Sales and Income

Operating Environment
The overall world economy in fiscal 2015 saw gradual recovery, chiefly in the United States, despite slowing growth in some emerging Asian countries.

In the electronics industry, in which Tokyo Electron operates, sales of new, high-performance smartphones were strong, and the smartphone markets of China and other emerging countries also expanded. Markets for electronics and semiconductors were also firm, reflecting increasing demand for data center servers due to rapid growth in data transmission volumes accompanying the further growth of cloud computing. As a result, capital investment by semiconductor manufacturers, Tokyo Electron’s main customers, saw considerable growth of 16% compared with the previous year.

Sales
During fiscal 2015, aiming to further increase future profitability, Tokyo Electron implemented business reorganization in order to concentrate management resources on its mainstay semiconduc-
tor production equipment (SPE) and flat panel display (FPD) pro-
duction equipment businesses. As part of this reorganization, the company sold a portion of its shares of Tokyo Electron Device Limited (TED), which operates the electronic components and computer networks business, resulting in the reclassification of TED from a consolidated subsidiary to an equity method affiliate. TED’s exclusion from the scope of consolidation as of fiscal 2015 resulted in a year on year decrease in consolidated net sales of approximately ¥100.7 billion (TED’s net sales in fiscal 2014). However, buoyed by the favorable market conditions described above, sales in Tokyo Electron’s mainstay SPE and FPD produc-
tion equipment businesses grew ¥101.8 billion from fiscal 2014. As a result, net sales in fiscal 2015 rose 0.2% year on year to ¥1,613.1 billion.

Domestic sales fell 41.2% year on year to ¥956.0 billion, while overseas sales grew 15.0% to ¥618.1 billion. Overseas sales as a share of total consolidated sales came to 84.5% in fiscal 2015, up 10.9 percentage points from 73.6% in fiscal 2014. This change was mainly due to the aforementioned exclusion of TED, which had a domestic sales ratio of approximately 80%, from the scope of consolidation.

Orders received during fiscal 2015 came to ¥661.0 billion, down 5.1% compared with the previous fiscal year. This was due to the exclusion of TED from the scope of consolidation, which over-
shadowed an increase in orders received of more than 14% in the mainstay SPE business. The order backlog at the end of March 2015 was ¥206.8 billion, up 11.6% year on year. For orders received and order backlog in the SPE and FPD production equipment seg-
ments, see Performance by Segment on page 13.

Gross Profit, SG&A Expenses and Operating Income
Cost of sales during fiscal 2015 decreased 9.7% year on year to ¥370.4 billion, while the cost of sales ratio dropped 6.6 percentage points to 60.4%. As a result, gross profit was up 20.2% year on year to ¥202.4 billion and gross profit margin rose consider-
ably, from 33.0% in fiscal 2014 to a record high of 39.6% in fiscal 2015. The primary reasons for this improvement were increased competitiveness and profitability in the mainstay SPE business and the affect of business reorganization that resulted in the exclusion of TED from the scope of consolidation.

SG&A expenses fell 8.9% year on year to ¥154.7 billion. This decreased a consist of ¥13.1 billion resulting from the exclusion of TED from the scope of consolidation as well as ¥7.3 billion reduction in R&D expenses reflecting a withdrawal from the photovoltaic panel (PV) production equipment business. Although the exclusion of TED, which had a low ratio of SG&A expenses to net sales, from the scope of consolidation pushed the consolidat-
ed SG&A expenses ratio up, the ratio of SG&A expenses to net sales in the mainstay SPE and FPD production equipment seg-
ments fell considerably due to sales increases. As a result, the ratio of SG&A expenses to consolidated net sales dropped from 27.7% in the previous fiscal year to 25.2% in the fiscal year under review. Consequently, operating income increased 173.6% year on year to ¥866.1 billion, and the operating margin rose considerably, from 5.3% to 14.4%.

