnings growth.

The third year of the medium-term management plan VISION 2020, formulated in the fiscal year ended March 31, 2016, ended in the first half of the fiscal year ended March 31, 2018. In the fiscal year ending March 31, 2019, the fourth year of this plan, we will continue steady efforts toward achieving the plan and realizing further growth in the businesses we have cultivated up to now.

We will make a concerted effort, together with shareholders and all stakeholders, to create new value and further enhance enterprise value.

Thank you for your continued support.

Atsushi Tokushige
President & Representative Director

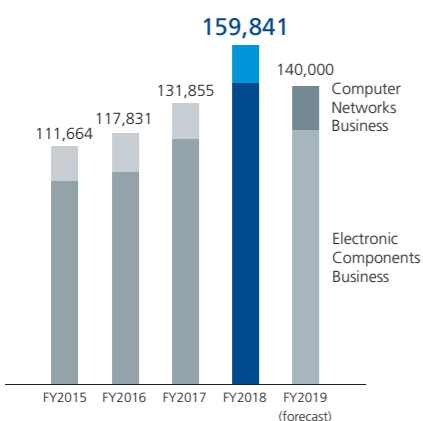
Interview with the President



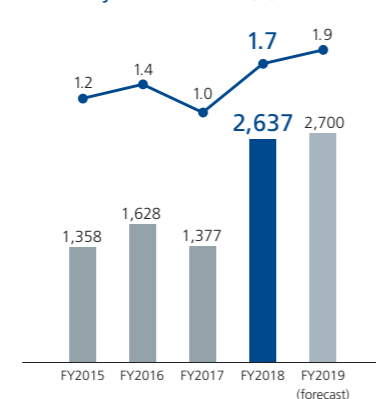
How was business performance in the fiscal year ended March 31, 2018?

As the business environment surrounding the Group remained favorable throughout the year supported by a booming semiconductor market, TED recorded consolidated net sales of ¥159,841 million (+21.2% year on year). In terms of earnings, operating income amounted to ¥2,755 million (+65.5%), ordinary income was ¥2,637 million (+91.4%) and net income attributable to owners of parent was ¥1,598 million (+64.4%)

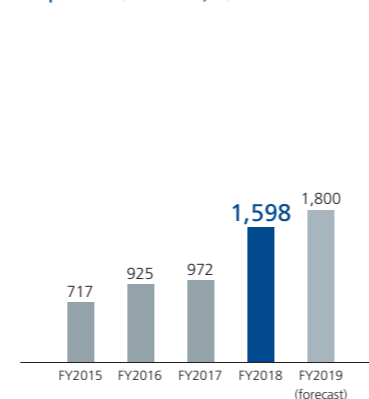
Net sales (Millions of yen)



Ordinary income (Millions of yen) / Ordinary income ratio (%)



Net income attributable to owners of parent (Millions of yen)



What did performance by business segment look like?

In the Electronic Components Business, semiconductors were used in a variety of fields, such as growing use in robot technologies and automobile control systems driven by various sensors, as the mounting volume also increased.

Based on these conditions, as there was a high level of demand for robots and other industrial equipment, automobile and smartphone products, net sales amounted to ¥142,076 million (+23.5% YoY) and segment ordinary income was ¥1,619 million (+173.7% YoY).

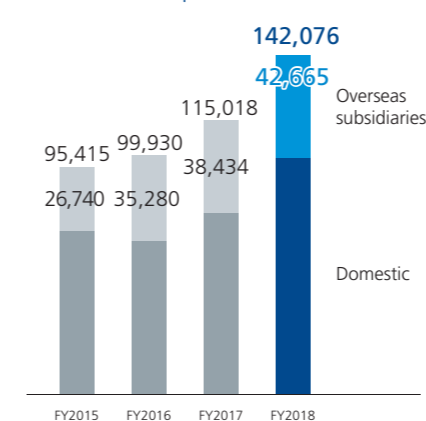
It should be noted that the performance of AVAL NAGASAKI CORPORATION, which became a consolidated subsidiary in July 2017, is included in the Electronic Components Business performance.

