NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tokyo Electron Limited and Subsidiaries

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Tokyo Electron Limited (hereinafter "the Company") and its subsidiaries (hereinafter collectively referred to as "Tokyo Electron") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The Company uses financial statements prepared by foreign subsidiaries in accordance with International Financial Reporting Standards or U.S. generally accepted accounting principles for the preparation of the consolidated financial statements, together with adjustment for certain items which are required to be adjusted in the consolidation process.

The accompanying consolidated financial statements have been restructured and translated into English from the statutory Japanese language consolidated financial statements. Some supplementary information included in the statutory Japanese language consolidated financial statements, which is not required for fair presentation, is not presented in the accompanying consolidated financial statements.

U.S. dollar amounts included herein are solely for the convenience of readers and are presented at the rate of ¥83.15 to $1.00, the approximate rate as of March 31, 2011. The translation should not be construed as a representation that the Japanese yen amounts shown could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 32 and 30 subsidiaries for the years ended March 31, 2011 and 2010, respectively.

Investments in affiliates in which the Company's ownership is 20% to 50% are accounted for by the equity method.

All significant inter-company accounts, transactions and unrealized profits or losses have been eliminated in consolidation.

The fiscal year-end of all entities is March 31, except for three consolidated foreign subsidiaries, which use a December 31 year-end, and adjustment is made for any significant transactions between the different fiscal year-ends.

(b) Foreign currency translation

All assets and liabilities denominated in foreign currencies are translated into Japanese yen at the year-end rates, except for those hedged by forward exchange contracts, which are translated at the contracted rates. Resulting exchange gains and losses are included in earnings for the year.

Revenue and expense items are translated at the rates that approximate those prevailing at the time of the transactions.

The balance sheet accounts of foreign subsidiaries are translated into Japanese yen at the rates of exchange in effect at the balance sheet date, except for shareholders' equity accounts, which are translated at the historical rates. Revenue and expense accounts of foreign subsidiaries are translated at average rates of exchange in effect during the year. Resulting translation adjustments are presented in net assets as a component of accumulated other comprehensive income and minority interests in the consolidated financial statements.

(c) Investment securities

Tokyo Electron examines the intent of holding each security and classifies those securities as trading securities, held-to-maturity debt securities or other securities. Tokyo Electron has no trading or held-to-maturity debt securities. Other securities with market prices are valued at fair market value prevailing at the balance sheet date. The differences between the book and market prices of other securities, net of applicable income taxes, are presented in net assets as a component of accumulated other comprehensive income. Other securities without market value are valued at cost using the weighted-average method.

The cost of sold securities is calculated using the weighted-average method.

(d) Inventories

Inventories other than raw materials are stated at the lower of cost, determined by the specific identification method, or net realizable value, which is defined as selling price less estimated additional manufacturing costs and estimated direct selling expenses. Raw materials are stated at the lower of cost, determined principally by the moving-average method, or net realizable value, which is defined as selling price less estimated additional manufacturing costs and estimated direct selling expenses.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of buildings, machinery and equipment of the Company and its domestic subsidiaries is computed using the declining balance method, except for buildings acquired subsequent to March 31, 1998 which are depreciated using the straight-line method, based on the estimated useful lives of assets. Foreign subsidiaries mainly apply the straight-line method over the estimated useful lives of assets.

Estimated useful lives of property, plant and equipment are as follows:

Buildings	2 to 60 years
Machinery and equipment	2 to 17 years

(f) Intangible assets

Intangible assets, which primarily comprise of capitalized costs for computer software and goodwill, are amortized by the straight-line method over their estimated useful lives. Capitalized costs for computer software for internal use are amortized over a period of 2 to 5 years. Goodwill is evaluated on an individual basis and amortized over a period not exceeding 20 years.

(g) Impairment of fixed assets

Tokyo Electron evaluates the carrying value of fixed assets held for use in the business.

If the carrying value of a fixed asset is impaired, a loss is recognized based on the amount by which the carrying value exceeds its recoverable amount, being the higher of the net selling price or the value in use of the assets. Net selling price is determined using the fair value less disposal costs and value in use is based on the total amount of discounted cash flows estimated to be generated from the continuing use of the individual assets or the asset group and the disposal of the assets.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debts with respect to ordinary receivables, and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(i) Accrued pension and severance costs

The Company and its domestic subsidiaries provide an accrual for defined benefit employees' pension and severance costs based on the projected benefit obligation and fair value of pension assets on the account settlement date. Prior service costs are charged to earnings on a straight-line basis, beginning from the fiscal year in which they are incurred, over a fixed number of years (four years) within the average remaining years of service of employees when the changes occur. Actuarial differences are charged to earnings on a straight-line basis, beginning from the fiscal year after they are recognized, over a fixed number of years (four years) within the average remaining years of service of employees when the differences occur.

The provision for accrued pension and severance costs for directors and statutory auditors of the Company and its domestic subsidiaries is calculated in accordance with internal regulations.

The Company and certain domestic subsidiaries decided to discontinue the payment of severance pay for directors and statutory auditors after April 1, 2005, and at the general shareholders' meeting in June 2005, it was resolved that the severance pay for directors and statutory auditors until March 31, 2005 would be paid at the termination of their service and the decision regarding the payment amount for each director and statutory auditor was delegated to the board of directors and statutory auditors. As discussed in note 9, the accruals for severance costs for directors and statutory auditors are included in accrued pension and severance costs in the consolidated balance sheets.

(j) Accrued warranty expenses

Tokyo Electron's products are generally subject to warranty, and Tokyo Electron accrues such estimated costs when product revenue is recognized. To prepare for future repairs during warranty periods, estimated after-sale repair expenses over warranty periods are accrued based on the historical ratio of actual repair expenses to corresponding sales.

