Transforming for the Next Half Century

To begin, I’d like to express my thanks for the continued understanding and support of our investors and all Tokyo Electron's stakeholders. Looking back at 2014, capital investment by semiconductor manufacturers was brisk. Global sales of semiconductors reached a record high of US$340 billion, reflecting strong demand for cutting-edge mobile devices and data centers. Capital investment in the wafer fab equipment market, in which Tokyo Electron operates, grew 16% year on year to US$32 billion. Buoyed by increased market shares, Tokyo Electron's consolidated net sales for fiscal 2015, ended March 31, 2015, grew to ¥613.1 billion, outpacing market growth. Operating income rose 174% year on year to ¥88.1 billion. Furthermore, the second half of the fiscal year saw consolidated net sales of ¥318.9 billion and operating income of ¥58.0 billion, achieving a record-high level of operating margin for the six-month period. Seeking to reciprocate the support of our shareholders, we paid annual dividends of ¥143 per share, our highest ever.

Regarding our planned business combination with U.S.-based Applied Materials, we were ultimately not able to secure regulatory approval under applicable competition laws. Despite the best cooperative efforts of both companies since the business combination plan was announced in 2013, we had no choice but to terminate the agreement. I apologize to our shareholders who supported us in this endeavor, particularly at last year's General Meeting of Shareholders, for this disappointing turn of events. While we were not able to execute the business combination, fiscal 2015 nevertheless represented a major inflection point for Tokyo Electron in terms of progress toward future growth as we successfully bolstered profitability and product competitiveness in our mainstay semiconductor production equipment (SPE) business and implemented business reorganization to increase profit margins. Furthermore, we are firmly determined to apply the many lessons we learned in the course of preparing for the business combination to achieve greater growth.

June 2015

Tetsuro Higashi
President & CEO
The Ongoing Evolution of Semiconductors and Rising Expectations for Production Equipment

2015 marks the 50th year since the penning of Moore’s Law. Over these five decades, semiconductors have undergone incredible transformation through constant miniaturization, increasing in performance and dropping in cost, and thus playing a major part in the emergence of modern societies built on advanced information and communications networks. To illustrate the way that semiconductors have evolved, Intel compared them to automobiles. If cars had evolved the way semiconductors have, cars that topped out at 130 km/h in 1971 would have reached speeds of 482,700 km/h in 2015. Fuel economy of 11 km/l in 1971 would be up to 850,369 km/l in 2015, and the price of a car, US$2,500 in 1971, would be down to just four cents*. I think this shows just how surprising and dramatic progress in semiconductors has been.

Today, society is rapidly approaching a new era. Until now, people have largely had to deliberately use personal computers, mobile devices and networks to enjoy their benefits. Soon, the internet of everything (IoE), in which virtually everything is connected through the internet, will arrive. In this futuristic-seeming era, such technologies as big data analysis that makes sophisticated use of the vast amounts of information being transmitted on networks and AI-equipped interfaces between humans and machines will support our daily lives in ways we are not even aware.

To create such an advanced society, expectations toward technological innovation in semiconductors and their production equipment are only rising. The semiconductor industry now stands at various technological inflection points. Initiatives to create 3D structure devices, adopt new materials and realize STT-MRAM (magnetic memory) and other forms of emerging memory have begun. We regard these technological inflection points as excellent opportunities for business expansion and remain committed to striving toward growth. The semiconductor production industry will continue to expand. I am confident that Tokyo Electron will achieve further growth by aggressively investing in the development of growth fields, creating breakthrough technologies, and thus contributing to the creation of value for society.

* Source: Intel

To Our Stakeholders

Concentrating Management Resources in Core Businesses to Grow Profit

The Ongoing Evolution of Semiconductors and Rising Expectations for Production Equipment

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expand sales in the field solutions business, which handles sales of parts and used equipment, modifications and maintenance services, since setting up a dedicated business unit in 2009 for this area. In fiscal 2015, we achieved annual net sales in this business of over ¥170 billion, well above our target of ¥150 billion. As miniaturization advances and demand for more sophisticated technologies increases, the expectations facing equipment manufacturers regarding sophisticated solutions and support capabilities are also rising.

At the same time, we continue to advance initiatives to streamline development and manufacturing, including reducing costs from the design stage onward, shortening production lead times and revising procurement.

As a result of such efforts, in fiscal 2015 we achieved a segment profit margin in the SPE business of 23.6%, a record-high level.

2. Business Reorganization to Concentrate Management Resources

In fiscal 2015, we also implemented significant business reorganization to further improve profitability. First, withdrawal from the unprofitable photovoltaic panel (PV) production equipment business proceeded as planned. Accordingly, in fiscal 2016, ending March 31, 2016, we will only continue support operations for delivered units, and we expect to greatly reduce segment loss compared with fiscal 2015. We also consolidated development sites and other locations. Furthermore, we reduced our stake in Tokyo Electron Device Limited (TED), which handles the electronic components and computer networks business, resulting in the reclassification of TED from consolidated subsidiary to equity method affiliate. As a result, the fiscal 2015 gross profit margin improved 6.6 percentage points year on year to 39.6%. ROE came to 11.8%, and net cash provided by operating activities amounted to ¥71.8 billion, both big improvements over the previous fiscal year. Going forward, we aim to continue to strengthen our business foundations, grow profit and return profit to our shareholders.

Lastly, in May 2015, we announced a new executive framework aimed at powerfully pushing growth forward. This change brought younger members into top management. We also newly appointed the chairman of the board and established the position of Chief Operating Officer (COO) under the president and CEO. These changes are intended to create a system that can swiftly execute business and thus move continuously forward in an environment of constant change and fierce competition. We also added executive officers who possess rich experience managing local companies overseas, intending to enhance our competitiveness at a global level.

In April 2015, we announced plans for a share repurchase of up to ¥120 billion. Going forward, we will formulate a medium-term management plan to address new tasks facing us and review our capital policies while considering ways to offer more appealing shareholding returns. We will accelerate innovative initiatives and strive to increase corporate value. Thank you for your continued confidence and support.