SALES AND INCOME

Operating Environment
During fiscal 2011, the global economy, notwithstanding regional differences, continued on a gradual recovery track. This was in part due to economic stimulus packages implemented by various governments. In Europe and the U.S., while growth in certain regions was hampered by deteriorating public finances, the region overall began to show signs of returning strength in the second half of the year. The emerging economies of Asia, China and India in particular grew strongly as some governments in the region boosted internal demand with stimulatory measures. The Japanese economy on the other hand remained at a standstill, despite signs of a rebound, held back by such factors as the continuing strength of the yen and high unemployment.

In the electronics industry, in which Tokyo Electron serves, the surge in demand for smartphones and tablets was reflected in increased capital investment by device manufacturers, our customers. Under these conditions, the Group posted a substantial increase in sales in our mainstay semiconductor production equipment division, paving the way for a sharp recovery in operating results for the Group as a whole.

The Great East Japan Earthquake caused minor damage to some of the Group’s buildings and equipment, resulting in the temporary suspension of production and shipments, but there was almost no impact on consolidated sales and inventories during the fiscal year.

Sales
Net sales bounced back dramatically in fiscal 2011, increasing 59.7% year on year to ¥668.7 billion. Sales in Japan were up 12.0% year on year, to ¥182.2 billion, and overseas sales jumped 90.0% to ¥486.6 billion. Overseas sales as a share of total consolidated sales increased from 61.2% in fiscal 2010 to 72.8% in fiscal 2011.

Orders received during the fiscal year rose by 53.6%, to ¥734.9 billion, and the order backlog at the end of March 2011 increased 27.3% year on year, to ¥308.8 billion. Behind these increases was a new wave of aggressive investment in capital by device manufacturers, our customers, in response to increased demand for smartphones, tablets, and other mobile devices.

Gross Profit, SG&A Expenses and Operating Income
Cost of sales for the period was up 39.8% year on year, to ¥434.0 billion, and the cost of sales ratio was 64.9%, 9.2 percentage points better than in fiscal 2010. Contributing factors were the increase in the sales ratio of our more profitable semiconductor production equipment, the improvement in profit margins for all our semiconductor production equipment, and the successful curb on fixed-costs in response to rising sales. As a result, gross profit increased by 116.7% year on year, to ¥234.8 billion, and the gross profit margin jumped to 35.1%, from 25.9% in fiscal 2010.

SG&A expenses increased by 23.9% year on year, to ¥136.9 billion as a result of aggressive spending in research and development. As a percentage of consolidated net sales, however, the SG&A ratio fell to 20.5%, from 26.4% in the previous year. Consequently, an operating income of ¥97.9 billion and an operating margin of 14.6% were recorded in fiscal 2011, compared with the operating loss of ¥2.2 billion in fiscal 2010.

<table>
<thead>
<tr>
<th>Sales and Income</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales ......................................................................................</td>
<td>¥851,975</td>
<td>¥906,092</td>
<td>¥508,082</td>
<td>¥418,637</td>
<td>¥668,722</td>
</tr>
<tr>
<td>Gross profit ..................................................................................</td>
<td>272,649</td>
<td>311,298</td>
<td>137,408</td>
<td>108,316</td>
<td>234,758</td>
</tr>
<tr>
<td>Gross profit margin ......................................................................</td>
<td>32.0%</td>
<td>34.4%</td>
<td>27.0%</td>
<td>25.9%</td>
<td>35.1%</td>
</tr>
<tr>
<td>Selling, general and administrative expenses ...................................</td>
<td>128,670</td>
<td>142,800</td>
<td>122,697</td>
<td>110,497</td>
<td>136,888</td>
</tr>
<tr>
<td>Operating income (loss) ...................................................................</td>
<td>143,979</td>
<td>168,498</td>
<td>14,711</td>
<td>(2,181)</td>
<td>97,870</td>
</tr>
<tr>
<td>Operating margin ............................................................................</td>
<td>16.9%</td>
<td>18.6%</td>
<td>2.9%</td>
<td>(0.5)%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Income (loss) before income taxes and minority interests ...................</td>
<td>144,414</td>
<td>169,220</td>
<td>9,637</td>
<td>(7,768)</td>
<td>99,579</td>
</tr>
<tr>
<td>Net income (loss) ...........................................................................</td>
<td>91,263</td>
<td>106,271</td>
<td>7,543</td>
<td>(9,033)</td>
<td>71,924</td>
</tr>
</tbody>
</table>
Research & Development
R&D expenses are included in SG&A expenses. The Company views these expenses as the source of future growth and as such incurred ¥70.6 billion in R&D expenses in fiscal 2011, up 30.5% year on year.