Also, in the Computer Networks Business, we are currently engaged in various full-scale efforts toward the adoption of the Internet of Things (IoT), which requires the accumulation and processing of enormous amounts of data.

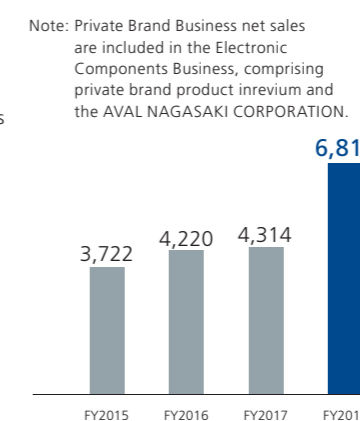
Given these conditions, the steady growth of equipment sales and maintenance support services through various proposals concerning issues such as data center maintenance and expansion of cloud environments resulted in net sales of ¥17,764 million (+5.5% YoY) and segment ordinary income of ¥1,018 million (+29.5% YoY).

Net sale (Millions of yen)

Electronic Components Business

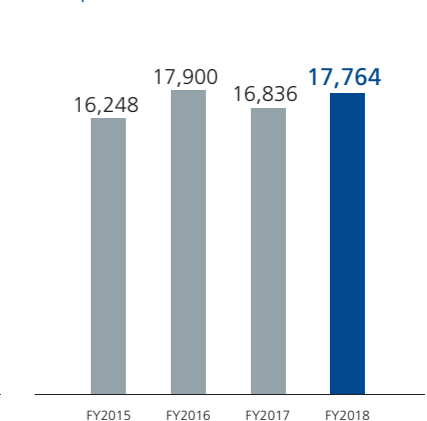


Private Brand Business



Note: Private Brand Business net sales are included in the Electronic Components Business, comprising private brand product inrevium and the AVAL NAGASAKI CORPORATION.

Computer Networks Business



Note: The performance of AVAL NAGASAKI CORPORATION is posted from the second quarter of FY2018.



What is the outlook for the fiscal year ending March 31, 2019?

Although domestic and overseas economies are expected to continue their moderate recovery, there are movements that are a cause for concern with respect to trade frictions and other factors due to trade policies in each country.

In the electronics industry, while demand for semiconductors and related products is expected to remain strong, the Group is forecasting a decline in revenue compared with the previous fiscal year due to the impact from the cancellation of an agreement with Analog Devices, Inc. At the same time, in terms of profits, we expect an increase in profits as we expect growth in our Private Brand Business and Computer Networks Business.

Given these conditions, the forecast for the consolidated fiscal year ending March 31, 2019, calls for net sales of ¥140,000 million (-12.4% year on year), ordinary income of ¥2,700 million (+2.4%) and net income attributable to owners of parent of ¥1,800 million (+12.6%).