(k) Leases

Until the year ended March 31, 2008, non-cancelable leases of the Company and its domestic subsidiaries had been primarily accounted for as operating leases (whether such leases were classified as operating or finance leases), except for leases that transfer ownership to the lessee at the end of the lease, which had been accounted for as finance leases.

Effective from the year ended March 31, 2009, the Company and its domestic subsidiaries adopted "Accounting Standard for Lease Transactions" and "Guidance on Accounting Standard for Lease Transactions." As a result, the Company and its domestic subsidiaries capitalized leased assets under finance leases commencing after March 31, 2008 and such leased assets are depreciated using the straight-line method over the period of the lease contract with zero residual value.

(l) Derivatives and hedge accounting

The Company and a domestic subsidiary make use of derivatives in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates. The amount of derivatives is limited to the extent of foreign currency assets, liabilities and actual orders, and the Company and the domestic subsidiary do not trade in derivatives for speculative purposes.

Derivatives are carried at fair value in the consolidated balance sheet with changes in unrealized gain or loss charged or credited to earnings, except for those which meet the criteria for hedge accounting. Unrealized gains or losses on hedging derivatives, net of taxes, are reported in net assets as a component of accumulated other comprehensive income. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(m) Income taxes

Tokyo Electron records deferred tax assets and liabilities on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, which are measured using the enacted tax rates and laws which are expected to be in effect when the differences are expected to reverse.

(n) Revenue recognition

Revenue from Semiconductor and FPD (Flat Panel Display)/PV (Photovoltaic cell) production equipment is principally recognized at the time of the customer confirmation of set-up and testing of products. Revenue from such equipment not requiring substantial installation is recognized at the time of shipment. Revenue from other products, such as electronic components, is recognized at the time of shipment. Service revenue from maintenance is recognized ratably over the term of the maintenance contract.

(o) Per share information

Net income (loss) per share and net assets per share are computed based on the weighted-average number of shares of common stock outstanding during each year.

Dividends per share has been presented on an accruals basis and include, in each fiscal year ended March 31, dividends approved or to be approved after March 31 but applicable to the year then ended.

(p) Research and development expenses

Research and development expenses are charged to earnings as incurred and amounted to ¥70,568 million ($848,683 thousand) and ¥54,074 million for the years ended March 31, 2011 and 2010, respectively.

(q) Cash equivalents

For purposes of the consolidated statements of cash flows, Tokyo Electron considers all highly-liquid instruments purchased with original maturities of three months or less to be cash equivalents.

(r) Short-term investments

Short-term investments consist of time deposits and certificates of deposit with original maturities of more than three months.

(s) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements to conform with the presentation used for the year ended March 31, 2011.

As described in note 3(c), the consolidated balance sheet and consolidated statement of changes in net assets for the year ended March 31, 2010 has been modified to conform with the new presentation rules for the year ended March 31, 2011. Also, the Company prepared a consolidated statement of comprehensive income for the year ended March 31, 2010 as well as that for the year ended March 31, 2011.

3. Change in Accounting Policies and Adoption of New Accounting Standards

(a) Accounting standards for asset retirement obligations

Effective from April 1, 2010, the Company and its domestic subsidiaries adopted "Accounting Standards for Asset Retirement Obligations" (Statement No. 18 issued by the Accounting Standards Board of Japan) and "Guidance on Accounting Standards for Assets Retirement Obligations" (Guidance No. 21 issued by the Accounting Standards Board of Japan). The adoption of this standard had no significant impact on the consolidated financial statements.

(b) Accounting standard for disclosures about segments of an enterprise and related information

As mentioned in note 17, effective from the year ended March 31, 2011, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Statement No. 17 issued by the Accounting Standards Board of Japan) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Guidance No. 20 issued by the Accounting Standards Board of Japan). The accounting standards require the Company to adopt a management approach as the segment reporting method. As a result of the adoption of this standards, the Company changed the basis of segmentation and segment measures.

(c) Accounting standard for presentation of comprehensive income

Effective from the year ended March 31, 2011, the Company adopted the new accounting standard, "Accounting Standard for Presentation of Comprehensive Income" (Statement No. 25 issued by the Accounting Standards Board of Japan). As a result of the adoption of this standards, the Company prepared the consolidated statement of comprehensive income for the year ended March 31, 2011.

(d) Accounting standard for consolidated financial statement

Effective from the year ended March 31, 2011, the Company adopted "Partial amendments to the accounting standards of financial statements" (Cabinet office ordinance No. 5) in accordance with "Accounting Standard for Consolidation Financial Statement" (Statement No. 22 issued by Accounting Standards Board of Japan). As a result of the adoption of this standard, the Company added a subtotal of "Income (loss) before minority interests" in the consolidated statements of operations for the years ended March 31, 2011 and 2010.

4. Investment Securities

Investment securities, which solely comprise of other securities, as of March 31, 2011 and 2010 are as follows:

	Millions of yen	
2011:	Cost	Carrying value
Securities with market prices		
Equity securities	**¥ 9,763**	**¥ 14,445**
Securities without market prices		
Unlisted stock	**365**	**370**
Other	**911**	**911**
Total	**¥ 11,039**	**¥ 15,726**

	Millions of yen	
2010:	Cost	Carrying value
Securities with market prices		
Equity securities	¥ 9,277	¥ 13,615
Securities without market prices		
Unlisted stock	194	194
Other	912	912
Total	¥ 10,383	¥ 14,721

	Thousands of U.S. dollars	
2011:	Cost	Carrying value
Securities with market prices		
Equity securities	**$117,414**	**$173,722**
Securities without market prices		
Unlisted stock	**4,390**	**4,450**
Other	**10,956**	**10,956**
Total	**$132,760**	**$189,128**

Losses on devaluation of investment securities were ¥34 million ($409 thousand) and ¥72 million for the years ended March 31, 2011 and 2010, respectively.