Research and Development
R&D expenses were down 9.3% year on year to ¥17.3 billion. The main cause of this decrease was the withdrawal from the PV pro-
duction equipment business. The ratio of R&D expenses to net sales dropped from 12.9% in fiscal 2014 to 11.6% in fiscal 2015. This was because R&D expenses diminished while net sales remained roughly level with those of the previous fiscal year.

As Tokyo Electron views R&D as a source of growth, the Company invested not only in strengthening existing business areas, but also in new areas that are expected to support future growth.

R&D investment in semiconductor production equipment was focused on cutting-edge technologies in order to improve semicon-
ductor speed, capacity, power consumption and cost effectiveness. Efforts to develop key technologies in the areas of etching, deposi-
tion and cleaning, which realize multiple patterning for further mini-
aturization, 3D structure devices and new materials, contributed to an increase in Tokyo Electron’s markets, especially in sales year 2014.

Other achievements included progress in the development of pro-
duction equipment for STT-MRAM, a promising candidate for the next-generation of memory device. Certain products in these areas were also adopted in customers’ development lines.

In the advanced packaging field, Tokyo Electron has com-
pleted joint research with the Institute of Microelectronics of Singapore’s Agency for Science, Technology and Research. This research aims to establish a new standard technology in the pack-
ing industry and reduce costs, the greatest remaining obstacle to achieving a mass-producing high volume manufacturing.

In FPD production equipment, R&D investment concentrated on accelerating development of inkjet printing systems for manufac-
turing OLED panels. These efforts led to adoptions of such sys-
tems in a customer’s development lines.

During fiscal 2015, Tokyo Electron’s main sources of other income were ¥1.8 billion in gain on sale of property, plant and equipment including the sale of land and buildings related to Tokyo Electron’s withdrawal from the PV production equipment business, ¥1.6 billion in foreign exchange gain and ¥1.5 billion in interest and dividend income.

The Company recorded many other expenses for business reorga-
nization and to improve asset efficiency. These expenses mainly included ¥2.5 billion in loss on impairment of buildings and pro-
duction facilities resulting chiefly from revisions to business plans for a factory in China in the FPD production equipment business, ¥1.6 billion in loss on sales of affiliates’ shares accompanying the exclusion of TED from the scope of consolidation, ¥1.1 billion in loss on liquidation of subsidiaries related to the PV production equipment business, and ¥1.0 billion in expenses for restructuring of business deals due to the closure of the Technology Center Research & Technology Center Takarazuka. As a result, net other income (expenses) came to ¥1.3 billion of net expense in fiscal 2015, compared with ¥44.0 billion of net expense in fiscal 2014.

As a result, income before income taxes and minority interests came to ¥96.8 billion, compared with a ¥41.1 billion loss in the previous year. Net income totaled ¥71.9 billion in fiscal 2015, com-
pared with net loss of ¥19.4 billion in fiscal 2014. Net income per share was ¥401.08 in fiscal 2015, compared with net loss per share of ¥108.31 in fiscal 2014.

Comprehensive Income (Loss)
In fiscal 2015, Tokyo Electron recognized comprehensive income of ¥90.3 billion, compared with loss of ¥10.9 billion in fiscal 2014. This was mainly due to income before minority interests of ¥7.1 billion, foreign currency translation adjustments of ¥8.6 billion, reflecting the depreciation of the yen, and the ¥3.9 billion gain on changes in fair value of investment securities.

Domestic and Overseas Sales

Instructions for reading this chart:
- Fiscal year end is March 31st
- Domestic sales as a percentage of total consolidated sales is 45.1% in fiscal 2015
- Overseas sales as a percentage of total consolidated sales is 54.9% in fiscal 2015

Operating Income and Operating Margin

Instructions for reading this chart:
- Fiscal year end is March 31st
- Domestic sales as a percentage of total consolidated sales is 45.1% in fiscal 2015
- Overseas sales as a percentage of total consolidated sales is 54.9% in fiscal 2015

Net Income (Loss)