Interview with the President

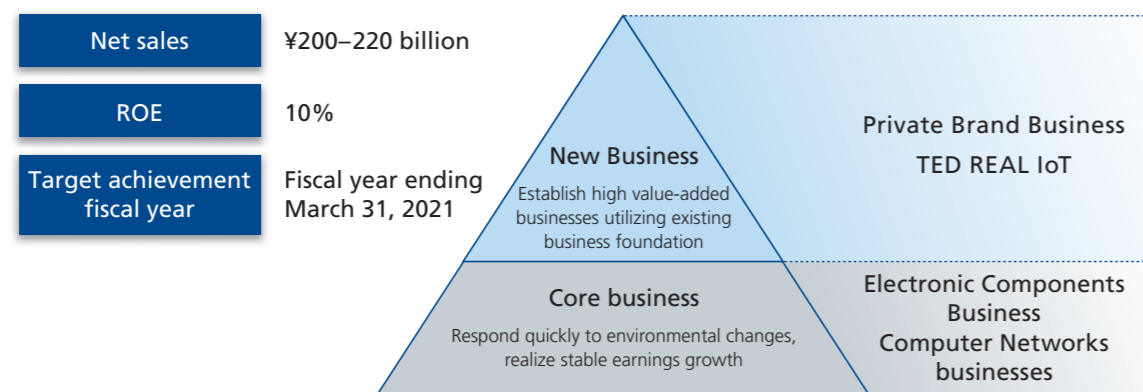


Can you provide an overview explaining the medium-term management plan VISION 2020?

Formulated in the fiscal year ended March 2016, VISION 2020 is based on the fundamental principles of Growth, Stability, and Value Creation. In summary, the plan targets ¥200–¥220 billion in net sales and a return on equity (ROE) of 10% for fiscal 2021.

First of all, our core businesses are defined as the Electronic Components and Computer Networks businesses. In recent years, the environment surrounding each of these businesses has been rapidly changing due to manufacturer management integration and advances in cloud technologies. TED responds quickly to these environmental changes with the aim of realizing stable and sustainable earnings growth.

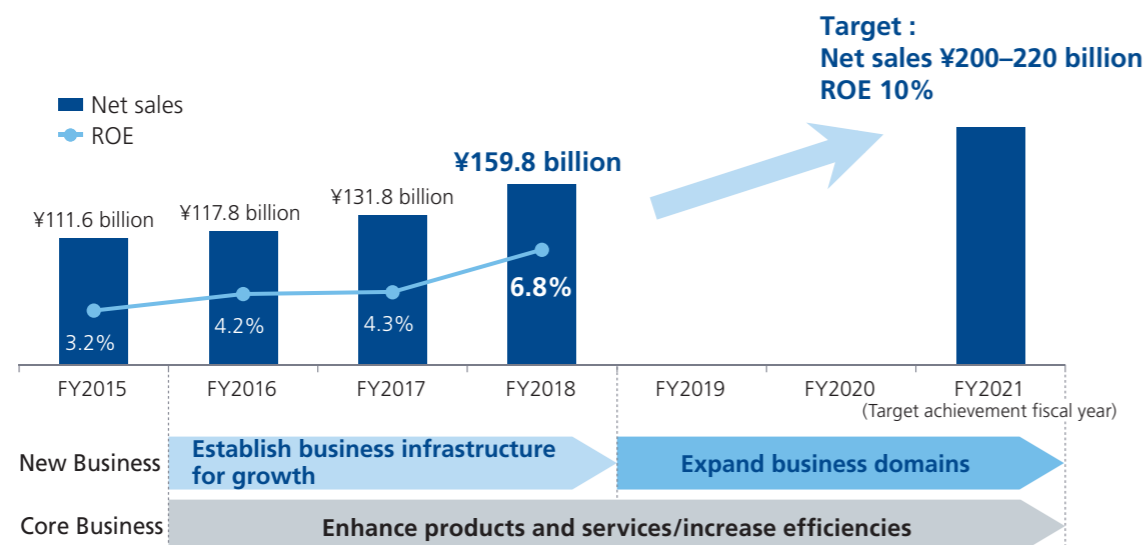
Furthermore, the Electronic Components Business includes the Private Brands Business, which TED positions as a new business engaged in establishing new business models with high added value while collaborating with customers, suppliers and partners and leveraging proprietary technologies cultivated up to now.



At the end of the third year of VISION 2020, how is the plan progressing?

The three-year period ending in March 31, 2018, was a period of growth preparation; the three-year period beginning in the fiscal year ending March 31, 2019, is positioned as a period for achieving growth.