Net gain on sale of investment securities was ¥91 million ($1,094 thousand) for the year ended March 31, 2011.

No gain on sale of investment securities was recognized for the year ended March 31, 2010.

5. Inventories

Inventories as of March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Finished products	**¥111,918**	¥ 87,202	**$1,345,977**
Work in process, raw materials and supplies	**57,007**	51,248	**685,592**
Total	**¥168,925**	¥138,450	**$2,031,569**

The amounts of change in inventory provision included in cost of sales in the consolidated statements of operations for the years ended March 31, 2011 and 2010 were an increase of ¥1,202 million ($14,456 thousand) and a decrease of ¥3,581 million, respectively.

6. Impairment of Property, Plant and Equipment and Intangible Assets

For assessing fixed asset impairment, the Company generally groups fixed assets used for normal operations at a business unit level for which profits are reasonably controllable. Also, the Company assesses the recoverability of individual assets not used in normal operations or that are idle.

The Company and its domestic subsidiaries recognized losses on impairment of property, plant and equipment of ¥811 million ($9,753 thousand), which is included in the consolidated statement of operations for the year ended March 31, 2011. The losses on impairment of property, plant and equipment were attributed to buildings, machinery and equipment in Japan primarily of the Yokohama warehouse in Kanagawa, which was determined to be sold.

The Company and its domestic subsidiaries recognized losses on impairment of property, plant and equipment of ¥4,786 million, which is included in the consolidated statement of operations for the year ended March 31, 2010. The loss on impairment of property, plant and equipment was attributed to land, buildings and equipment in Japan primarily of the Sagami Plant in Kanagawa, the Saga Plant in Saga and the Kansai Technology Center in Hyogo, all of which are not expected to be used after integration of domestic production and development centers.

Since TEL Epion Inc. ("Epion") determined to adversely change its future business plan made upon acquisition of Epion due to change of the industry business environment in the year ended March 31, 2010, Epion recognized loss on impairment of intangible assets of ¥2,767 million, which is also included in the consolidated statement of operations for the year ended March 31, 2010.

7. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2011 and 2010.

8. Short-term Borrowings

Short-term borrowings represent 365-day notes issued by Tokyo Electron to banks and bore interest at an average annual rate of 0.39 % and 0.49% as of March 31, 2011 and 2010, respectively.

As of March 31, 2011, Tokyo Electron has unused lines of credit amounting to ¥142,184 million ($1,709,970 thousand).

9. Accrued Pension and Severance Costs

The Company and its domestic subsidiaries have defined benefit plans (cash balance plan and noncontributory retirement and severance benefit plans) covering substantially all their employees who meet eligibility requirements. The benefits under the plans are based on length of service and certain other factors.

The cash balance plan provides for pension or lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause. Under the cash balance plan, each participant has an account which is credited yearly based on the current rate of pay and market-related interest rate. The noncontributory plans provide for lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause. Certain foreign subsidiaries have noncontributory retirement and severance benefit plans that provide for pension or lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause.

The funded status of the defined benefit plans, a substantial portion of which consists of domestic benefit plans, as of March 31, 2011 and 2010 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Benefit obligation	**¥(89,350)**	¥(84,097)	**$(1,074,564)**
Fair value of plan assets	**41,282**	38,732	**496,476**
Funded status	**(48,068)**	(45,365)	**(578,088)**
Unrecognized actuarial difference	**(90)**	(288)	**(1,082)**
Unrecognized prior service cost	**25**	125	**300**
Net amount recognized	**(48,133)**	(45,528)	**(578,870)**
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid pension and severance costs (Note 1)	**4,097**	4,379	**49,272**
Accrued pension and severance costs (Note 2)	**(52,230)**	(49,907)	**(628,142)**
Net amount recognized	**¥(48,133)**	¥(45,528)	**$ (578,870)**

Notes: 1. The prepaid pension and severance costs as of March 31, 2011 and 2010 is included in other assets in the consolidated balance sheets.
2. The provision for accrued pension and severance costs for directors and statutory auditors (¥596 million ($7,167 thousand) as of March 31, 2011 and ¥621 million as of March 31, 2010) is not included.

Net pension cost of the plans is as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Service cost	**¥5,474**	¥5,358	**$65,833**
Interest cost	**1,666**	1,572	**20,036**
Expected return on plan assets	**(767)**	(676)	**(9,224)**
Amortization of actuarial difference	**286**	697	**3,439**
Amortization of prior service cost	**100**	101	**1,203**
Net pension cost	**¥6,759**	¥7,052	**$81,287**

Significant assumptions of domestic pension plans used to determine the above amounts are as follows:

	2011 and 2010
Allocation method of benefit obligation	**Straight-line method**
Discount rate	**2.00%**
Expected rate of return on plan assets	**2.00%**
Amortization period of actuarial difference	**4 years**
Amortization period of prior service cost	**4 years**

