



# Annual Report 2012

For the Year Ended March 31, 2012

**50** Years

Tokyo Electron marks the 50th year of its founding on November 11, 2012.

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### Disclaimer Regarding Forward-looking Statements

Matters discussed in this annual report, including forecasts of future business performance of Tokyo Electron, management strategies, beliefs and other statements are based on Tokyo Electron's assumptions in light of information that is currently available. These forward-looking statements involve known or unknown risks, uncertainties and other factors that could cause actual results to differ materially from those referred to in the forward-looking statements.

Factors that have a direct or indirect impact on Tokyo Electron's future performance include, but are not limited to:

- Economic circumstances in Japan and overseas, consumption trends, and large fluctuations in foreign exchange rates
- Changes in semiconductor/FPD/PV markets
- Changes in the demand for products and services manufactured or offered by Tokyo Electron's customers, such as semiconductor manufacturers, FPD manufacturers, photovoltaic cell manufacturers and electronics makers
- Tokyo Electron's capabilities to continue to develop and provide products and services that respond to rapid technology innovation and changing customer needs in a timely manner

For details, please refer to Business-related and Other Risks on page 22.

## PROFILE

Tokyo Electron Limited (TEL) is a world-leading supplier of semiconductor production equipment (SPE) and flat panel display (FPD) production equipment. We provide a broad lineup of products that offer superior process performance and high productivity and related services to semiconductor and LCD panel manufacturers around the world. Additionally, photovoltaic cell (PV) production equipment has been in the product lineup since 2009.

An unwavering commitment to customer satisfaction that dates back to our founding in 1963 has cemented our position as a market leader. Our competitive strength lies in our capability to proactively and precisely identify real customer needs and respond to them with cutting-edge technology and products.

With a global network that spans Japan, the U.S., Europe and Asia, we are opening up new frontiers for digital networks by contributing to enhancing our customers' production lines through untiring dedication to technology innovation.

### Guide to Buttons

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Highlights

■ CONSOLIDATED FINANCIAL HIGHLIGHTS

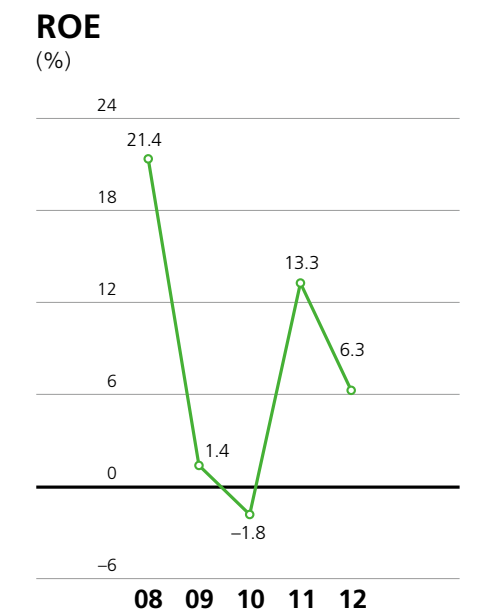
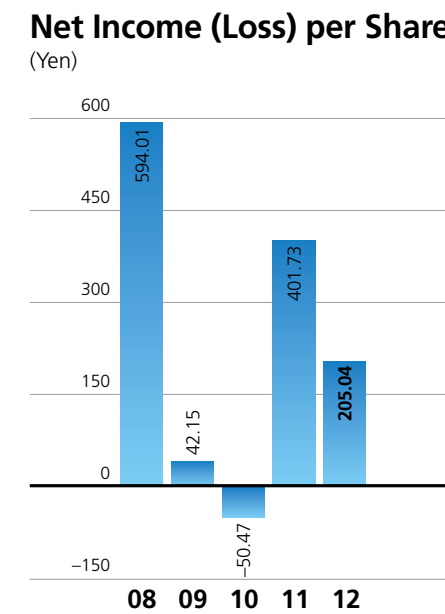
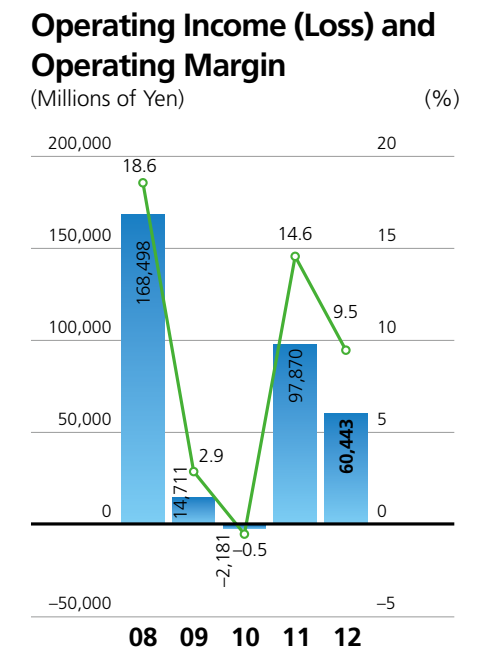
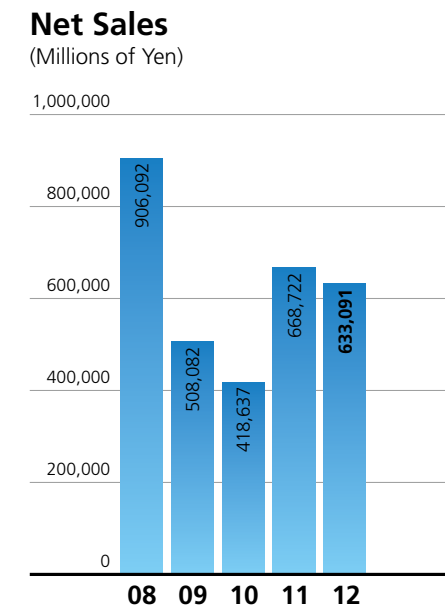
CONSOLIDATED FINANCIAL HIGHLIGHTS

Years ended March 31	Millions of yen					Thousands of U.S. dollars	
	2008	2009	2010	2011	2012	2012	
<b>For the year:</b>							
Net sales .....	¥906,092	¥508,082	¥418,637	¥668,722	<b>¥633,091</b>	<b>\$7,702,774</b>	
Operating income (loss).....	168,498	14,711	(2,181)	97,870	<b>60,443</b>	<b>735,406</b>	
Income (loss) before income taxes....	169,220	9,637	(7,768)	99,579	<b>60,602</b>	<b>737,340</b>	
Net income (loss).....	106,271	7,543	(9,033)	71,924	<b>36,726</b>	<b>446,843</b>	
Depreciation and amortization.....	21,413	23,068	20,002	17,707	<b>24,198</b>	<b>294,415</b>	
Capital expenditures.....	22,703	18,108	14,919	39,140	<b>39,541</b>	<b>481,093</b>	
R&D expenses .....	66,073	60,988	54,074	70,568	<b>81,506</b>	<b>991,678</b>	
Operating margin.....	18.6%	2.9%	(0.5)%	14.6%	<b>9.5%</b>		
ROE.....	21.4%	1.4%	(1.8)%	13.3%	<b>6.3%</b>		

At year-end:	Millions of yen					Thousands of U.S. dollars	
	Total assets.....	¥792,818	¥668,998	¥696,352	¥809,205	<b>¥783,611</b>	<b>\$9,534,140</b>
Total net assets (Total shareholders' equity) .....	545,245	529,265	523,370	584,802	<b>598,603</b>	<b>7,283,161</b>	

Per share:	Yen					U.S. dollars	
	Net income (loss)—Basic.....	¥ 594.01	¥ 42.15	¥ (50.47)	¥ 401.73	<b>¥ 205.04</b>	<b>\$ 2.49</b>
Cash dividends .....	125.00	24.00	12.00	114.00	<b>80.00</b>	<b>0.97</b>	

Notes: 1. U.S. dollar amounts are translated from yen, solely for convenience, at the prevailing exchange rate on March 31, 2012 of ¥82.19=U.S.\$1.  
 2. Depreciation and amortization does not include amortization and loss on impairment of goodwill.





## TO OUR STAKEHOLDERS



**Tetsuro Higashi,**  
Chairman of the Board

**Hiroshi Takenaka,**  
President & CEO

In fiscal 2012, the year ended March 31, 2012, the economic environment surrounding Japan saw a year of increasingly severe and even chaotic conditions. The environment was characterized by the effects of the massive floods in Thailand, the yen's prolonged and historic appreciation, and the European financial market risk, in addition to the impact of the Great East Japan Earthquake. In the electronics industry, where Tokyo Electron operates, even the largest Japanese companies faced extremely severe conditions, as reported on a daily basis in the media.

In this environment, Tokyo Electron finished fiscal 2012 with net sales of ¥633.1 billion, operating income of ¥60.4 billion and net income of ¥36.7 billion, despite some impact due to tax code reforms and other factors. This performance was only possible with the support of our customers and all other stakeholders. Accordingly, we wish to take this opportunity to express our heartfelt gratitude for your continued support.