Breaking down these costs by division, R&D investment in the semiconductor production equipment business focused on the development of next-generation models in various equipment fields, and on the development of original double-patterning technology that helps to promote further chip miniaturization, of film deposition technologies for new materials, and of extreme ultraviolet (EUV) lithography which is a promising next-generation lithography process. Tokyo Electron's R&D investments focused not only on existing business segments, but also on the development of production equipment for 3D chip stacking technology, OLED displays, photovoltaic (solar power) cells and other new product segments.

Other Income (Expenses) and Net Income (Loss)
During fiscal 2011, Tokyo Electron posted ¥3.0 billion in revenue from development grants, ¥1.9 billion in reversals of allowance for doubtful accounts, ¥1.8 billion in expenses for Miyagi plant relocation, and ¥1.1 billion loss from natural disasters. As a result, other income (expenses) amounted to a net income of ¥1.7 billion.

This contributed to ¥99.6 billion in income before income taxes and minority interests, compared with a loss before income taxes and minority interests of ¥7.8 billion in fiscal 2010.

A net income for fiscal 2011 of ¥71.9 billion was recorded, compared to a net loss for fiscal 2010 of ¥9.0 billion. Net income per share was ¥401.73 in fiscal 2011, compared with a net loss per share of ¥50.47 in fiscal 2010.

Comprehensive Income
From the fiscal year ended March 31, 2011, Tokyo Electron began applying the Accounting Standards for Presentation of Comprehensive Income (Accounting Standards Board of Japan Statement No. 25). As a result comprehensive income is included in the financial statements for the fiscal year under review. Tokyo Electron posted comprehensive income of ¥69.6 billion. This reflected mainly a loss of ¥3.6 billion due to foreign currency translation adjustments.

Dividend Policy and Dividends
It is the policy of Tokyo Electron to pay dividends on the basis of business performance and earnings results. Previously the dividend payout ratio was set at 20% of consolidated net income. However, we raised the ratio from the year-end dividend to 35% to reflect the importance we place on returning profits to shareholders. As a result, the Company paid an interim dividend of ¥38 (at the previous ratio of 20.3%), and set the year-end dividend at ¥76 (at the new ratio of 35.4%). Thus, the total dividend applicable to fiscal 2011 was ¥114 (a combined ratio of 28.4%).

Meanwhile, the Company will continue its policy of actively funding research and development, capital investment, and human resources aimed at stimulating future earnings growth.
PERFORMANCE BY SEGMENT

From this consolidated fiscal year, the reportable segment information is provided in conformity with the “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No. 17), and “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20). These reportable segments are semiconductor production equipment, FPD/PV production equipment, and electronic components and computer networks. As this is the first fiscal year for which this information has been provided, no data is presented for previous fiscal years and comparisons thereto.

Semiconductor Production Equipment

Net sales (including intersegment sales or transfers) for fiscal 2011 expanded to ¥511.3 billion due to robust levels of capital investment such as in the establishment of new operations by major customers. The segment profit and the segment profit margin stood at ¥120.8 billion and 23.6%, respectively.

The segment’s net sales to external customers increased 94.9% year on year, to ¥511.3 billion. Orders in this segment rose 57.4% to ¥656.0 billion. The orders backlog rose 32.9% to ¥228.9 billion as of March 31, 2011.

For a business overview of this segment, please see pages 14 and 15.

FPD/PV (Flat-Panel Display and Photovoltaic Cell) Production Equipment

Net sales (including intersegment sales or transfers) in the segment stood at ¥66.7 billion. The segment profit and the segment profit margin were ¥6.6 billion and 10.0%, respectively. FPD production equipment sales were roughly on par with the previous year, supported by demand for sixth-generation and above mid-sized and large models, while sales of PV production equipment declined.

The segment’s net sales to external customers decreased 6.5% to ¥66.7 billion. Orders in this segment rose 164.0% to ¥75.4 billion. The fiscal year-end orders backlog rose 15.3% to ¥65.5 billion.

For a business overview of this segment, please see pages 14 and 15.

Electronic Components and Computer Networks

Net sales (including intersegment sales or transfers) in the segment stood at ¥91.3 billion as high-value-added products used in industrial equipment compensated for the slowdown in sales of consumer electronic products. Meanwhile the segment profit and the segment profit margin were ¥2.9 billion and 3.2%, respectively.