10. Income Taxes

Significant components of the deferred tax assets and liabilities of Tokyo Electron as of March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Deferred tax assets			
Accrued pension and severance costs	**¥21,172**	¥20,099	**$254,624**
Elimination of unrealized profit in inventories	**10,309**	1,836	**123,981**
Tax credit for research and development	**5,910**	5,499	**71,076**
Devaluation of inventories	**4,716**	4,282	**56,717**
Accrued employees' bonuses	**4,471**	2,425	**53,770**
Accrued warranty expenses	**2,795**	1,907	**33,614**
Loss on impairment of property, plant and equipment and intangible assets	**2,258**	2,114	**27,156**
Accrued business taxes	**1,581**	–	**19,014**
Net operating loss carryforwards	**1,475**	14,717	**17,739**
Other	**8,619**	9,100	**103,656**
Total gross deferred tax assets	**63,306**	61,979	**761,347**
Less valuation allowance	**(9,031)**	(10,458)	**(108,611)**
Total deferred tax assets	**54,275**	51,521	**652,736**
Deferred tax liabilities			
Undistributed earnings of foreign subsidiaries	**(3,087)**	(2,957)	**(37,125)**
Net unrealized gains on investment securities	**(1,916)**	(1,705)	**(23,043)**
Prepaid pension and severance costs	**(1,635)**	(1,773)	**(19,663)**
Other	**(1,532)**	(1,161)	**(18,425)**
Total gross deferred tax liabilities	**(8,170)**	(7,596)	**(98,256)**
Net deferred tax assets	**¥46,105**	¥43,925	**$554,480**

Net deferred tax assets are included in the consolidated balance sheets as of March 31, 2011 and 2010 as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Current assets	**¥27,610**	¥26,625	**$332,051**
Investments and other assets	**20,728**	20,506	**249,285**
Other current liabilities	**(1)**	(1,062)	**(12)**
Other liabilities	**(2,232)**	(2,144)	**(26,844)**

The Company and its wholly-owned domestic subsidiaries apply a consolidated tax filing system for corporate tax purposes.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. For assessment of the realizability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, future estimated taxable income, tax planning strategies and level of net operating loss carryforwards, if any, in accordance with accounting principles generally accepted in Japan.

Based on the level of historical taxable income and future estimated taxable income over the periods which the deferred tax assets are deductible, management believes Tokyo Electron will realize the benefits of these deferred tax assets, net of valuation allowance, as of March 31, 2011 and 2010.

The Company is subject to corporate tax, inhabitants' tax and a deductible enterprise tax, which in the aggregate resulted in a statutory income tax rate of approximately 40.69% for the years ended March 31, 2011 and 2010.

Significant components of the difference between the statutory and effective tax rates for the years ended March 31, 2011 and 2010 are as follows:

	2011	2010
Statutory tax rate in Japan	**40.69 %**	40.69 %
Adjustments:		
Tax credit of research and development	**(7.22)**	–
Effect of elimination of unrealized profit in inventories	**(4.15)**	(27.86)
Difference in statutory tax rates of subsidiaries	**(2.26)**	6.54
Change in valuation allowance	**(1.89)**	(18.14)
Expenses not deductible for tax purposes	**0.86**	(5.28)
Change in deferred tax liabilities on undistributed earnings of foreign subsidiaries	**(0.13)**	(4.28)
Others, net	**0.98**	1.02
Effective tax rate	**26.88 %**	(9.35)%

11. Net Assets

Net assets comprises four subsections, which are shareholders' equity, accumulated other comprehensive income, share subscription rights and minority interests.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the board of directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital which is included in capital surplus.

In cases where dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal reserve must be set aside as additional paid-in capital or legal reserve. Legal reserve is included in retained earnings in the accompanying consolidated balance sheets.

Both appropriations of legal reserve and additional paid-in capital used to eliminate or reduce a deficit generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal reserve may not be distributed as dividends. All additional paid-in capital and legal reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the general shareholders' meeting on June 23, 2006, in accordance with Japanese laws and regulations, the Company altered its articles to allow for the distribution of earnings to shareholders on dates, other than the mid-term and year-end, by a resolution of the board of directors.

At the board of directors' meeting held on May 13, 2011, the distribution of cash dividends amounting to ¥13,608 million ($163,656 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2011 since they are recognized in the period in which they are resolved at the board of directors' meeting.

12. Share Subscription Rights

Stock option plan

The Company's shareholders have approved annual stock option plans for directors and selected employees since the year ended March 31, 1999. The options under the plans vest immediately with restriction on exercise up to two or three years after the date of grant, and have an exercise period of eight to twenty years from the date of grant.

No options to purchase shares of the Company were authorized and granted for the year ended March 31, 2011 and 2010.

Shareholders of Tokyo Electron Device Limited, a domestic listed subsidiary, have approved annual stock option plans for directors and selected employees since the year ended March 31, 2005.

A summary of stock options outstanding and exercisable as of March 31, 2011 and 2010 is as follows:

Tokyo Electron Limited

	2011			2010	
		Weighted-average exercise price			Weighted-average exercise price
	Number of shares	Yen	U.S. dollars	Number of shares	Yen
Outstanding at the beginning of year	**1,779,100**	**¥5,720**	**$ 68.79**	2,052,300	¥5,927
Granted	**–**	**–**	**–**	–	–
Exercised	**67,100**	**1**	**0.01**	40,000	1
Expired (forfeited)	**415,200**	**8,625**	**103.73**	233,200	8,520
Outstanding at the end of year	**1,296,800**	**5,086**	**61.17**	1,779,100	5,720
Exercisable at the end of year	**1,120,500**	**5,886**	**70.79**	1,504,200	6,765

Tokyo Electron Device Limited

	2011			2010	
		Weighted-average exercise price			Weighted-average exercise price
	Number of shares	Yen	U.S. dollars	Number of shares	Yen
Outstanding at the beginning of year	**650**	**¥308,698**	**$3,712.54**	650	¥308,698
Granted	**–**	**–**	**–**	–	–
Exercised	**–**	**–**	**–**	–	–
Expired (forfeited)	**–**	**–**	**–**	–	–
Outstanding at the end of year	**650**	**308,698**	**3,712.54**	650	308,698
Exercisable at the end of year	**650**	**308,698**	**3,712.54**	650	308,698