Smartphones and tablets have come to the forefront at blinding speed. Indeed, we are currently standing on the threshold of the mobile device era. Dramatic growth in shipment volume of these types of mobile devices should continue going forward, fueled by an expanding base of purchasers in emerging economies, along with further market penetration in developed countries. These IT devices, which exchange immense amounts of data, will require even higher performing semiconductors than before. This evolution in semiconductors will be made possible by technological innovation in semiconductor production equipment (SPE). Though the market for SPE is subject to the short-term impact of the silicon cycle and macro-economic factors, the market is tipped for sustained growth as it undergoes repeated cycles of technological innovation in support of the evolution of semiconductors and tremendous volume-based expansion. In this dynamic market, Tokyo Electron will continue to fulfill its role of supporting the very foundations of the mobile device era by providing outstanding products and technologies that our customers demand.

Based on its medium- and long-term vision, Tokyo Electron has positioned the past 2 years as a period for laying the foundations of business growth for the next 5 to 10 years down the road. Accordingly, we have made high levels of investment in growth. R&D expenses have been allocated not only to strengthening our existing mainstay SPE business, but also to building new businesses that fully harness our core SPE technology. Examples include 3DI packaging, which has been spotlighted as an advanced wafer level packaging technology; production equipment for OLED displays, which are emerging as the next-generation of flat panel displays (FPD); and production equipment for thin-film silicon photovoltaic cells, which we consider to be an optimal environmentally friendly energy technology for megasolar power generation. We will make every effort to nurture these new fields into future growth drivers that take Tokyo Electron to an even higher level in the near future.

Tokyo Electron will mark the 50th year of its founding in November. The semiconductor industry is a unique and exceptional sector in which growth continues to be driven today by repeated cycles of technological innovation even after more than half a century has passed since the invention of the semiconductor. In this industry, as it remains a global leader in semiconductor production equipment, Tokyo Electron aspires not only to help achieve the betterment of people's lives, but also to make a contribution to the global environment through technology. To realize this vision, we believe that it is crucial for management and employees to come together and share this common mission, while making Tokyo Electron a company brimming with aspirations and vitality that we can all be more proud of. At the same time, we will continue to take a diligent approach to management in order to make Tokyo Electron an even more attractive, high-value company for all of our stakeholders. We look forward to your continued understanding and support as we endeavor to reach these goals.

**Tetsuro Higashi,** Chairman of the Board

**Hiroshi Takenaka,** President & CEO

INTERVIEW WITH THE CEO



**Hiroshi Takenaka,**  
President & CEO

In relation to capital investments for the future, we established three new manufacturing and development sites, namely the new Miyagi plant for strengthening the etch system business; the new Kunshan plant in China to address the country's expanding demand for flat panels through localization; and the TEL Technology Center Tsukuba, to enhance basic R&D activities and promote the commercialization of photovoltaic cell (PV) production equipment. In another development, in April 2012 we established TEL Technology Center Korea, in the city of Hwaseong, South Korea, with the view to strengthen business operations in South Korea's booming semiconductor market. In this manner, we invested in the future according to each of our intended objectives.

In addition, we announced two acquisitions. We have often said that the source of Tokyo Electron's growth lies in technological innovation. We believe that acquisitions fall into three categories. The first is acquisitions to strengthen existing businesses. The second is acquisitions to expand related businesses. Finally, the third is acquisitions to enter new businesses. In every category, Tokyo Electron seeks to create high-value businesses by incorporating technologies it does not have, and fusing them with its own technologies. The latest acquisitions are intended to enhance our range of products in the semiconductor advanced packaging field, which has a high growth rate, and to enter the thin-film silicon PV production equipment field, where we can harness the technologies Tokyo Electron has developed over the years.

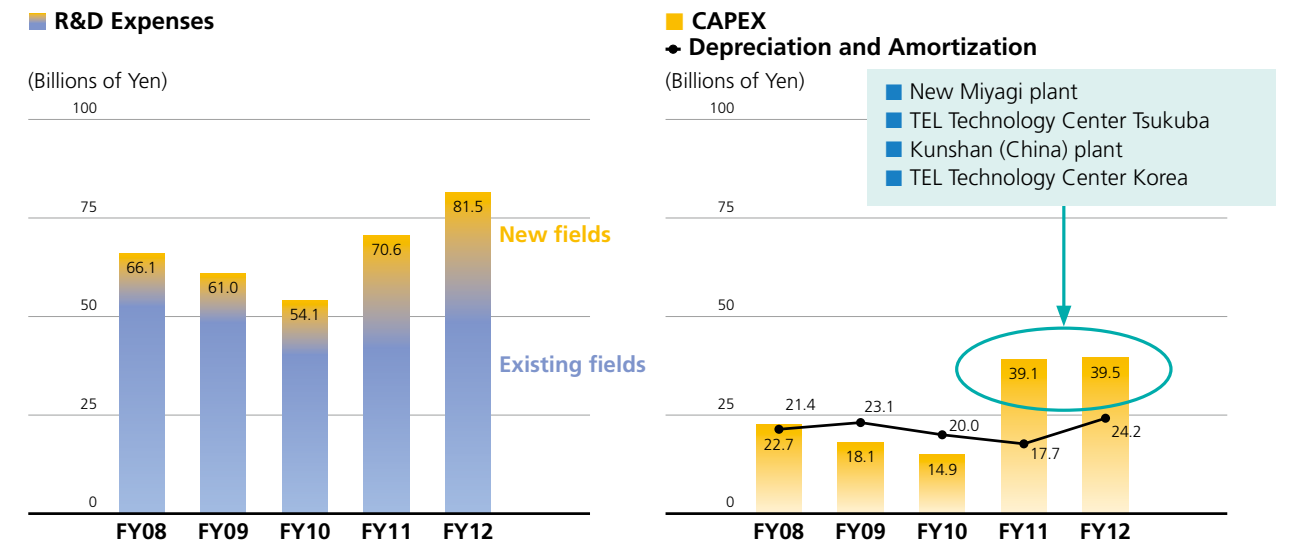
**Q** What progress did you make on the management front in fiscal 2012?

**A** The business environment surrounding Tokyo Electron was extremely severe over the past year, mainly due to the Great East Japan Earthquake that struck in March 2011, as well as the yen's rapid appreciation to historic levels and a downturn in final electronics products due to the impact of the flooding in Thailand. In this environment, Tokyo Electron managed to minimize the impact of the Great East Japan Earthquake through concerted efforts by the entire company to restore operations in the aftermath of the earthquake. Nonetheless, overall net sales decreased by around 5% year over year.

Meanwhile, as in the previous fiscal year, we executed sizable growth investments in preparation for future growth. In fact, we allocated R&D expenses of ¥81.5 billion in fiscal 2012, which was an all-time high. We have started to see the positive results of these outlays gradually become apparent, including improved positions in focused areas like the markets for etch systems and cleaning systems. Fiscal 2012 was also a year that saw us make steady progress in several new business fields.

**Capital Investments For Medium-term Growth**

Over the last 2 years, Tokyo Electron has allocated high levels of R&D expenses and made sizable capital investments, aiming at future growth.





INTERVIEW WITH THE CEO

**Q** The market for semiconductor production equipment (SPE) seems to have struggled to grow since the global financial crisis erupted three years ago. What is your outlook for the industry?

**A** The semiconductor market has already seen fierce borderless competition for many years. A glance at recent newspapers shows that the Japanese electronics industry in particular has struggled to cope with intensified global competition. Looking around the world, demand for final electronics products still remains weak due to the lingering impact of the global financial crisis.

However, semiconductors are finding growing uses in devices that process massive amounts of data exchanged over the Internet, including PCs and smartphones, as well as servers. More semiconductors are also being used in numerous digital home appliances, as well as in automobiles and medical equipment. Considering these factors, along with accelerated growth in the supply of these products to emerging countries, we believe that growth in demand for semiconductors and related technological advances will still continue indefinitely into the future. Indeed, the arrival of the mobile computing era heralds the beginning of the second major growth phase of semiconductors.

The evolution of semiconductors will be supported by unlimited technological innovation in semiconductor production equipment, our technology. We have reconfirmed the importance of this fact.

**Q** What changes have taken place in the business environment surrounding Tokyo Electron? How will you respond to these changes and how will you convert them into business opportunities?

**A** Tokyo Electron's overseas sales ratio for SPE has now reached nearly 85%. There has also been an increasingly prominent trend for only a few major customers to make very large investments.

In response to these changes in the business environment, Tokyo Electron has conducted its most important R&D activities in close proximity to global semiconductor manufacturers. We have established cutting-edge process-technology centers in the U.S., South Korea and Taiwan, in addition to Japan. These centers allow us to work closely with customers in their semiconductor development from an early stage. Efforts are focused on embodying customers' real needs in the next generation production equipment as early as possible.