The segment’s net sales to external customers increased 6.8% to ¥90.2 billion.

For a business overview of this segment, please see pages 14 and 15.
Others
Sales in the “Others” segment mainly include non-life insurance operations, travel services and other in-house services.
Net sales to external customers in the segment amounted to ¥0.5 billion, almost the same level as in fiscal 2010.

Reference: Comparison Based on Segments Used Until Fiscal 2010

Industrial Electronic Equipment Segment
Sales in the industrial electronic equipment segment (including intersegment sales or transfers) were up 72.9% compared to fiscal 2010, to ¥579.0 billion. On the earnings front, an operating income of ¥95.1 billion was posted, compared with an operating loss of ¥4.3 billion in fiscal 2010. Sales to external customers were up 73.1% year on year, to ¥578.5 billion.

Electronic Components and Computer Networks
Net sales in this segment (including intersegment sales or transfers) increased 7.2% year on year, to ¥91.3 billion. As a result of the improved gross profit margin due to the product mix, operating income rose 32.0%, to ¥2.7 billion, and the operating margin improved to 3.0%, compared with 2.4% in fiscal 2010. Sales to external customers were up 6.8% year on year, to ¥90.2 billion.
FINANCIAL POSITION AND CASH FLOWS

Assets, Liabilities and Net Assets

■ Assets
Current assets increased by ¥91.3 billion from the end of the previous fiscal year, to ¥644.2 billion, reflecting increases of ¥41.1 billion in liquidity on hand (cash and cash equivalents + short-term investments) and ¥30.5 billion in inventories. The turnover period for trade notes and accounts receivable decreased from 109 days in fiscal 2010 to 74 days in fiscal 2011, and the inventory turnover period decreased from 121 days in fiscal 2010, to 92 days in fiscal 2011.

Net property, plant and equipment increased by ¥20.4 billion year on year, to ¥112.6 billion, as ¥17.7 billion in depreciation and amortization was outweighed by ¥39.1 billion in fixed asset acquisitions.

Investments and other assets increased by ¥1.1 billion year on year, to ¥52.4 billion.

As a result, as of March 31, 2011, total assets stood at ¥809.2 billion, an increase of ¥112.9 billion year on year.

■ Liabilities and Net Assets
Current liabilities increased by ¥48.9 billion, from the end of fiscal 2010, to ¥168.0 billion. This reflected a ¥21.0 billion rise in income taxes payable, and a ¥9.8 billion increase in customer advances. The balance of interest-bearing debt, which consists only of short-term borrowings, stood at ¥8.0 billion as of March 31, 2011. The debt/equity ratio rose to 1.4%, 0.4 points higher than the end of March 2010.

Non-current liabilities increased by ¥2.5 billion, to ¥56.4 billion.

Net assets increased by ¥61.4 billion year on year, to ¥584.8 billion. This reflected an increase in retained earnings of ¥63.7 billion resulting from a net income of ¥71.9 billion and ¥8.2 billion in dividends paid, as well as other factors including a drop of ¥3.6 billion in foreign currency translation adjustments. As a result, the equity ratio fell from 73.5% at the end of March 2010 to 70.8% as of March 31, 2011, and ROE rose to 13.3%, from negative 1.8% in fiscal 2010.

### Financial Position

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total current assets</td>
<td>¥610,363</td>
<td>¥640,234</td>
<td>¥505,687</td>
<td>¥552,939</td>
<td>¥644,231</td>
</tr>
<tr>
<td>Net property, plant and equipment</td>
<td>104,930</td>
<td>104,106</td>
<td>99,906</td>
<td>92,128</td>
<td>112,552</td>
</tr>
<tr>
<td>Total investments and other assets</td>
<td>55,221</td>
<td>48,478</td>
<td>63,405</td>
<td>51,285</td>
<td>52,422</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥770,514</td>
<td>¥792,818</td>
<td>¥668,988</td>
<td>¥696,352</td>
<td>¥809,205</td>
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<tr>
<td>Total current liabilities</td>
<td>225,855</td>
<td>198,821</td>
<td>89,272</td>
<td>119,162</td>
<td>168,038</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>300,703</td>
<td>247,573</td>
<td>139,733</td>
<td>172,982</td>
<td>224,403</td>
</tr>
<tr>
<td>Total net assets (Total shareholders' equity)</td>
<td>469,811</td>
<td>545,245</td>
<td>529,265</td>
<td>523,370</td>
<td>584,802</td>
</tr>
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</table>