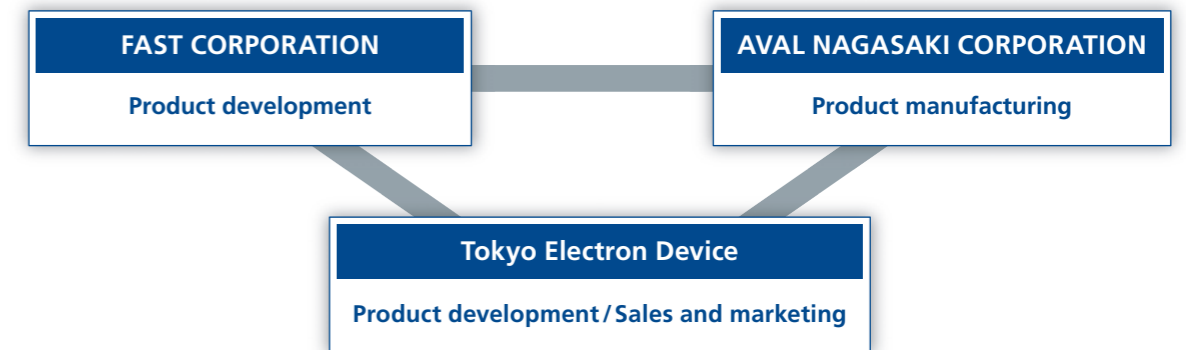
For the past three years, in our core businesses we have engaged in efforts focusing on growth markets and products, expanding our customer base, improving profitability and realizing operational efficiencies. In the Electronic Components Business, which is aimed at industrial and automotive equipment, and the Computer Networks Business, comprising mainly cloud-related products and next-generation security products, we acquired new product lines and expanded our customer base.



We achieved certain results in improving profit margins and improving operational efficiency.

In terms of new business, we focused efforts on establishing business infrastructure in the Private Brand Business, which is expected to be highly profitable. To increase both business scale and profitability in this business and realize VISION 2020, we faced three issues: Establish or acquire business that will become the core of the labor-saving market; establish or acquire image processing core technologies contributing to labor-saving segment products; improve product manufacturing efficiency and increase quality. As a resolution to these issues, AVAL NAGASAKI CORPORATION was made a consolidated subsidiary in July 2017, enabling improved efficiency and increased quality within our design and contracted production services, which are based on high functionality and small-lot, large variety production, as well as our Private Brand Business product manufacturing.

Furthermore, FAST CORPORATION, which develops and sells general purpose image processing devices and robot vision systems for factory automation, became a wholly owned subsidiary in July 2018, enabling us to acquire image processing core technologies for labor-saving segment products. In combination with TED development, sales and marketing functions, this establishes a business foundation supporting Private Brand Business manufacturing function.



FAST CORPORATION



FAST CORPORATION

Profile (as of March 31, 2018)

Location: Yamato city, Kanagawa prefecture
 Business: Development, manufacture and sales of general purpose image processing equipment
 Net sales: ¥2,752 million
 Number of employees: 110

Overview of share acquisition

Acquisition date: July 2, 2018
 Proportion of voting rights: 100.0%
 Acquisition price: ¥2,066 million

AVAL NAGASAKI CORPORATION



AVAL NAGASAKI

Profile (as of March 31, 2018)

Location: Isahaya city, Nagasaki prefecture
 Business: Development, design, manufacture and sale of electronic devices
 Net sales: ¥2,762 million
 Number of employees: 127

Overview of share acquisition

Acquisition date: July 1, 2017
 Proportion of voting rights: 74.04%
 Acquisition price: ¥1,392 million