Meanwhile, our basic approach is to conduct manufacturing primarily in Japan in order to take full advantage of the country's strong manufacturing capabilities. However, we are expanding procurement of parts and materials to the rest of Asia, in order to leverage the yen's recent appreciation, in an effort to improve the overseas procurement ratio. In the SPE business, we will work to strengthen Tokyo Electron's position and enhance profitability through these types of development and manufacturing strategies.

In the flat panel display (FPD) production equipment business, the market has now arrived at a major turning point. There has been a large drop in the prices of large LCD TVs at mass home appliance retailers. Because of the commoditization of LCD panels, FPD production equipment has also faced fierce price-based competition from emerging Asia-based players. In response, Tokyo Electron will maintain its competitive edge in the market by building manufacturing infrastructure in China, which has enormous untapped demand for panels, while striving to improve its cost structure. Furthermore, we are eyeing the full-scale emergence of the market for OLED TVs around 2015. OLED TVs promise to rival LCD TVs as the new generation of TVs. Accordingly, Tokyo Electron will accelerate the confirmation of the commercial viability of OLED display production equipment for large panels, and launch this business as early as possible.

**Expanding Our Global Development Network**

We use our development network linked to our major customers throughout the world to speedily create the products that they demand.



**INTERVIEW WITH THE CEO**

**Q** Could you please go into a little more detail on your new businesses?

**A** Tokyo Electron has executed high levels of R&D and capital investment over the past two years, and has recently announced two corporate acquisitions. In addition to strengthening existing businesses, these measures are aimed at creating new growth drivers for Tokyo Electron.

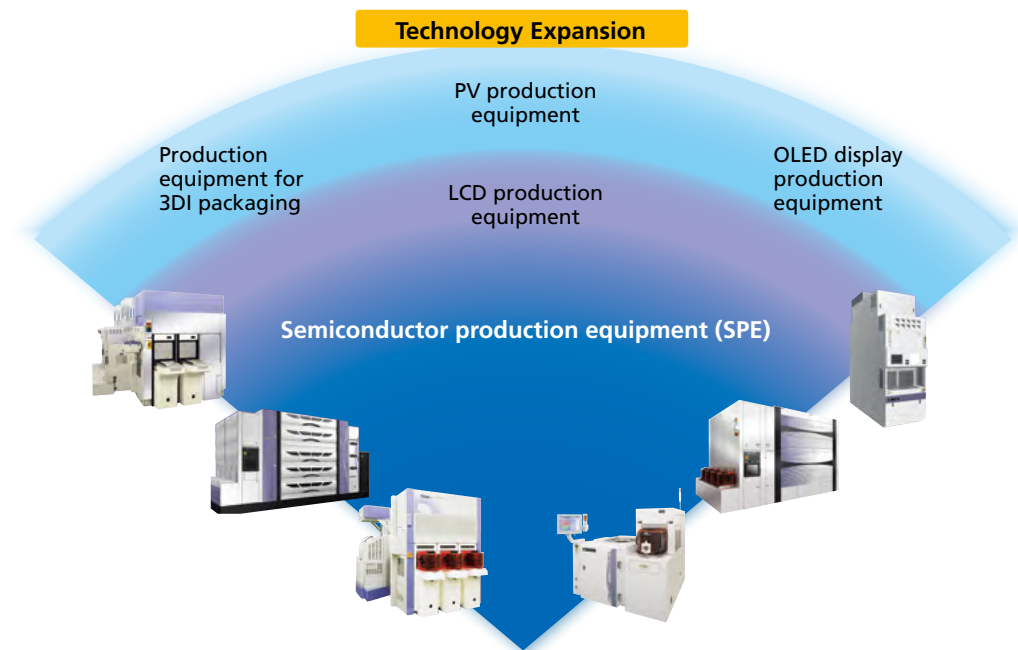
These growth drivers include new products based on new plasma technology that uses a radial line slot antenna; 3DI packaging technology in the wafer level packaging field; next-generation test systems; OLED display production equipment; and thin-film silicon PV production equipment. If these growth drivers become viable, Tokyo Electron will create new businesses worth between ¥100 billion and ¥200 billion combined.

Elsewhere, while miniaturization is becoming more and more difficult for memory chips, the era of STT-MRAM, a promising candidate for the next generation of memory, is drawing near. Eyeing the development of this revolutionary new device, Tokyo Electron has teamed up with Tohoku University, which possesses the world's most advanced technology in this field. Under this partnership, Tokyo Electron will take on the challenge of developing high volume production technology for these devices as a production equipment manufacturer.

If new business fields emerge, and STT-MRAM devices are successfully introduced in the market as well, we expect they will allow us to establish new growth drivers alongside our existing core SPE products.

**Developing Businesses in New Fields**

We are targeting business expansion by entering new business fields where we can take full advantage of our core SPE Technology.



**Q** Tokyo Electron has transformed itself into an enterprise that can generate stable cash flow. What is your policy on returning profits to shareholders and using cash?

**A** The year before last, we raised the performance-linked dividend payout ratio target from 20% to 35%, as part of our effort to increase returns to shareholders. In addition, as Tokyo Electron marks the 50th year of its founding, we plan to pay a commemorative dividend of ¥20 per share, expressing our appreciation for the continued support of shareholders.

However, we believe that our shareholders' strongest expectations for Tokyo Electron are for us to enhance its corporate value by achieving growth. Therefore, we intend to continue using surplus funds primarily to invest in technology development, as well as for other growth investments including corporate acquisitions.

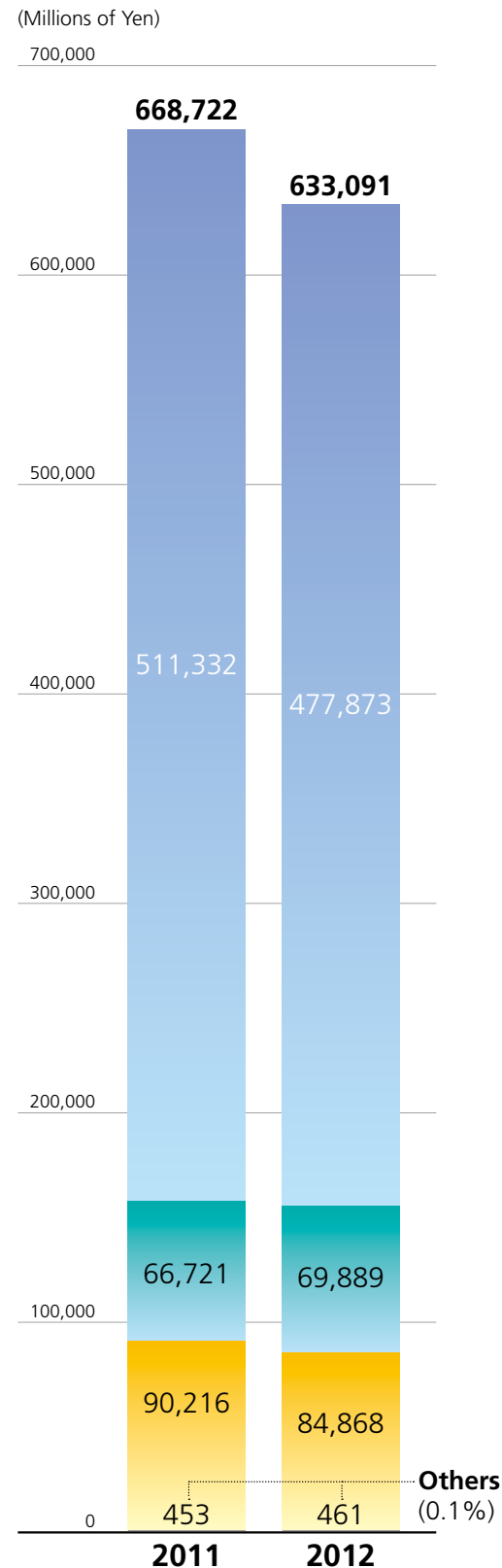
At the same time, we will undertake appropriate considerations for stock buybacks depending on situations. While remaining consciously aware about the need both to drive sales and earnings growth and improve ROE, management will continue to provide the leadership needed to enhance Tokyo Electron's corporate value.

Segment Information

TOKYO ELECTRON AT A GLANCE

TOKYO ELECTRON AT A GLANCE

Consolidated Net Sales



Summary of Business

Semiconductor Production Equipment

Semiconductor devices (IC chips) are the key components of smartphones, tablets and other digital products. Tokyo Electron offers a wide range of equipment for producing these devices, along with superior technical support and service.

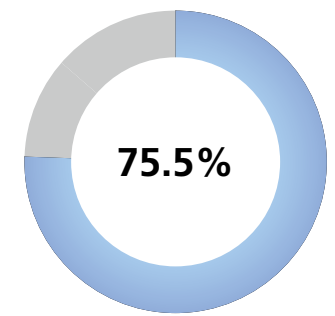
The product lineup comprises six product groups: coaters/developers, plasma etch systems, thermal processing systems, single wafer deposition systems, cleaning systems used in wafer processes, and wafer probers used in the wafer testing process. Moreover, Tokyo Electron is expanding the product lineup for advanced packaging processes, including equipment used for through-silicon via (TSV) processes.