### Interest-Bearing Debt, D/E Ratio

<table>
<thead>
<tr>
<th>(Billions of Yen)</th>
<th>(Billions of Yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>10</td>
</tr>
<tr>
<td>40</td>
<td>8</td>
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<td>30</td>
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<tr>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
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</table>

### Equity and Equity Ratio

<table>
<thead>
<tr>
<th>(Billions of Yen)</th>
<th>(Billions of Yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>800</td>
<td>80</td>
</tr>
<tr>
<td>600</td>
<td>70.8</td>
</tr>
<tr>
<td>400</td>
<td>60</td>
</tr>
<tr>
<td>200</td>
<td>57.5</td>
</tr>
<tr>
<td>0</td>
<td>54.5</td>
</tr>
</tbody>
</table>

### ROE

<table>
<thead>
<tr>
<th>(%)</th>
<th>(%)</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td>20</td>
<td>21.8</td>
<td>21.4</td>
</tr>
<tr>
<td>0</td>
<td>17.8</td>
<td>13.3</td>
</tr>
</tbody>
</table>
Capital Expenditures*1 and Depreciation and Amortization*2

Total capital expenditures climbed by 162.4% year on year in fiscal 2011, to ¥39.1 billion. Spending focused on the acquisition of factory facilities for a plant under construction in a suburb of Sendai City in Miyagi Prefecture, and on evaluation and measuring equipment used for product development. Depreciation and amortization fell by 11.5% year on year, to ¥17.7 billion.

*1 Capital expenditures represent only the gross increase in property, plant and equipment.
*2 Depreciation does not include amortization and losses on impairment of goodwill.

Cash Flows

Cash flows from operating activities showed a net inflow of ¥83.2 billion, ¥35.0 billion more than in fiscal 2010. The main contributors were ¥99.6 billion in income before income taxes and minority interests, ¥17.7 billion in depreciation and amortization, and a ¥9.6 billion increase in customer advances. Major negative factors included a ¥36.5 billion increase in inventories, a ¥13.3 billion increase in trade notes and accounts receivable, and ¥7.6 billion in income taxes paid.

Investing activities used net cash of ¥35.9 billion, compared to net cash of ¥9.6 billion provided in fiscal 2010. This mainly reflected a ¥33.5 billion outflow to purchase property, plant and equipment.

Financing activities used net cash of ¥5.2 billion, compared with ¥0.3 billion in fiscal 2010. The main outflow was ¥8.2 billion in dividends paid.

As a result, the balance of cash and cash equivalents at the end of March 2011 stood at ¥165.0 billion, an increase of ¥41.1 billion from the ¥123.9 billion balance at the end of fiscal 2010.

Total liquidity on hand, which includes short-term investments as well as cash and cash equivalents, increased by ¥41.1 billion year on year, from ¥243.9 billion at the end of March 2010 to ¥285.1 billion at the end of March 2011.

<table>
<thead>
<tr>
<th>Cash Flows</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td>¥ 54,297</td>
<td>¥116,939</td>
<td>¥ 81,030</td>
<td>¥ 48,285</td>
<td>¥ 83,239</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>(25,293)</td>
<td>(30,186)</td>
<td>(160,622)</td>
<td>9,613</td>
<td>(35,882)</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>(34,719)</td>
<td>(27,033)</td>
<td>(46,016)</td>
<td>(288)</td>
<td>(5,237)</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>134,390</td>
<td>193,493</td>
<td>65,883</td>
<td>123,940</td>
<td>165,051</td>
</tr>
</tbody>
</table>

ROA = (Operating income + Interest and dividend income)/Average total assets x 100

Capital Expenditures and Depreciation and Amortization (Billions of Yen)

Total Liquidity on Hand (Billions of Yen)
BUSINESS-RELATED AND OTHER RISKS

The following are possible risks that may have an impact on Tokyo Electron's business performance, stock price, or financial position.

(1) Impact From Changes in the Semiconductor Market
Tokyo Electron has achieved a high profit margin by concentrating resources in high-tech fields, including semiconductor production equipment, where technological innovation is rapid but Tokyo Electron can effectively use its strengths. Although technological change is responsible for the semiconductor market's rapid growth, Tokyo Electron has actively undertaken structural reforms to be able to generate profits under any circumstances, including when the market contracts temporarily due to imbalance of supply and demand. However, order cancellations, excess capacity and personnel and increased inventories resulting from an unexpectedly large market contraction, losses from bad debts resulting from the worsening of a customer's financial position, and supply shortages resulting from the worsening of a supplier's management situation, could adversely affect Tokyo Electron's business performance.