Instructions for reading this chart:
- Fiscal year end is March 31st
- Domestic sales as a percentage of total consolidated sales is 45.1% in fiscal 2015
- Overseas sales as a percentage of total consolidated sales is 54.9% in fiscal 2015

Sales and Income

### Sales and Income

<table>
<thead>
<tr>
<th>Sales and Income</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥668,722</td>
<td>¥633,091</td>
<td>¥497,300</td>
<td>¥612,170</td>
<td>¥613,125</td>
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<tr>
<td>Gross profit</td>
<td>234,758</td>
<td>211,445</td>
<td>158,755</td>
<td>201,892</td>
<td>242,774</td>
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<tr>
<td>Gross profit margin</td>
<td>35.1%</td>
<td>33.4%</td>
<td>31.9%</td>
<td>33.0%</td>
<td>39.6%</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>136,888</td>
<td>151,002</td>
<td>146,206</td>
<td>169,687</td>
<td>154,661</td>
</tr>
<tr>
<td>Operating income</td>
<td>97,870</td>
<td>60,443</td>
<td>12,549</td>
<td>32,205</td>
<td>88,113</td>
</tr>
<tr>
<td>Operating margin</td>
<td>14.6%</td>
<td>9.5%</td>
<td>2.5%</td>
<td>5.3%</td>
<td>14.4%</td>
</tr>
<tr>
<td>Income (loss) before income taxes and minority interests</td>
<td>30,579</td>
<td>60,602</td>
<td>17,767</td>
<td>71,756</td>
<td>86,828</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>71,024</td>
<td>36,226</td>
<td>6,076</td>
<td>19,409</td>
<td>71,885</td>
</tr>
</tbody>
</table>
Dividend Policy and Dividends

It is the policy of Tokyo Electron to pay dividends on the basis of business performance and earnings results. The dividend payout ratio has been set at approximately 35% of consolidated net income. Reflecting the Company’s strong business results, Tokyo Electron paid annual dividends for fiscal 2015 of ¥143 per share (a payout ratio of 35.7%). Going forward, Tokyo Electron will continue to repay the support of its shareholders through profit growth. Note that, because the Company was anticipating a business combination with Applied Materials, Inc., its specially paid dividends every quarter in fiscal 2015. (Per share dividends were ¥10, ¥30, ¥35 and ¥69, respectively).

Performance by Segment

- **Semiconductor Production Equipment**
  - In 2014, global sales of semiconductors grew about 8% year on year to a record high of US$340 billion, reflecting strong sales of smartphones and other mobile devices as well as rising demand for data center servers. Accordingly, capital investment in wafer fab equipment for both memory and logic was brisk, growing a considerable 16% year on year.
  - The Company’s market share grew for every product in this segment, including etch systems and cleaning systems, which Tokyo Electron is focusing on as key areas in which to raise market share. Tokyo Electron's share of the wafer fab equipment market climbed 3.1 percentage points in 2014 to 13.6%. Market share of cleaning systems reached 25%, its highest level ever, thanks to sales expansion of strategic products to meet miniaturization needs. In addition, net sales in the field solutions business, which handles sales of parts and used equipment, modifications and maintenance services, rose approximately 35% year on year due to the advance of miniaturization and resulting rising demand for production equipment manufacturers that have strong technical capabilities.

- **FPD (Flat Panel Display) Production Equipment**
  - In 2014, overall LCD panel area demand grew nearly 10% year on year, mainly due to expansion in demand for TVs. As a result, capital investment in large-sized LCD panels in China grew, and the FPD production equipment market grew 20% year on year. In this context, sales of Tokyo Electron’s inductively coupled plasma (ICP) etch systems, which have a competitive edge among products for high definition, large-sized panels, were favorable.

Segment net sales to external customers increased 15.5% year on year to ¥32.7 billion. Segment net sales including intersegment sales or transfers also increased 15.5% to ¥32.7 billion.

- **Other**
  - Other sales mainly include group-wide logistics services, facility management and insurance. Net sales to external customers amounted to ¥6.8 billion, up 15.8% year on year.