13. Leases

As mentioned in note 2 (k), effective from the year ended March 31, 2009, the Company and its domestic subsidiaries adopted "Accounting Standard for Lease Transactions" and "Guidance on Accounting Standard for Lease Transactions". As permitted under the standards, finance leases which commenced on or before March 31, 2008 continue to be accounted for as operating leases. Pro forma information of leased property acquired on or before March 31, 2008 including acquisition cost, accumulated depreciation, obligation under finance leases, and depreciation expense of finance leases that do not transfer ownership of leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2011 and 2010, are as follows:

Leased assets not recorded in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Acquisition cost	**¥947**	¥955	**$11,389**
Accumulated depreciation	**690**	540	**8,298**
Net leased property	**¥257**	¥415	**$ 3,091**

Future minimum lease payments:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	**¥139**	¥159	**$1,672**
Due over one year	**118**	256	**1,419**
Total	**¥257**	¥415	**$3,091**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥158 million ($1,900 thousand) and ¥167 million, which approximated the corresponding depreciation on the respective leased property computed by the straight-line method over the lease terms, for the years ended March 31, 2011 and 2010, respectively.

Future minimum lease payments on non-cancelable operating leases:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	**¥1,984**	¥1,744	**$23,861**
Due over one year	**4,361**	1,052	**52,447**
Total	**¥6,345**	¥2,796	**$76,308**

14. Fair Value of Financial Instruments

Policy for Financial Instruments

Tokyo Electron limits its fund management to short-term bank deposits and certificates of deposit, and obtains funds by utilizing bank-loans or liquidating trade-receivables.

Trade receivables, which consist of notes and accounts receivable, are exposed to credit risk in the event of non-performance by the counter-parties. Execution and management of credit risk, maturity and receivable balance are conducted pursuant to the internal management rules for credit control. Credit risk of major customers is assessed on a regular basis.

Short-term investments consist of time deposits and certificates of deposit and the Company and its listed subsidiary trade with highly-rated financial institutions to mitigate credit risks.

Investment securities consist of mainly equity interests in listed companies exposed to equity market risks. Conditions, including market prices, for these investment securities are monitored on a regular basis.

Trade payables, which consist of notes and accounts payable and income taxes payable, mainly mature within one year. Trade payables are exposed to liquidity risks which are managed through activities such as implementing cash management plans.

See note 15 for detailed discussion on derivative financial instruments.

Fair Value of Financial Instruments

Carrying amount and estimated fair value of financial instruments as of March 31, 2011 and 2010, respectively are set out below. Fair value of financial instruments which is practically difficult to estimate are excluded (see note 4).

	Millions of yen	
2011:	Carrying amount	Estimated fair value [1]
Assets		
Cash and cash equivalents	**¥165,051**	**¥165,051**
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥1,154 million)	**135,231**	**135,231**
Short-term investments	**120,000**	**120,000**
Investment securities	**14,445**	**14,445**
Liabilities		
Trade notes and accounts payable	**53,612**	**53,612**
Income taxes payable	**25,328**	**25,328**
Derivatives (see note 15)		
Hedge accounting not applied	**327**	**327**
Hedge accounting applied	**(44)**	**(44)**

	Millions of yen	
2010:	Carrying amount	Estimated fair value [1]
Assets		
Cash and cash equivalents	¥123,940	¥123,940
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥176 million)	124,286	124,286
Short-term investments	120,000	120,000
Investment securities	13,615	13,615
Liabilities		
Trade notes and accounts payable	52,359	52,359
Derivatives (see note 15)		
Hedge accounting not applied	124	124
Hedge accounting applied	(165)	(165)

2011:	Thousands of U.S. dollars Carrying amount	Estimated fair value [1]
Assets		
Cash and cash equivalents	**$1,984,979**	**$1,984,979**
Trade notes and accounts receivable, net of allowance for doubtful accounts ($13,879 thousand)	**1,626,350**	**1,626,350**
Short-term investments	**1,443,175**	**1,443,175**
Investment securities	**173,722**	**173,722**
Liabilities		
Trade notes and accounts payable	**644,762**	**644,762**
Income taxes payable	**304,606**	**304,606**
Derivatives (see note 15)		
Hedge accounting not applied	**3,933**	**3,933**
Hedge accounting applied	**(529)**	**(529)**

Note: 1. Fair value calculation of financial instruments
Cash and cash equivalents, trade notes and accounts receivable, short-term investments and trade notes, accounts payable and income taxes payable
The carrying amounts approximate fair value because of the short maturity of these instruments.
Investment securities
The fair values of marketable securities are based on quoted market prices.
See note 4 for further information by classification of investment securities.
Derivatives
See note 15 for detailed discussion on derivative financial instruments.

2. Maturities of financial assets and securities are as follows:

2011:	*Millions of yen Within 1 year*	*After 1 through 5 years*
Cash and cash equivalents	***¥165,051***	***¥ –***
Trade notes and accounts receivable	***136,385***	***–***
Short-term investments	***120,000***	***–***

2010:	*Millions of yen Within 1 year*	*After 1 through 5 years*
Cash and cash equivalents	*¥123,940*	*¥ –*
Trade notes and accounts receivable	*124,462*	*–*
Short-term investments	*120,000*	*–*

2011:	*Thousands of U.S. dollars Within 1 year*	*After 1 through 5 years*
Cash and cash equivalents	***$1,984,979***	***$ –***
Trade notes and accounts receivable	***1,640,229***	***–***
Short-term investments	***1,443,175***	***–***

3. Repayment schedule of short-term borrowings and capital lease obligations is as follows:

2011:	*Millions of yen Within 1 year*	*After 1 through 2 years*	*After 2 through 5 years*
Short-term borrowings	***¥7,996***	***¥ –***	***¥ –***
Capital lease obligations	***127***	***103***	***64***

2010:	*Millions of yen Within 1 year*	*After 1 through 2 years*	*After 2 through 5 years*
Short-term borrowings	*¥5,106*	*¥ –*	*¥ –*
Capital lease obligations	*26*	*24*	*1*

2011:	*Thousands of U.S. dollars Within 1 year*	*After 1 through 2 years*	*After 2 through 5 years*
Short-term borrowings	***$96,164***	***$ –***	***$ –***
Capital lease obligations	***1,527***	***1,239***	***770***

(Supplementary information)

Effective from the year ended March 31, 2010, the Company and its domestic subsidiaries adopted "Accounting Standard for Financial Instruments" (Statement No. 10 (revised 2008) issued by the Accounting Standards Board of Japan) and "Guidance on Disclosures about Fair Value of Financial Instruments" (Guidance No. 19 issued by the Accounting Standards Board of Japan).

