

For a sustainable society, we will create value through technology and dialogue.

Thank you very much for your daily support for the business activities of KOKUSAI ELECTRIC CORPORATION (“the Company”). In this report we will show the value creation strategies of the KOKUSAI ELECTRIC Group (“the Group”), which is striving to realize a sustainable society, and report the progress made with the strategies with an eye to having even more in-depth dialogues and opening up new horizons in our business.

In fiscal 2018, the U.S.-China trade frictions and Brexit caused instability while economic indicators show Japan experienced a slowdown. However, even in the face of uncertainties caused by these factors, the economy grew moderately, both in Japan and abroad.

Under these circumstances, demand expanded across the entire semiconductor industry as a whole due to the spread of the Internet of Things (IoT) in society, growing demand for data centers, the diversification of electronic devices, emergence of the next-generation communication standards, and further progress of AI, self-driving and currency mining, although the growth rate of the memory market began to slow down in the latter half of the fiscal year. The expanded demand in turn increased the need to develop and supply semiconductor manufacturing equipment, and by steadily meeting this need, the Group boosted its sales to a record high. I would like to thank all stakeholders once again for the kind support they have extended to the Group.



As for the future business environment of the Group, due to the aforementioned uncertainties, the world economy is set to become somewhat sluggish and the growth of the memory market will slow down. These will have a negative impact on the growth of the semiconductor market for the next couple of years. The semiconductor manufacturing equipment industry has indeed already faced difficulties in the first half of 2019 and has been groping for a way to enter a new growth stage.

In such a business environment, the Company will implement the following measures while building a resilient structure able to withstand changes in demand and intensified competition.

The needs of our customers will change in line with the substantial changes of the market environment, transformation and expansion of the world economy, and subsequent social changes, as well as change in the global environment. We will work to identify the future needs of our customers with an eye to establishing a system to develop and propose solutions that are useful for them on a long-term basis. In the progress of our customers’ business and expansion of their business scope, social and environmental issues to be addressed by them are diversifying, as are their business risks and opportunities. Based on this recognition, we will give first priority to engaging in dialogue with customers. We will make use of our advanced technologies, including the core film forming technology, and foster speedy business operations to make proposals to our customers ahead of market trends and supply high-quality products and services to them to become a truly leading company and a creator and a collaborator in the field of film forming.

The Group is committed in its Corporate Statement to creating value through technology and dialogue to realize a sustainable society that is safe, comfortable and vibrant. We aim to contribute to the development and evolution of a range of advanced electronic devices in collaboration with our customers and their customers. To this end we will cooperate with various stakeholders, including customers who regard the achievement of the Sustainable Development Goals (SDGs) adopted at the U.N. Summit held in September 2015 as their medium- to long-term targets, with a focus on engaging

in dialogue with them. We will steadily foster our business in the right direction and manage our progress based on our newly formulated medium-term management plan, aiming to achieve the predefined numerical targets in three years' time.

In order to help achieve a sustainable society from a long-term viewpoint, we deem it important to reduce our environmental impact, respect human rights, pursue diversity in our hiring and HR development, comply with laws and regulations, and establish a clean corporate culture based on the globally recognized ISO 26000 guidelines on corporate social responsibility. Accordingly, we make commitments to doing these in the KOKUSAI ELECTRIC Way and the Guidelines and Commitments and make sure all members of the Group are aware of these commitments. Moreover, we are establishing an in-house system to fulfill them.

The Company is in its second year from its spinoff and launch as a new company, but its staff and predecessors, with support from all concerned, have been engaged in the development of semiconductor manufacturing equipment for more than 60 years, contributing to the growth of Japan's semiconductor industry. Their experience and pride have been passed down to the Group. Going forward, we will leverage this corporate DNA in the rapidly changing business environment and bring a fresh perspective to working with all our stakeholders.

As announced on July 1, 2019, the Company entered into a share transfer agreement* with KKR HKE Investment L.P. ("KKR") and Applied Materials, Inc. ("Applied"), under which Applied will acquire all the Company's outstanding shares owned by KKR. Upon the completion of the share transfer, the Company will operate as a business unit of Applied's Semiconductor Products Group. I am convinced that this transfer will enable us to deliver better value to customers by leveraging the business foundations of both Applied and the Company, reinforce R&D efforts, accelerate innovation, and achieve more, thereby helping the Company take the business into its next phase for its long-term growth.

I would ask for your continued advice and support.

July 31, 2019



President and Chief Executive Officer

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* For details of the share transfer agreement, please refer to the Company's news release dated July 1, 2019.