Main Products

- **Coater/Developer**
- **Plasma Etch System**  
Dielectric Etch System, Silicon Etch System
- **Thermal Processing System**
- **Single Wafer Deposition System**  
CVD System, Plasma Processing System

- **Cleaning System**  
Auto Wet Station, Single Wafer Cleaning System, Pre-clean System, Scrubber System
- **Wafer Prober**

Share of Net Sales



Summary of Business

FPD/PV Production Equipment

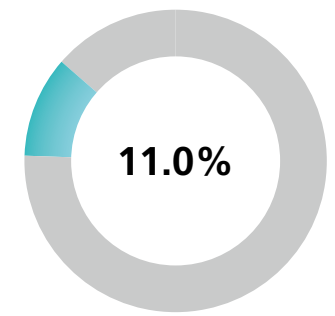
Tokyo Electron supplies flat panel display (FPD) production equipment used to manufacture displays for PCs, LCD TVs and other electronic devices, along with solid technical support and service.

The product lineup includes FPD coater/developer and plasma etch/ash system. Photovoltaic cells (PV) are in the spotlight these days as an environmentally friendly form of clean energy. In FY2009, Tokyo Electron added PV production equipment as a new field of operations.

Main Products

- **FPD Coater/Developer**
- **FPD Plasma Etch/Ash System**
- **Plasma CVD System for Thin-film Silicon PV Cells**
- **End-to-end Thin-film Silicon PV Solutions** (as Swiss company Oerlikon Solar's exclusive representative for the Asia/Oceania region)

Share of Net Sales



Summary of Business

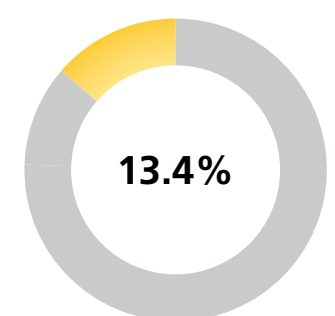
Electronic Components and Computer Networks

Tokyo Electron has developed a new type of dual model for this business: the trading business handles sales, in which it acts as a distributor of a wide array of sophisticated electronic components and computer network equipment, while the development business designs and develops products in response to customer needs, as well as our own in-house brand products. Business operations for this segment are handled by Tokyo Electron Device Limited.

Main Products

- **Semiconductor Products**
- **Other Electronic Components**
- **Computer Networks**
- **Software**

Share of Net Sales



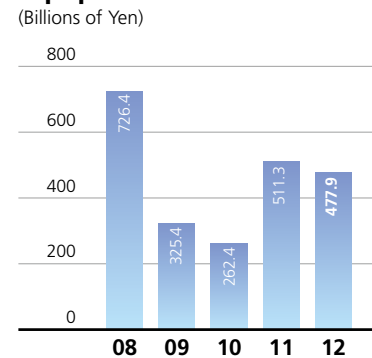


## REVIEW OF OPERATIONS

### Overview of FY2012

#### Semiconductor Production Equipment

##### Semiconductor Production Equipment Sales



In the fiscal year ended March 31, 2012, the global economy was characterized by slowing growth, mostly in advanced economies, amid a clouded outlook over the future stemming primarily from the financial crises in Europe. In the second half of the fiscal year, however, signs of a mild recovery emerged primarily in the U.S. economy. The manufacture of logic chips that meet lower power consumption and higher telecommunication standards was robust, driven by strong demand for advanced mobile devices such as smartphones and tablets. Meanwhile as for DRAM manufacturing, production adjustments were carried out due to the slowing growth of PC sales.

Net sales in the segment declined 6.5% year on year to ¥477.9 billion, as logic chips manufacturers' robust investments in scaling, or miniaturization, was outweighed by the cutbacks in investment carried out by memory manufacturers.

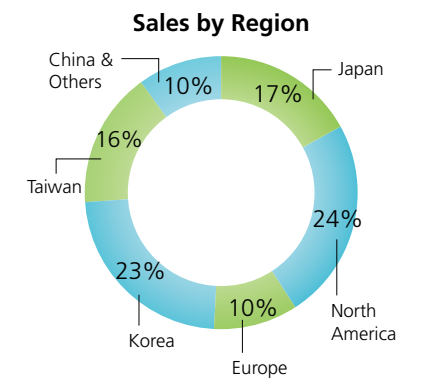
By region, while there were year-on-year sales increases of 73% in Europe, 24% in South Korea, and 12% in the United States, sales declined in all other regions. There was an especially large decline in Taiwan, a 50% down, due to sluggish capital investment by DRAM manufacturers.

### Business Outlook

There is need for enormous quantities of IC chips as well as technological innovation for higher density, higher speed and lower power consumption in IC chips because of the spread of mobile devices including smartphones and tablets, and the expansion of data communication volumes accompanying the spread of cloud computing. Semiconductor production equipment will play an increasingly important role in the realization of this quantitative expansion of IC chips and further technological innovation, and this importance will continue to drive semiconductor capital investment.

Tokyo Electron will focus effort on the comprehensive strengthening of existing products and the launching of new businesses to link these market and technology trends to business expansion. In existing products, Tokyo Electron will continue to introduce high productivity models of coater/developers and thermal processing systems, products in which the Company possesses solid strengths. The company will seek sales growth from etch systems and cleaning systems, products that are targeted for reinforcement, by increasing customer recognition of the technological superiority of Tokyo Electron products through customer evaluations. In addition, the Company will develop strategies that link expansion of the served available market (SAM) to increased sales of single wafer deposition systems by entering into the new product area for logic chips, and the introduction of new testing products that meet the customer need to reduce test costs.

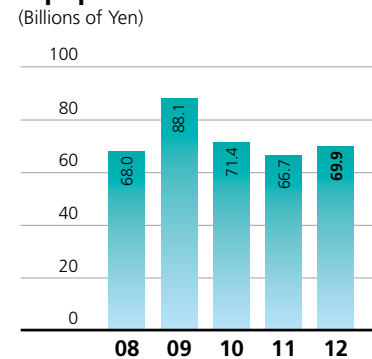
In new business fields, Tokyo Electron will expand the product line in the wafer-level packaging sector, where high growth is expected, above all in 3DI packaging technologies. In May 2012 the Company acquired and integrated NEXX Systems of the U.S., which owns technologies related to this field.



### Overview of FY2012

#### FPD/PV Production Equipment

##### FPD/PV Production Equipment Sales



While demand for small- and medium-sized LCD panels used in smartphones and tablets was robust, the market for large LCD panels used in TVs slumped as global shipments of TVs declined year-on-year for the first time ever. Investments by flat panel manufacturers mirrored this trend, focusing on the small- and medium-sized LCD production equipment for advanced mobile electronics. In the photovoltaic cell (PV) production equipment business, while the PV market continued to grow, the market environment became severe as panel prices continued to plunge amid a worsened supply-demand balance, which forced many PV-related companies to exit the business.

Net sales in the segment rose 4.7% year-on-year to ¥69.9 billion. FPD production equipment sales were slightly down compared with the previous year, while sales of PV production equipment increased.

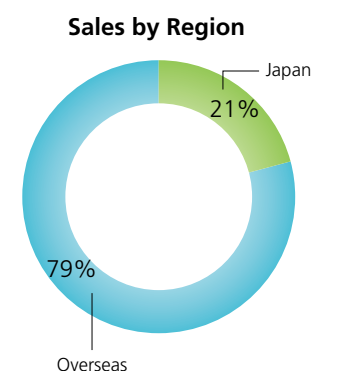
### Business Outlook

The market for small and medium-sized high-definition displays incorporated in smartphones, tablets, and other mobile products is growing.

The use of low-temperature polysilicon (LTPS) or indium gallium zinc oxide (IGZO) instead of conventional amorphous silicon in thin-film transistor (TFT) processes is becoming prevalent. In addition, high-definition, low-power-consumption organic light-emitting diode (OLED) displays have already been practically applied in mobile devices as post-liquid crystal display (LCD), and development toward production of large OLED displays for televisions has been accelerating.

As this technology innovation advances, Tokyo Electron will aim for business growth through the launch of competitive products adapted to new TFT processes and the introduction of production equipment for OLEDs, which will mark the Company's entry into new product areas. In addition, amid intensification of competition, the Company will pursue greater efficiency in operation to reduce costs.

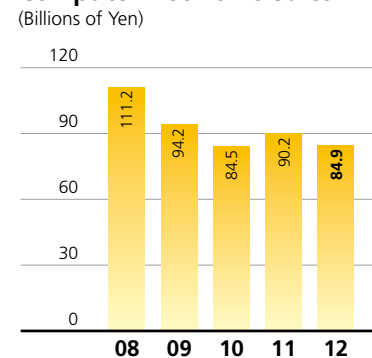
In the PV business, Tokyo Electron will focus on thin-film silicon production technology, which is considered optimal for large-scale power generation. This technology brings down the electricity cost. The Company believes a large market will form over the medium to long term provided high conversion efficiency is realized. The Company will concentrate R&D for PV production equipment at the TEL Technology Center Tsukuba, a facility opened in Ibaraki Prefecture in the spring of 2012, and aim for an early business start-up.