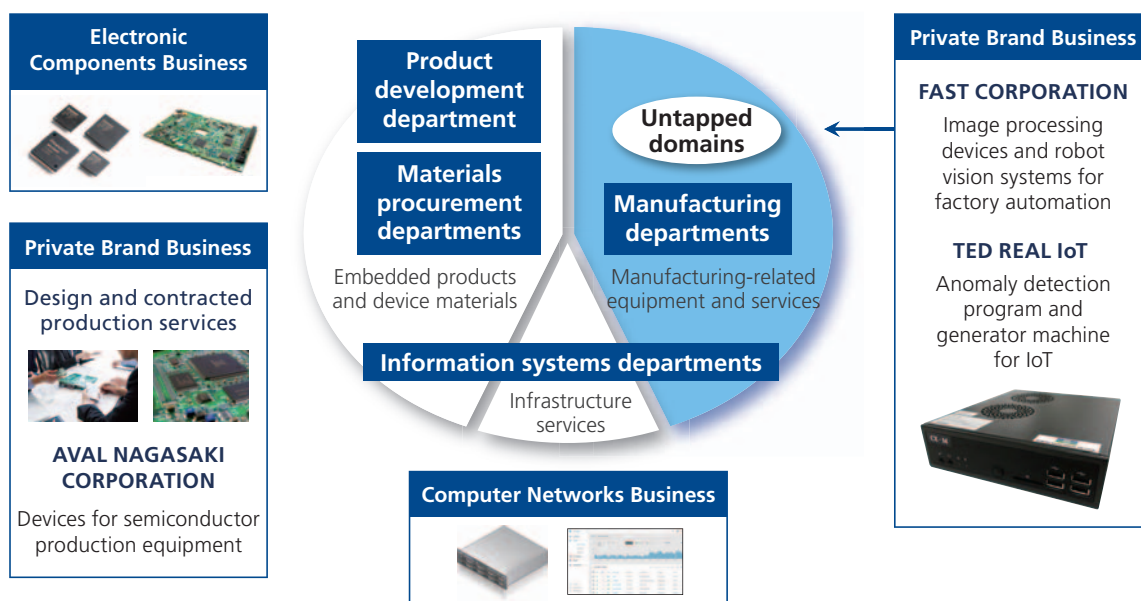
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How will you develop new business going forward?

TED customers are mainly in the manufacturing industry, with the Electronic Components Business selling semiconductors and electronic components, the Private Brand Business selling design and contracted production services to customer product development and materials procurement departments and the Computer Networks Business selling ICT infrastructure and services to customer information systems departments.

At the same time, we have not been providing enough production management equipment and services to the manufacturing departments of these same customers. Over the next three years, we will strengthen initiatives in untapped domains and expand business domains to achieve VISION 2020 with our IoT development service "TED REAL IoT" and FAST CORPORATION image processing devices and robot vision systems for factory automation.



Can you explain the Company's capital policy?

In VISION 2020, we are promoting new initiatives centered on business planning, including efforts focused on the Private Brand Business, in an attempt to strengthen and enhance manufacturer functionality. As a result of these changes to our business portfolio, we forecast capital requirements such as future capital investments and R&D investments, while also considering the trend toward increasing working capital in line with existing business in our trading company business, making the health of our financial standing an issue. In light of this, we formulated a new capital policy aimed at enhanced equity and external debt control.

[Basic approach regarding capital policy]

1. Enhancing enterprise value is defined as realizing returns that exceed shareholder expectations for rate of return (cost of capital), with increased ROE positioned as one objective.
2. Maintain a constant awareness of optimal capital structure and capital ratio in light of business scope and characteristics, respond to investments in growth businesses and working capital requirements.
3. Regarding shareholder return, we will provide stable and ongoing dividends with the consolidated dividend payout ratio as the basis for reference indicators. Regarding the acquisition of treasury shares, this is determined as part of our shareholder return policy along with dividends, with overall consideration for the status of cashflows, the market liquidity of shares, future facility capital requirements and other factors.

[Numerical targets]

(ROE)

Regarding ROE, an indicator of capital efficiency, the Company is targeting 10% over the medium-term.

(Dividend policy)

In consideration of future capital investments, capital required for R&D and working capital trends, for the foreseeable future, the Company aims for a consolidated dividend payout ratio of 40%.