15. Derivative Financial Instruments

Tokyo Electron is subject to risk from adverse fluctuations in foreign currency exchange rates in its operating and financing activities. The Company and its listed domestic subsidiary enter into forward foreign exchange contracts in order to hedge such risks, but do not enter into such transactions for speculative purposes. The Company and its domestic subsidiary implement a ratio analysis of the total cumulative cash flow fluctuations to assess effectiveness of hedging. Execution and management of all derivative transactions are conducted pursuant to the internal management rule for derivatives and the assessment of effectiveness of hedging activities is reported on a semiannual basis to the Corporate Director in charge of Finance.

The estimated fair values of the derivative financial instruments as of March 31, 2011 and 2010 are as follows:

1. Derivative financial instruments not designated as hedging instruments

2011:	Millions of yen Contract amount	Fair value	Unrealized gains (losses)
Sell U.S. dollars	**¥ 7,405**	**¥ (72)**	**¥ (72)**
Sell Korean won	**1,235**	**350**	**350**
Buy U.S. dollars	**4,763**	**49**	**49**
Total	**¥13,403**	**¥327**	**¥327**

2010:	Millions of yen Contract amount	Fair value	Unrealized gains (losses)
Sell U.S. dollars	¥ 7,268	¥ (240)	¥ (240)
Sell Korean won	1,235	290	290
Buy U.S. dollars	5,211	74	74
Total	¥13,714	¥ 124	¥ 124

2011:	Thousands of U.S. dollars Contract amount	Fair value	Unrealized gains (losses)
Sell U.S. dollars	**$ 89,056**	**$ (865)**	**$ (865)**
Sell Korean won	**14,853**	**4,209**	**4,209**
Buy U.S. dollars	**57,282**	**589**	**589**
Total	**$161,191**	**$3,933**	**$3,933**

Note: The fair values are based on the quoted forward foreign exchange rates.

2. Designated derivative financial instruments

	Millions of yen		Thousands of U.S. dollars	
2011: Hedge accounting	Contract amount	Fair value	Contract amount	Fair value
Sell U.S. dollars	**¥ 6,411**	**¥(54)**	**$ 77,102**	**$(649)**
Sell Korean won	**37**	**11**	**445**	**132**
Buy U.S. dollars	**4,099**	**(1)**	**49,296**	**(12)**
Total	**¥10,547**	**¥(44)**	**$126,843**	**$(529)**

2010: Hedge accounting	Millions of yen Contract amount	Fair value
Sell U.S. dollars	¥ 9,003	¥(193)
Sell Korean won	96	23
Buy U.S. dollars	3,859	5
Total	¥12,958	¥(165)

The contract amounts of forward foreign exchange contracts, entered into to hedge receivables and payables denominated in foreign currencies that have been translated by the corresponding contracted rates, are as follows:

	Contract amount		
	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Sell U.S. dollars	**¥ 90**	¥614	**$1,082**
Buy U.S. dollars	**62**	206	**746**
Total	**¥152**	¥820	**$1,828**

Note: The fair value of these derivative financial instruments, which is based on the quoted foreign exchange rates, is included in the carrying value of hedged assets (Trade notes and accounts receivable) and liabilities (Trade notes and accounts payable).

16. Other Income (Expenses)

As discussed in note 6, losses on impairment of property, plant and equipment of ¥811 million ($9,753 thousand) were recognized for the year ended March 31, 2011 and losses on impairment of property, plant and equipment and intangible assets of ¥7,553 million were recognized for the year ended March 31, 2010.

Reversal of allowance for doubtful accounts of ¥1,892 million ($22,754 thousand) for the year ended March 31, 2011 is related to the subsequent collection of specific accounts receivable.

Expenses for plant relocation of ¥1,839 million ($22,117 thousand) were recognized as a result of the transfer of etch system business.

Loss from natural disasters of ¥1,114 million ($13,397 thousand) for the year ended March 31, 2011 represents losses relating to the Great East Japan Earthquake which occurred on March 11, 2011, which mainly consists of fixed costs during the inactive period and repair costs for damaged facilities.

Expenses for integration of domestic facilities of ¥1,909 million, including expenses for transportation of machineries is recognized for the year ended March 31, 2010.

17. Segment Information

General information about reportable segments

A reportable segment is a component or an aggregated component of Tokyo Electron. For each of the components, its discrete financial information is available and its operating result is regularly reviewed by the management to make decisions about resources to be allocated to the segment and assess its performance.

The operation of Tokyo Electron consists of segments by products and services based on business units (BUs), and Tokyo Electron identifies as a reportable segment, "Semiconductor Production Equipment (SPE)," "Flat Panel Display and Photovoltaic Cell (FPD/PV) Production Equipment," and "Electronic Components and Computer Networks."

Products of the SPE segment consist of coaters/developers, plasma etch systems, thermal processing systems, single wafer deposition systems, cleaning systems used in wafer processing, wafer probers used in the wafer testing process and other semiconductor production equipment. The SPE segment principally develops, manufactures, services and distributes such products.