### Overview of FY2012

#### Electronic Components and Computer Networks\*

##### Electronic Components and Computer Networks Sales



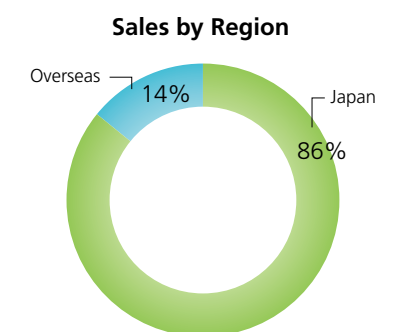
In the Japanese electronic components market during the fiscal year ended March 31, 2012, while the market for smartphones and other mobile devices expanded steadily, demand slumped for digital household electronics, particularly TVs. In terms of IT investment, there were signs of a gradual recovery, with expanded investment in cloud computing and other areas amid a growing awareness of the benefits of IT to support corporate and social activities.

Net sales in the segment declined 5.9% to ¥84.9 billion. In the electronic components business, while sales of semiconductors used in communications equipment such as mobile phone base stations were robust, sales of semiconductors both for consumer and industrial electronics products slumped. In the computer networks business, sales of equipment, primarily storage, and maintenance services were strong on increased corporate demand for cloud computing and a greater use of data centers.

### Business Outlook

In the electronic components business, market growth in the Asia region is expected to continue. In the computer networks business, the use of data centers is expected to increase reflecting the further spread of cloud computing.

With these market trends in mind, Tokyo Electron will expand sales in the Asia Region. The measures to do this include sales expansion to the overseas subsidiaries of Japanese companies located in the Asia region, and sales promotion to overseas customers of newly acquired trade rights and the Company's own products under the inrevium™ brand. The Company will also undertake high growth in the IT market through providing optimal solutions: for instance, the introduction of high-value-added new products for cloud computing and data centers.



FEATURE 1

# Management Talks About Manufacturing, Core SPE and New Growth Drivers



**Hirofumi Kitayama**  
*Representative Director*

When pursuing costs, we should not overly focus on direct costs and neglect to see the mechanism of production and quality.



**Hikaru Ito**  
*Corporate Director*

In fiscal 2012, the SPE division was able to gain a foothold to further raise our position in coming years in our focus areas.



**Kenji Washino**  
*Corporate Director*

We are challenging ourselves to create new growth drivers which draw on our SPE strengths and lead to the establishment of differentiated technologies.



## Manufacturing as a Platform for Maximizing Customer Value

**Hirofumi Kitayama**  
*Representative Director,  
Executive V.P. and General Manager,  
Manufacturing Division (Quality)*

We have set ourselves the challenge to “become the world’s top semiconductor production equipment manufacturer.” As part of our plan to achieve that goal, we began operations at the Tokyo Electron Miyagi new plant in Japan in October 2011. This new plant unifies all the processes behind etch systems, from development to product manufacturing. The plant’s mission is to use this unified structure to deliver products with even higher value to customers on a timely basis. We will shorten the product development time, enhance product quality from the development stage, and improve productivity by completely eliminating wasted time, communication, and costs. What we challenge with flow-line manufacturing introduced at this new plant is “production innovation” through visualization.

In March 2012, Tokyo Electron (Kunshan) Limited began operating its plant in Kunshan, China. Initially, the plant is engaged in the repair of parts used in FPD plasma etch systems. It successfully shipped its first products to customers at the end of April. Through the challenge to manufacture FPD etch systems at a cost that meets market expectations, we seek to build a manufacturing base in the area where demand for digital consumer electronics is expected to grow significantly.

From the customers’ perspective, our value lies in products backed by unsurpassed technology and product manufacturing supported by a cost structure consistent with market

expectations. The new plants in Miyagi and China put this concept of value into practice.

Other issues which we must always keep in mind are the provision of fast, high-quality services delivered close to the customer, exchange rate fluctuations, BCP, and the national policies of the countries in which we operate. To deal with these issues, we are promoting localization and global procurement initiatives aimed at ensuring our costs are in line with market expectations.

Through our sourcing in Taiwan, Korea, and China, we have gradually grasped the characteristics of the cost and quality of goods in each region. Important things are, we have to fully leverage these characteristics, and at the same time we have to value the good faith and trusting relationships with new local partner companies as well as established partner companies. When pursuing costs, we should not overly focus on direct costs and neglect to see the mechanism of production and quality. Paradoxically, by utilizing global sourcing, the Japanese art of manufacturing can continue to find value through thoroughly examining indirect costs for all processes and slimming them down.

With our 50th anniversary approaching, we will spare no effort to advance product manufacturing based on our enduring desire to maximize customer value.

### Operations Start at New Production Base for Etch Systems



Tokyo Electron Miyagi Limited

The new Miyagi Plant integrates development and manufacturing as well as using a new production system, thereby improving quality and increasing productivity.

### Operations Start at New Kunshan Plant in China



Tokyo Electron (Kunshan) Limited

We have built a manufacturing base for FPD production equipment in China which is expected to become a center for flat panel display manufacturing, aiming to reduce costs and quickly respond to customers



Feature

■ FEATURE 1 |

FEATURE 1



## Actively Introducing New Products to Achieve Growth That Outpaces Market Expansion

**Hikaru Ito**  
Corporate Director,  
Executive V.P. and General Manager,  
SPE

After the global financial crisis of 2008, two major changes in trends have been occurring in the semiconductor production equipment (SPE) market. One is an increase in the ratio of investment for logic devices. The other is a decrease in the number of semiconductor manufacturers who are able to make large capital investments: in other words, advancement of so-called "oligopolization." In response to these changes, the SPE Division has upgraded and expanded the line of products for logic devices and strengthened the sales organization.

In fiscal 2012, in particular, we gained a foothold for further increasing our position in the coming years in the fields of etch and clean, our focus areas. These two products achieved market share gains, and in addition, succeeded in getting approvals from major customers as their next-generation volume production equipment.

At the same time, the year brought considerable accomplishments in product development. A notable example is Atomic Layer Deposition (ALD), a new deposition process that is

expected to be an essential technology for the manufacturing of next-generation devices. Tokyo Electron succeeded in developing and commercializing a semi-batch ALD system for this process. In addition, in coaters/developers, an area in which Tokyo Electron has dominant market share, the Company began full-scale market introduction of a new model for 20nm node following favorable evaluations from customers.

Looking ahead, Tokyo Electron will aim for further expansion of the SPE business by boosting competitiveness in etch systems, cleaning systems, and the field solutions business while solidifying its position for products with high market share through active introduction of new products.

To that end, we will continue to develop products and technologies unavailable from competitors, as exemplified by new plasma technology that uses a radial line slot antenna, and to nurture and develop human resources all around the world who can provide the best solutions by matching such technologies to customer needs.

Expand Sales with Differentiated New Products



**Plasma Etch System**  
Tactras™ RLSA™ Etch

High-density low-damage silicon etcher. Its strength lies in critical processes such as transistor formation.



**Single Wafer Cleaning System**  
CELLESTA™ -i

This system boasts max. 1,000 wafers/hour, the highest in the industry. It responds to various cleaning requirements accompanying miniaturization.



**ALD SiO2 System**  
NT333™

A semi-batch ALD system that uses a different concept from conventional ones. It simultaneously realizes high quality and high productivity.



## Seizing Opportunities to Achieve Our Growth Strategy

**Kenji Washino**  
Corporate Director,  
Executive V.P. and General Manager,  
Corporate Business Strategy/Organic EL/  
FPD/PVE

In recent years, the amount of IP traffic being sent over the Internet has exploded, as GPS, sensor data and other types of data are being transmitted to servers, in addition to computer data. By 2015, the amount of data transmitted is forecasted to be more than double compared to today. We are also seeing smartphones, tablets, and other mobile products drive the growth in the electronics industry, as consumers demand products that are faster, more energy efficient, and thinner.

To meet the era's needs, we are expanding our products for wafer-level packaging (WLP) which promises strong future growth, as well as strengthening our existing products for front-end wafer processing. Ranging from our Etch system and CVD system to the recent additions of wafer bonder/debonder, our product lineup for through-silicon via (TSV) processes is winning high appreciation from our customers. In May 2012, we bolstered our presence in the WLP market with the acquisition of NEXX Systems, a U.S. company with an established reputation for electrochemical deposition and PVD technology. We will maximize synergies between our existing product lines to aggressively expand this business.

In the display fields, organic light-emitting diode (OLED) displays continue to draw attention for their high resolution and energy efficiency. We are collaborating with Seiko Epson Corporation on the development of a coating system using an inkjet method, while developing an evaporation system using our own proprietary technology.

This two-pronged approach will enable us to take advantage of the opportunities offered by the revolutionary shift in our markets, and also meet customer needs with the optimal approach.