### Financial Review

- **Selling, General and Administrative Expenses**
- **R&D Expenses**
- **Cash Dividends per Share**
- **Total Assets**
- **Working Capital and Current Ratio**
- **Receivable Turnover and Inventory Turnover**

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**Segment Information**

<table>
<thead>
<tr>
<th>Segment</th>
<th>Millions of yen</th>
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<tr>
<td></td>
<td>2011</td>
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<td></td>
<td>2012</td>
</tr>
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<td></td>
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### Financial Section

**Consolidated Eleven-Year Summary**

**Consolidated Balance Sheets**

**Consolidated Statements of Operations**

**Consolidated Statements of Comprehensive Income (loss)**

**Consolidated Statements of Changes in Net Assets**

**Consolidated Statements of Cash Flows**

**Notes to Consolidated Financial Statements**

**Independent Auditor’s Report**

Tokyo Electron announced in January 2014 that it would withdraw from the FPD production equipment business and has since been advancing withdrawal procedures. In fiscal 2015, in anticipation of the completion of major work on delivered equipment, the Company decided to begin dissolving and liquidating TEL Solar AG, the consolidated subsidiary that had handled this business, and wrote off the subsidiary’s debt. As a result, Tokyo Electron recorded a ¥1.0 billion loss on liquidation of subsidiaries in this segment.

Segment net sales to external customers decreased from ¥3.8 million in fiscal 2014 to ¥3.6 million in fiscal 2015. Segment net sales including intersegment sales or transfers also decreased from ¥3.9 billion to ¥3.6 billion. Segment loss narrowed to ¥8.8 billion in fiscal 2015 from a loss of ¥46.4 billion in fiscal 2014.

Orders received in this segment decreased ¥1.7 billion year on year due in large part to changes in sales terms with customers accompanying business withdrawal procedures. The order backlog as of March 31, 2015 was down 58.9% to ¥3.7 billion.

For a business overview of this segment, please see page 8.
Financial Review

Financial Position and Cash Flows

Assets, Liabilities and Net Assets

Assets

Current assets increased by ¥44.9 billion from the end of the previous fiscal year to ¥670.9 billion, reflecting increases of ¥49.6 billion in inventories and ¥49.8 billion in prepaid expenses and other current assets, as well as a decrease of ¥18.9 billion in trade receivables. The turnover period for trade receivables improved from 77 days in fiscal 2014 to 66 days in fiscal 2015, and the inventory turnover period worsened slightly from 100 days in fiscal 2014 to 105 days in fiscal 2015.

Net property, plant and equipment decreased ¥45.4 billion from the end of the previous fiscal year to ¥156.9 billion due to ¥16.1 billion in depreciation and amortization and ¥29.2 billion in impairment of fixed assets including production facilities at a factory in China in the polymer production equipment business. These factors more than offset ¥13.2 billion in new fixed asset acquisitions.

Investments and other assets increased ¥3.6 billion from the end of fiscal 2014 to ¥98.4 billion, mainly due to a ¥3.9 billion increase in investment securities.

As a result, total assets as of March 31, 2015 stood at ¥876.2 billion, up ¥47.8 billion year on year.

Liabilities and Net Assets

Current liabilities increased ¥2.3 billion from the end of the fiscal 2014 to ¥172.8 billion at the end of fiscal 2015. This reflected increases of ¥9.8 billion in customer advances, ¥3.5 billion in accrued employees’ bonuses and ¥2.8 billion in trade and notes and accounts payable, as well as decreases of ¥7.8 billion in income taxes payable and ¥5.1 billion in accrued expenses and other current liabilities.

Non-current liabilities decreased ¥5.3 billion year on year to ¥62.2 billion, due mainly to decreases in net liability for retirement benefits of ¥2.6 billion and deferred tax liabilities of ¥1.0 billion.

As of March 31, 2015, Tokyo Electron had no interest-bearing debt (long- and short-term debt), compared with ¥135.3 billion at the end of the previous fiscal year, due to the exclusion of Tokyo Electron Devices, which held debt, from the scope of consolidation.