(2) Impact From Concentration of Transactions on Particular Customers
Tokyo Electron has been successful at increasing transactions with the leading semiconductor manufacturers worldwide, including those in Japan, through the provision of products featuring outstanding, cutting-edge technology and of services offering a high level of customer satisfaction. However, Tokyo Electron's sales may from time to time be temporarily concentrated on particular customers due to the timing of large capital investments of major semiconductor manufacturers. The resulting escalation in sales competition could adversely affect Tokyo Electron's business performance.

(3) Impact From Research and Development
Through ongoing and proactive R&D investment and activities in cutting-edge technologies—miniaturization, vacuum, plasma, thermal processing, coating/developing, cleaning, wafer-transfer and clean technologies—Tokyo Electron has created advanced technologies. At the same time, by quickly bringing to market new products incorporating these technologies, Tokyo Electron has successfully captured a high market share in each of the product fields it has entered and generated a high profit margin. However, delays in the launch of new products and other factors could adversely affect Tokyo Electron's business performance.

(4) Safety-related Impact
Tokyo Electron's basic philosophy is to always bear in mind safety and health in the execution of business activities, including development, manufacturing, sales, services and management. In accordance with this philosophy, Tokyo Electron works actively and continuously to improve the safety of its products and to eliminate any harmful impact on health. However, harm to customers, order cancellations or other circumstances resulting from safety or other problems related to Tokyo Electron's products could adversely affect Tokyo Electron's business performance.
(5) Impact From Quality Issues
Tokyo Electron actively develops outstanding, cutting-edge technologies for incorporation in new products that are brought quickly to
market. At the same time, Tokyo Electron works to establish a quality assurance system, efforts that include obtaining ISO 9001 certifica-
tion, as well as to establish a world-class service system. These actions have resulted in a large number of customers adopting Tokyo
Electron's products. However, because Tokyo Electron's products are based on cutting-edge technologies, and due to other factors, many
of the technologies developed are in unfamiliar fields. The occurrence of unforeseen defects or other issues could adversely affect Tokyo
Electron's business performance.

(6) Impact of Intellectual Property Rights
In order to distinguish its products and make them more competitive, Tokyo Electron has promoted its R&D strategy for the early devel-
opment of cutting-edge technologies together with its business and intellectual property strategies. This approach has enabled Tokyo
Electron to obtain sole possession of many proprietary technologies that have been instrumental to the Company's ability to capture a
high market share and generate high profit margins in each of its product fields. Tokyo Electron's products incorporate and optimize
many of these proprietary cutting-edge technologies. There may be cases in which, by avoiding the use of third-party technologies and
intellectual property rights, Tokyo Electron's business performance could be adversely affected.

(7) Impact of Fluctuating Foreign Exchange Rates
Success in the development of overseas operations has increased the share of sales generated overseas. As a rule, Tokyo Electron con-
ducts export transactions on a yen basis to avert exposure to foreign currency risks. However, some exports are denominated in foreign
currencies. In these cases, Tokyo Electron hedges foreign currency risk by using a forward foreign exchange contract when an order is
received or by other means. However, foreign exchange rate risks can arise from fluctuations in prices due to sudden foreign exchange
movements, which could have an indirect adverse effect on Tokyo Electron's business performance.

(8) Other Risks
Tokyo Electron is actively engaged in reforming its corporate structure so that it can generate profits even when markets contract. These
reforms have entailed creating new high-growth and high-return businesses and pursuing higher earnings from existing businesses. At
the same time, Tokyo Electron has promoted activities to preserve the environment and worked to restructure its compliance and risk
management systems. However, as long as it conducts business activities, as with peer companies or companies in different industries,
Tokyo Electron is subject to the effect of many other factors. These include the world and regional economic environments, natural disas-
ters, war, terrorism, unavoidable occurrences (such as infectious diseases), financial or stock markets, government or other regulations,
supply systems of suppliers, market conditions for products and real estate, the ability to recruit personnel in Japan and overseas, compe-
tition over standardization, and loss of key personnel. Any of these factors could adversely affect Tokyo Electron's business performance.