Products of the FPD/PV Production Equipment segment consist of coaters/developers, plasma etch/ash system used in the manufacture of flat panel displays, and plasma CVD systems used in the manufacture of thin film silicon PV cells. The FPD/PV segment principally develops, manufactures, services and distributes such products.

The Electronic Components and Computer Networks segment principally designs, develops, procures, and distributes semiconductor products centering on integrated circuits (IC), other electronic components, computer networks and software.

Basis of measurement of reported segment net sales, segment profit, segment assets and other items

The accounting policies applied in each reportable segment are generally consistent with that applied for the preparation of the consolidated financial statements. Intersegment sales or transfers are determined based on current market prices. Assets in common use have not been allocated to each reportable segment, while costs associated with these assets have been allocated to reportable segments on a systematic basis.

Information about reported segment net sales, segment profit, segment assets and other items

Reportable segment information as of and for the year ended March 31, 2011 is as follows:

2011:	Reportable Segment: Semiconductor production equipment	Reportable Segment: FPD/PV production equipment	Reportable Segment: Electronic components & computer networks	Other	Total	Eliminations and Corporate	Consolidated
	Millions of yen						
Net sales							
Sales to external customers	**¥511,332**	**¥66,721**	**¥90,216**	**¥ 453**	**¥668,722**	**¥ –**	**¥668,722**
Intersegment sales or transfers	**0**	**–**	**1,100**	**14,908**	**16,008**	**(16,008)**	**–**
Total	**511,332**	**66,721**	**91,316**	**15,361**	**684,730**	**(16,008)**	**668,722**
Segment profit	**120,846**	**6,641**	**2,907**	**1,916**	**132,310**	**(32,731)**	**99,579**
Segment assets	**239,707**	**42,812**	**50,255**	**2,094**	**334,868**	**474,337**	**809,205**
Others							
Depreciation and amortization	**7,369**	**543**	**456**	**354**	**8,722**	**8,985**	**17,707**
Capital expenditures, including intangible and other assets	**13,182**	**553**	**774**	**28**	**14,537**	**26,723**	**41,260**

2011:	Reportable Segment: Semiconductor production equipment	Reportable Segment: FPD/PV production equipment	Reportable Segment: Electronic components & computer networks	Other	Total	Eliminations and Corporate	Consolidated
	Thousands of U.S. dollars						
Net sales							
Sales to external customers	**$6,149,513**	**$802,417**	**$1,084,979**	**$ 5,448**	**$8,042,357**	**$ –**	**$8,042,357**
Intersegment sales or transfers	**0**	**–**	**13,229**	**179,290**	**192,519**	**(192,519)**	**–**
Total	**6,149,513**	**802,417**	**1,098,208**	**184,738**	**8,234,876**	**(192,519)**	**8,042,357**
Segment profit	**1,453,349**	**79,868**	**34,961**	**23,043**	**1,591,221**	**(393,639)**	**1,197,582**
Segment assets	**2,882,826**	**514,877**	**604,390**	**25,183**	**4,027,276**	**5,704,594**	**9,731,870**
Others							
Depreciation and amortization	**88,623**	**6,530**	**5,484**	**4,258**	**104,895**	**108,058**	**212,953**
Capital expenditures, including intangible and other assets	**158,533**	**6,651**	**9,308**	**337**	**174,829**	**321,383**	**496,212**

Notes: 1. "Other" includes all other operating segments which are not included in the reportable segments, including group-wide logistic services, leasing and insurance.

2 (1) "Eliminations and Corporate" segment profit totaling ¥32,731 million ($393,639 thousand) includes corporate expenses not allocated to any reportable segments. The corporate expenses mainly consist of research and development costs of ¥22,719 million ($ 273,229 thousand) pertaining to fundamental research and element research, not allocated to any of the reportable segments.

(2) "Eliminations and Corporate" segment assets totaling ¥474,337 million ($5,704,594 thousand) consists mainly of cash and cash equivalents, short-term investments, buildings, not allocated to any of the reportable segments.

3 "Eliminations and Corporate" capital expenditures totaling ¥26,723 million ($321,383 thousand), consists mainly of capital expenditures for buildings not allocated to any of the reportable segments.

4. Reported segment income is reconciled to Income before income taxes and minority interests in the consolidated statement of operations.

(Supplementary Information)

As mentioned in note 3 (b), from the year ended March 31, 2011, the Company adopted the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Statement No. 17 issued by the Accounting Standards Board of Japan), and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Guidance No. 20 issued by the Accounting Standards Board of Japan). Since it is impractical to revise previously reported segment information, the Company discloses current period segment information on the old basis of segmentation and segment measures as follows:

	Millions of yen				
2011:	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	**¥578,506**	**¥90,216**	**¥668,722**	**¥ –**	**¥668,722**
(2) Intersegment sales or transfers	**536**	**1,100**	**1,636**	**(1,636)**	**–**
Total	**579,042**	**91,316**	**670,358**	**(1,636)**	**668,722**
Operating expenses	**483,934**	**88,570**	**572,504**	**(1,652)**	**570,852**
Operating income	**¥ 95,108**	**¥ 2,746**	**¥ 97,854**	**¥ 16**	**¥ 97,870**
2. Assets, depreciation and amortization expenses, impairment losses and capital expenditures					
Assets	**¥762,227**	**¥50,254**	**¥812,481**	**¥(3,276)**	**¥809,205**
Depreciation and amortization expenses	**17,494**	**456**	**17,950**	**–**	**17,950**
Capital expenditures, including intangible and other assets	**40,486**	**774**	**41,260**	**–**	**41,260**