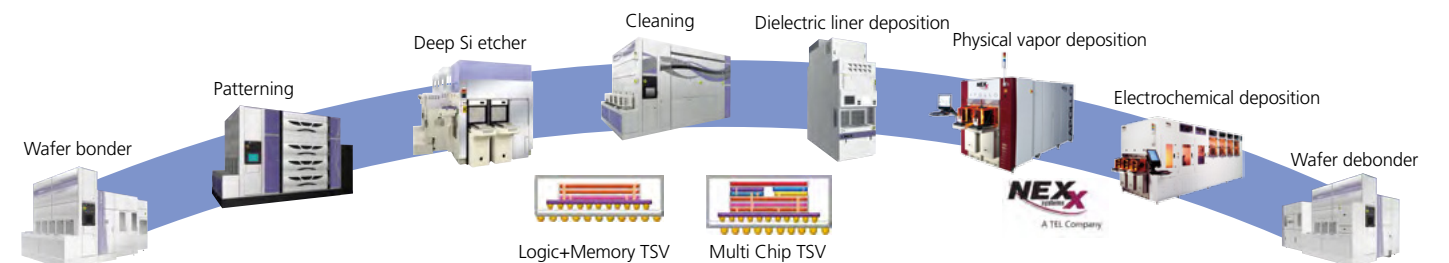
In the belief that one of our missions is to address environmental issues through our technology, we are enhancing the photovoltaic cell (PV) production equipment business. We are accelerating the development of the equipment for thin-film silicon technology as we expect it to be the most suitable for large-scale power generation and to have high growth potential from the medium to long term perspective.

Amid a market where the pace of innovation is accelerating and sophisticated solutions are demanded, there are three priorities for product development: planning capabilities to accurately grasp customer needs; capabilities to move quickly by taking ideas from R&D to commercialization in a short time period; and product technology and service capabilities. To hone these three capabilities, we need to consider collaborations and tie-ups with companies outside our industry to respond flexibly and proactively to market needs without overly relying on our own technology.

In FY2012, Tokyo Electron invested the highest R&D expenses to date of ¥81.5 billion. We will continue to invest in new areas, as well as in our existing core SPE fields, and challenge ourselves to create new businesses which draw on our strengths and lead to the establishment of differentiated technologies.

TEL Products for Advanced Packaging Technology

Expanding our product lineup for advanced packaging technology by purchasing the U.S. company NEXX Systems.



Feature

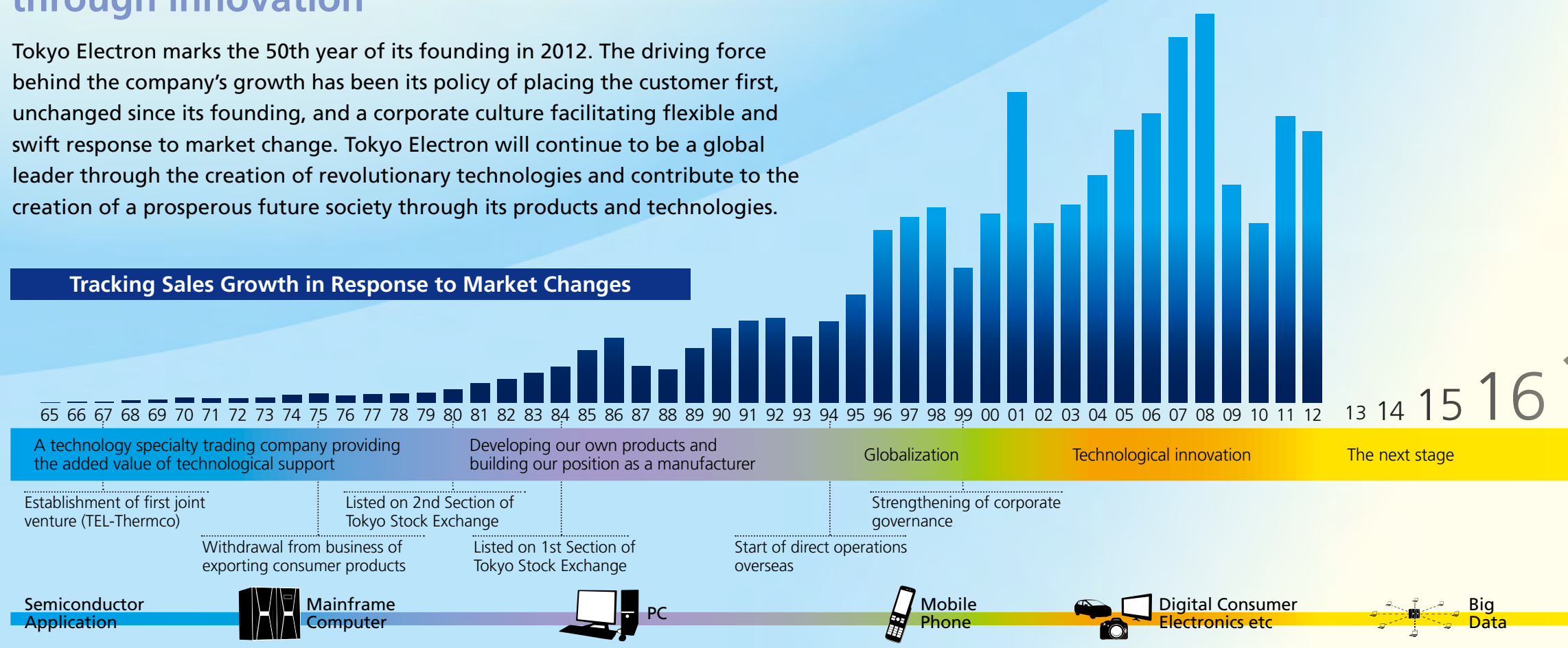
■ FEATURE 2

FEATURE 2

# Tokyo Electron—50 years of untiring progress through innovation

Tokyo Electron marks the 50th year of its founding in 2012. The driving force behind the company's growth has been its policy of placing the customer first, unchanged since its founding, and a corporate culture facilitating flexible and swift response to market change. Tokyo Electron will continue to be a global leader through the creation of revolutionary technologies and contribute to the creation of a prosperous future society through its products and technologies.

## Tracking Sales Growth in Response to Market Changes



### Tokyo Electron 50th Anniversary Logo

Tokyo Electron marks the 50th year of its founding on November 11, 2012.



### "A Company with a Dream for the Future"

This logo mark was developed as a symbol of our commitment to the future as we celebrate the 50th anniversary of Tokyo Electron. It symbolizes our company's concept: "a future with a dream" through a figure in which "people," "cutting edge technology" and "environment and nature" become one and start moving in one circle. We hope our employees will also come together to make contributions to a future society as a single team, using the logo mark in a variety of TEL communication tools and applications.



**Tetsuo Tsuneishi**  
Vice Chairman of the Board

2012 marks an important occasion in the history of Tokyo Electron—the 50th year of our founding. I wish to take this opportunity to thank our shareholders, customers, suppliers, and business partners for the tremendous support and guidance which have made Tokyo Electron the company it is today.

Since our founding, the Company has astonishingly repeatedly changed its business model and operations in the course of evolving to its present form. The driving force behind Tokyo Electron's growth throughout these changes has been a DNA which enables us to respond to market needs and customer demands flexibly, rapidly, and boldly. We started business in 1963 as a technology specialty trading company, and we grew swiftly in the 1970s and 1980s in tandem with the growth and progress of Japan's semiconductor and electronics industry. For a period, we

were a unique company with both trading and manufacturing functions, and then over the past 20 years we powerfully evolved into a world-class production equipment manufacturer alongside the breathtaking growth of the electronics industry.

The key factor behind our growth over the years has been our commitment to placing the customer first—a policy which has rooted the company since its founding. On the basis of this policy, we strive to maximize the added value we provide through our products and technology, and in return we receive a profit connected with that value. The profits we receive are reinvested into the development of cutting-edge technology and high value-added products which can contribute to the growth of the market and industry as well as to a more prosperous life for people. At Tokyo Electron, we recognize that the sustainment of this positive

cycle is the key to our ability to continue our growth into the future. We have fostered an open corporate culture characterized by honesty, fairness, and open-mindedness and sincerity in everything we do. This culture has won us the respect and trust of our customers worldwide and has greatly contributed to our half century of growth.

To enhance our corporate value further, I believe it is important to set our sights on even higher world-class goals and performance standards while demonstrating a technological leadership in our industries. We must also continue to be a vibrant global company with ambitious dreams. I am very confident that the electronics and IT industry, driven by semiconductor technology, will achieve remarkable growth together with technological innovation.