Total liabilities (current liabilities and non-current liabilities) stood at ¥235.0 billion, down ¥3.0 billion from the end of the previous fiscal year.

Net assets came to ¥642.2 billion at the end of fiscal 2015, up ¥50.5 billion from the end of fiscal 2014. This was mainly due to a ¥52.8 billion increase in retained earnings, reflecting the recording of ¥71.9 billion in net income and ¥17.9 billion paid in cash dividends (the total of the fiscal 2014 year-end dividend and the fiscal 2015 first, second and third quarter dividends), as well as a ¥6.7 billion increase in foreign currency translation adjustments due to the depreciation of the yen and a ¥10.6 billion decrease in minority interests due partly to the exclusion of Tokyo Electron Device from the scope of consolidation.

As a result, the equity ratio rose 3.2 percentage points from the end of March 2014 to 73.0% at the end of March 2015. ROE climbed to 11.8% from 3.3% in fiscal 2014.

Capital Expenditures* and Depreciation and Amortization

Capital expenditures were ¥13.2 billion in fiscal 2015, a 3.0% year-on-year increase. The primary factor causing the increase was the acquisition of process evaluation equipment for R&D, primarily for areas with high growth potential in the semiconductor industry.

Depreciation and amortization decreased 16.1% to ¥20.9 billion due to efforts to restrain capital investment since the previous fiscal year.

Cash Flows

Net cash provided by operating activities came to ¥71.8 billion, up ¥27.4 billion from fiscal 2014. Major contributors were ¥86.8 billion in income before income taxes and minority interests, ¥20.9 billion in depreciation and amortization, a ¥12.9 billion increase in customer advances and a ¥9.4 billion increase in trade notes and accounts payable. Major negative factors included a ¥26.8 billion increase in inventories, ¥24.2 billion in income taxes paid and a ¥11.4 billion increase in prepaid consumption tax.

Net cash provided by investing activities was ¥155.7 billion, compared with ¥19.6 billion used in the previous fiscal year. This included proceeds of ¥163.3 billion from a net decrease in short-term investments and ¥11.9 billion used in the payment for purchase of property, plant and equipment.

Cash used in financing activities came to ¥18.2 billion, compared with ¥20.2 billion in fiscal 2014. Major outflows included ¥17.1 billion in dividends paid.

The balance of cash and cash equivalents at the end of March 2015 stood at ¥317.6 billion, an increase of ¥212.8 billion from the end of fiscal 2014. Total liquidity on hand, which consists of cash, cash equivalents and short-term investments with original maturities of less than one year, increased ¥19.5 billion year on year to ¥317.7 billion at the end of March 2015.
Financial Review

Business-related and Other Risks

The following risks may have a material 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 unexpected 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 considerably.

(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, water 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 certification, 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 development 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 conducts 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) Influence of Corporate Acquisitions
As part of its business strategy, Tokyo Electron conducts corporate acquisitions in order to expand into new business areas, secure new technologies and business platforms, and strengthen the competitiveness of existing businesses. The Company conducts due diligence and carefully deliberates each specific acquisition. However, in the event that the results following an acquisition do not meet expectations, Tokyo Electron's business performance could be adversely affected.

(9) Impact from Major Lawsuits or Legal Actions
Tokyo Electron is not currently involved in any lawsuits or other legal actions that are likely to significantly influence its business results. However, in the event that the Company's business or other activities become the subject of a major lawsuit or other legal action, depending on the outcome of such action, Tokyo Electron's business results could be adversely affected.

(10) Other Risks
Tokyo Electron is actively engaged in reorganizing 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, risk management and information security 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 disasters, war, terrorism, infectious diseases and other unavoidable occurrences, financial or stock markets, government or other regulations, supply chains, market conditions for products and real estate, the ability to recruit personnel in Japan and overseas, competition over standardization, and loss of key personnel. Any of these factors could adversely affect Tokyo Electron's business performance.