	Millions of yen				
2010:	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income (loss)					
Net sales					
(1) Sales to external customers	¥334,164	¥84,473	¥418,637	¥ –	¥418,637
(2) Intersegment sales or transfers	785	673	1,458	(1,458)	–
Total	334,949	85,146	420,095	(1,458)	418,637
Operating expenses	339,218	83,066	422,284	(1,466)	420,818
Operating income (loss)	¥ (4,269)	¥ 2,080	¥ (2,189)	¥ 8	¥ (2,181)
2. Assets, depreciation and amortization expenses, impairment losses and capital expenditures					
Assets	¥654,026	¥45,649	¥699,675	¥(3,323)	¥696,352
Depreciation and amortization expenses	19,759	485	20,244	–	20,244
Loss on impairment of property, plant and equipment and intangible assets	7,553	–	7,553	–	7,553
Capital expenditures, including intangible and other assets	16,070	122	16,192	–	16,192

	Thousands of U.S. dollars				
2011:	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	**$6,957,378**	**$1,084,979**	**$8,042,357**	**$ –**	**$8,042,357**
(2) Intersegment sales or transfers	**6,446**	**13,229**	**19,675**	**(19,675)**	**–**
Total	**6,963,824**	**1,098,208**	**8,062,032**	**(19,675)**	**8,042,357**
Operating expenses	**5,820,012**	**1,065,183**	**6,885,195**	**(19,867)**	**6,865,328**
Operating income	**$1,143,812**	**$ 33,025**	**$1,176,837**	**$ 192**	**$1,177,029**
2. Assets, depreciation and amortization expenses, impairment losses and capital expenditures					
Assets	**$9,166,891**	**$ 604,378**	**$9,771,269**	**$(39,399)**	**$9,731,870**
Depreciation and amortization expenses	**210,391**	**5,484**	**215,875**	**–**	**215,875**
Capital expenditures, including intangible and other assets	**486,903**	**9,309**	**496,212**	**–**	**496,212**

Notes: 1. Method of classifying business segments: Business segments are classified after considering similarities in types of products and services, as well as sales methods.

2. Major products in each business segment:

Business segment	*Major products*
Industrial electronic equipment	*Semiconductor production equipment, FPD production equipment, PV production equipment and others*
Electronic components and computer networks	*Semiconductor products, boards, electronic components, computer networks and software*

3. Depreciation expenses and capital expenditures include those for long-term prepaid expenses.

Other Information

(1) Domestic and overseas net sales by destination for the years ended March 31, 2011 and 2010 are as follows:

Net sales	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars 2011
Japan	**¥182,165**	¥162,609	**$2,190,800**
Taiwan	**169,276**	91,474	**2,035,791**
Korea	**106,374**	55,641	**1,279,302**
United States of America	**103,013**	52,948	**1,238,882**
Others	**107,894**	55,965	**1,297,582**
Total	**¥668,722**	¥418,637	**$8,042,357**

Note: For the reporting of domestic and overseas net sales, overseas net sales (other than Japan) include export sales of the Company and its domestic subsidiaries and sales of foreign subsidiaries, except for export sales to Japan.

(2) Geographical segment information as of and for the years ended March 31, 2011 and 2010 are as follows:

	Millions of yen			Thousands of U.S. dollars		
2011:	Japan	Other regions	Total	Japan	Other regions	Total
Property, plant and equipment	**¥97,775**	**¥14,777**	**¥112,552**	**$1,175,887**	**$177,715**	**$1,353,602**

	Millions of yen				
2010:	Japan	Other regions	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income (loss)					
Net sales					
(1) Sales to external customers	¥369,382	¥49,255	¥418,637	¥ –	¥418,637
(2) Intersegment sales or transfers	31,856	26,089	57,945	(57,945)	–
Total	401,238	75,344	476,582	(57,945)	418,637
Operating expenses	402,436	74,027	476,463	(55,645)	420,818
Operating income (loss)	¥ (1,198)	¥ 1,317	¥ 119	¥ (2,300)	¥ (2,181)
2. Total assets	¥665,518	¥67,453	¥732,971	¥(36,619)	¥696,352

Notes: 1. For the reporting of geographical segment information, net sales and operating income (loss) are separated based on the location of the Company and its subsidiaries. Assets are separated by geographic location.
2. Other regions comprise primarily Taiwan, the United States of America and Korea.

(3) Major customer information

Net sales to external customers that represent 10 percent or more of the company's total net sales are as follows:

Name of customer	Related reportable segment	Millions of yen 2011	Thousands of U.S. dollars 2011
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD/PV production equipment	**¥101,074**	**$1,215,562**

Note: The amounts include sales to the customer and its subsidiaries.

18. Subsequent Event

Grant of Stock Options under the Stock Options Plans

On May 13, 2011, the Company's board of directors decided to submit a resolution to the shareholders' meeting for approval of the issuance of stock subscription rights to directors and selected employees of Tokyo Electron. The issuance of stock subscription rights is intended to enable the grant of stock options. Under these stock option plans, options to purchase up to 105,900 shares of the Company at an exercise price of ¥1 ($0.01), will be granted to directors of the Company as of March 31, 2011 (excluding outside directors and directors who resigned on June 17, 2011), and options to purchase up to 140,000 shares of the Company at an exercise price of ¥1 ($0.01), will be granted to certain executive officers of the Company as of March 31, 2011, certain directors of the Company who resigned on June 17, 2011, certain directors and executive officers of domestic subsidiaries and certain chairmen, presidents, and vice chairmen of overseas subsidiaries as of March 31, 2011, who was determined by a resolution at a board of directors meeting subsequent to the approval of grant at the general meeting of shareholders. This grant of stock options was approved at the general meeting of the shareholders of the Company on June 17, 2011.