**CORPORATE GOVERNANCE**

**The Assurance of Transparency Generates Dynamism**



**Tetsuro Higashi**  
Chairman of the Board

The business environment in Japan in fiscal 2012 was extremely difficult because of the Great East Japan Earthquake, power shortages stemming from the accident at the Fukushima nuclear power plants, supply chain disruption resulting from the flooding in Thailand, and yen appreciation triggered by the financial crisis in Greece. Nevertheless, as mentioned elsewhere in this annual report, Tokyo Electron was able to make important strategic moves, including commencing operations of a new Miyagi plant, and other new manufacturing and development bases that hold the key to the Company's future growth and market penetration of its new

products. I am deeply grateful for the earnest support and understanding of our shareholders and other stakeholders, which made this progress possible. Many uncertainties continue to weigh on the worldwide economic situation, and the future outlook remains unclear. However, I believe that it is at just such a time that it is critically important for a company to clearly set forth policies and measures for corporate value enhancement from a medium- to long-term perspective, articulate a vision for the future, and maintain and strengthen management transparency and soundness. To that end, the Company must function as a

dynamic organization, with the Board of Directors, the organization entrusted with management of the Company by the shareholders, the executive body, which is responsible for the execution of business, and the individual employees who execute business on the front lines, each brimming with vision and vitality to create a bright future.

It is also essential that communication among these three levels of the organization be prompt and highly transparent. Moreover, the management and business policies generated by these three organizational levels must win wide-ranging acceptance and generate expectations from our customers and society at large.

Dynamic growth can be ensured only when a company enhances the governance I have described above. As a global supplier, the Company should gain the trust and meet the expectations of our shareholders and all other stakeholders worldwide by maintaining and strengthening our highly transparent management activities. In this light, I continue to offer support, encouragement, and advice to the Company's executive body and employees. I look forward to your continued understanding and support.

**CORPORATE GOVERNANCE**

Against a backdrop of ongoing business globalization, Tokyo Electron maintains a management philosophy that puts emphasis on improving corporate value for its shareholders and all other stakeholders. To this end, the Company considers it is important to strengthen corporate governance. In line with the following three basic principles, the Company is building a highly effective corporate governance structure, and upgrading and strengthening its internal control systems and risk management system.

**Tokyo Electron's Basic Principles of Corporate Governance**

1. Ensure the transparency and soundness of business operations
2. Facilitate quick decision-making and the efficient execution of business operations
3. Disclose information in a timely and suitable manner

**The Corporate Governance Framework**

Tokyo Electron uses the statutory auditor system based on the Companies Act, and furthermore has established its own Compensation Committee and Nomination Committee to increase the transparency and objectivity of management. Also, Tokyo Electron

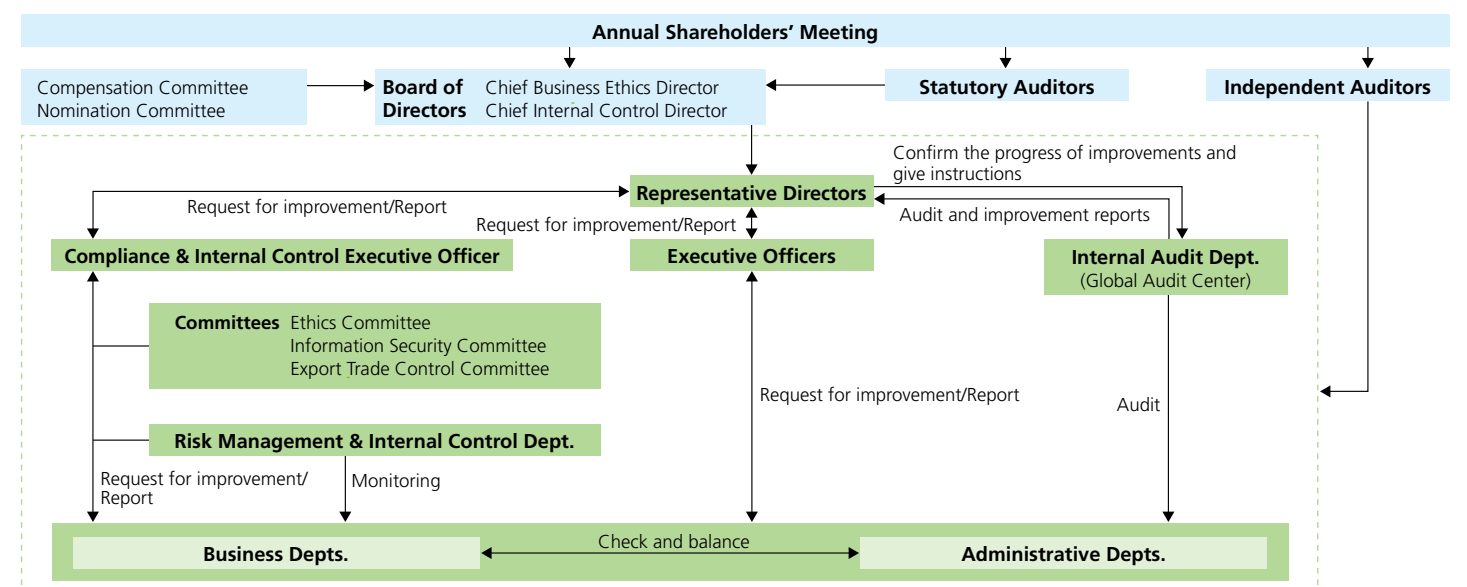
has adopted the executive officer system to separate the business execution function from the Board of Directors. Moreover, Tokyo Electron has been disclosing the individual remunerations of representative directors since 1999 in recognition of the importance of managerial transparency for shareholders.

**The Board of Directors**

The Board of Directors consists of 14 directors, two of whom are outside directors. In principle, the Board of Directors meets once a month, with additional meetings if necessary. (During fiscal 2012, the Board of Directors met on 12 occasions.) In order to ensure that the Company can respond quickly to changing business conditions, and to more clearly define management accountability, the term of office for directors is set at one year.

Furthermore, Tokyo Electron has set up two committees whose activities are intended to ensure the transparency of management: the Compensation Committee and the Nomination Committee. The members of both these committees are directors and statutory auditors, excluding the representative directors.

**Diagram of the Corporate Governance Framework, Internal Control System and Risk Management System**



## CORPORATE GOVERNANCE

**Compensation Committee:** This committee proposes the remuneration to be paid to representative directors at the Board meeting for approval.

**Nomination Committee:** This committee nominates candidates for directors to be selected at the annual shareholders' meeting, and nominates a candidate for CEO to be selected by the Board, which it submits at the Board meeting for approval.

### The Board of Statutory Auditors

The Company has four statutory auditors, two of whom are outside auditors. The statutory auditors not only attend meetings of the Board of Directors, the Top Management Conference and other important business meetings, but also conduct operations audits and accounting audits, and evaluate risk management, in addition to auditing the performance of duties by directors. During fiscal 2012, the board of statutory auditors met seven times.

### Outside Directors and Outside Auditors

From the viewpoint of objectively ensuring the effectiveness of the decision-making of the Board of Directors, Tokyo Electron has appointed two outside directors to the Board: Mr. Hiroshi Inoue, who is Chairman of the Board, Tokyo Broadcasting System Holdings, Inc., and Mr. Masahiro Sakane, who is Chairman of the Board, Komatsu Ltd. From the viewpoint of objectively ensuring the reasonableness of the audits, Tokyo Electron has appointed two outside auditors: Mr. Togo Tajika, and Mr. Ryuji Sakai, who is a Partner at Nagashima Ohno & Tsunematsu. Mr. Togo Tajika conducts audits of the Tokyo Electron Group as a full-time company auditor.

### The Executive Officer System

In order to further clarify the roles of the Board of Directors and executives in charge of business operations, Tokyo Electron has adopted the executive officer system. This system promotes fast decision-making and the quick establishment and execution of business strategies.

### Compensation for Corporate Directors and Statutory Auditors

Tokyo Electron has adopted the following executive compensation program with the intention of tying compensation more closely to financial results and shareholder value, raising corporate competitiveness, and enhancing management transparency.

1. The compensation for corporate directors consists of a monthly fixed remuneration and a performance-linked compensation.
2. The performance-linked compensation system for corporate directors is designed to align compensation more clearly with financial results and increases in shareholder value. It takes into account consolidated return on equity (ROE) and consolidated net income, two performance indicators of consolidated business results. Necessary adjustments are then made when there are special factors that should be taken into account, such as principal performance indicators for the term under review, including profits and losses, and so on. Performance-linked compensation comprises cash bonuses and stock-based compensation. The ratio of cash bonuses to stock-based compensation has generally been one to one. Stock-based compensation consists of granting share subscription rights with a set strike price of one yen per share and setting unexercisable period for three years. Performance-linked compensation is limited to five times the fixed compensation.
3. The performance-linked compensation of outside directors does not include stock-based compensation.
4. The compensation for statutory auditors consists only of a monthly fixed remuneration, to maintain independence from management.
5. Retirement allowances systems for corporate directors and statutory auditors have been abolished in and after the end of fiscal 2005, as part of the revisions to Tokyo Electron's executive compensation program.

### Internal Control and Risk Management System

In order to enhance corporate value and ensure that all business activities are carried out responsibly and in the interests of all stakeholders, Tokyo Electron is taking steps to strengthen its

internal control systems and make them more effective. The Company is implementing practical measures in line with the Fundamental Policies Concerning Internal Controls within the Tokyo Electron Group decided by the Board of Directors. The Company is also implementing measures for the Internal Controls Over Financial Reporting, based on the Financial Instruments and Exchange Act.

### Internal Control Systems

To strengthen the internal control and risk management systems of the entire Tokyo Electron Group more effectively, Tokyo Electron appointed a Chief Internal Control Director and a Compliance & Internal Control Executive Officer. Under them, the Company established the Risk Management & Internal Control Department, which evaluates and analyzes the risks which could affect the Group, and works to reduce risks by promoting the necessary measures. Tokyo Electron has also established the Information Security Committee and the Export Trade Control Committee to further strengthen the management of confidential information and the export compliance system.

### Internal Audit Department (Global Audit Center)

The Global Audit Center oversees the internal auditing activities of the entire Tokyo Electron Group. The Center is responsible for auditing the business activities of the Group's domestic and overseas bases, as well as their compliance and systems, and evaluating the effectiveness of internal control systems. When necessary, the Global Audit Center also provides guidance to operating divisions.

### Coordination Between Statutory Auditors and Internal Audit Department

The statutory auditors coordinate with the Global Audit Center, a department responsible for internal auditing activities, primarily by attending its report meetings, which were held 13 times during fiscal 2012.

### Coordination Between Statutory Auditors and Independent Auditors

The statutory auditors receive audit plans for the fiscal year from the independent auditors, as well as explanations regarding auditing methods and particular areas of focus, among other matters. The independent auditors audit the year-end financial statements and review the quarterly financial statements, and report the results of their audits to the statutory auditors.

The Company provides KPMG AZSA LLC, its independent auditors, with all necessary information and data to ensure that it can conduct its audits during the fiscal year promptly and correctly.

### Compliance

Trust from stakeholders is the cornerstone of business activities. In order to maintain trust, it is necessary to continuously act in rigorous conformity to business ethics and compliance. In line with the Fundamental Policies Concerning Internal Controls within the Tokyo Electron Group, all Group executives and employees are required to maintain high standards of ethics and to act with a clear awareness of compliance.



Code of Ethics of the Tokyo Electron Group

### Code of Ethics, Chief Business Ethics Director and Ethics Committee

In 1998, Tokyo Electron formulated the "Code of Ethics of the Tokyo Electron Group" to establish uniform standards to govern all of its global business activities. In the same year, the Company appointed a Chief Business Ethics Director and established the Ethics Committee, which is responsible for promoting business ethics awareness throughout the Group. The Code and its Q&A section are published in Japanese, English, Korean and Chinese editions, and the Company distributes it to all Group executives and employees, including those overseas. Moreover, the Code is appropriately reviewed and revised in response to changes in the environment and societal demands. The most recent revision of the Code and Q&A was in April 2011.



## CORPORATE GOVERNANCE

### Compliance & Internal Control Executive Officer

Tokyo Electron has appointed a Compliance & Internal Control Executive Officer from among the executive officers to raise awareness of compliance across the Group, and further improve its implementation.

### Framework for Thorough Implementation of Compliance

Tokyo Electron has drawn up the Compliance Regulations setting out basic compliance-related requirements in line with the Code. The Compliance Regulations are intended to ensure that all individuals who take part in business activities for the Group clearly understand the pertinent laws, regulations, international standards and internal company rules, and continuously apply these rules in all of their activities. The Company also conducts web-based training programs for employees, makes information on compliance issues available to employees via the Company intranet, and takes other steps to promote broad awareness of compliance throughout the Company.

### Internal Reporting System

In the event that an employee becomes aware of any activity which may violate laws, regulations or principles of business ethics, the Group operates an internal reporting system that

employees may use to report their concerns. The entire Group has established an ethics hotline and a compliance hotline, and this reporting system is also in place at each overseas base. In all cases, this system ensures that strict confidentiality is maintained to protect the whistleblower and ensure that they are not subject to any disadvantage or repercussions.

### Disclosure Policy

Tokyo Electron is committed to disclosing information about the Company in a fair, prompt and accurate manner, to ensure that all stakeholders, including shareholders and other investors, can obtain an accurate, in-depth understanding of the Company and its activities, and evaluate the Company's corporate value appropriately. The Company also solicits feedback from its stakeholders as part of its information disclosure activities, and uses the feedback as a point of reference to guide corporate management.

### Information Disclosure Standards

- Tokyo Electron complies fully with the Financial Instruments and Exchange Act, and the Tokyo Stock Exchange's listing regulations pertaining to marketable securities.

- Even when the information is not subject to the listing regulations pertaining to marketable securities, the Company discloses the information proactively, in a fair, prompt and accurate manner if the information is deemed useful in providing stakeholders with an accurate understanding of the Company.

### Disclosure Practices

- If it is subject to the marketable securities listing regulations (material information), Tokyo Electron will release information simultaneously in a press release and via the Tokyo Stock Exchange's "Timely Disclosure Network" (TDnet), and will post the information on its website as soon as possible, following the official announcement.
- Even when it does not fall into the category of "material information," the Company will voluntarily disclose information which may be of interest to stakeholders in a fair, accurate, and easy-to-understand manner, either on its website or in printed form, through various means of communication.
- Tokyo Electron conducts meetings to discuss its financial results with securities analysts and investors; these meetings are also open to members of the press. The Company makes audio recordings of its fiscal year-end and mid-term financial results meetings, and posts these recordings on the Company's website. All of the documents distributed at its quarterly financial results meetings are also posted on the website.
- To ensure that foreign investors have fair and equal access to the information, the Company strives to disclose all information simultaneously in Japanese and English. However, due to the time required for translation, there may be cases where the posting of English information to the website is delayed slightly.

### Shareholder Measures

Tokyo Electron mails a Notice of Annual General Meeting of Shareholders to shareholders more than three weeks in advance of the meeting, as one of its measures to vitalize these meetings and to promote smooth and efficient voting. It also sets the date of the Company's meeting to avoid days on which many such meetings are concentrated. In addition,

shareholders are free to cast their votes via the Internet. Moreover, Tokyo Electron participates in the web-based voting platform for institutional investors operated by Investor Communications Japan Inc. (ICJ). To supplement the above shareholder meeting-related initiatives, Tokyo Electron's website carries notices, resolutions and presentation materials of shareholders' meetings. An English version of the Notice of Annual General Meeting of Shareholders is also provided.



FTSE4Good

Tokyo Electron is a constituent of the FTSE4Good Global Index.

Since September 2003, Tokyo Electron has been chosen for the FTSE4Good Global Index, which is a CSR index provided by the FTSE Group. The FTSE Group is a world leading index firm 100% owned by the London Stock Exchange.

### Does Tokyo Electron have these major components of corporate governance?

Compensation Committee	Yes	Composed of directors, excluding representative directors, or statutory auditors
Nomination Committee	Yes	Composed of directors, excluding representative directors, or statutory auditors
Outside directors	Yes	Two of the 14 directors are outside directors
Outside auditors	Yes	Two of the four statutory auditors are outside auditors
Executive officer system	Yes	
Disclosure of individual remunerations of representative directors	Yes	Disclosed since 1999
Performance-linked compensation system	Yes	
Stock options system	Yes	Does not apply to outside directors and auditors
Retirement allowance system for executives	No	
Anti-takeover measures	No	

## BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVE OFFICERS

(As of July 1, 2012)

### Board of Directors



**Tetsuro Higashi** <sup>2</sup>  
Chairman of the Board



**Tetsuo Tsuneishi** <sup>1</sup>  
Vice Chairman of the Board



**Hiroshi Takenaka**  
President & CEO  
Representative Director



**Hirofumi Kitayama**  
Representative Director



**Kiyoshi Sato**  
Corporate Director



**Kenji Washino**  
Corporate Director



**Hikaru Ito**  
Corporate Director



**Takashi Nakamura** <sup>2,3,4</sup>  
Corporate Director



**Takaaki Matsuoka**  
Corporate Director



**Masami Akimoto**  
Corporate Director



**Yoshiteru Harada** <sup>1</sup>  
Corporate Director



**Hideyuki Tsutsumi**  
Corporate Director



**Hiroshi Inoue** \*  
Corporate Director/  
Chairman of the Board,  
Tokyo Broadcasting System  
Holdings, Inc.



**Masahiro Sakane** <sup>1</sup> \*  
Corporate Director/  
Chairman of the Board,  
Komatsu Ltd.

### Statutory Auditors



**Mitsutaka Yoshida** <sup>2</sup>  
Statutory Auditor



**Shojiro Mori**  
Statutory Auditor



**Togo Tajika** \*  
Statutory Auditor



**Ryuji Sakai** \*  
Statutory Auditor/  
Attorney-at-Law,  
Nagashima Ohno &  
Tsunematsu

Notes:

1. Member of Compensation Committee
  2. Member of Nomination Committee
  3. Chief Business Ethics Director
  4. Chief Internal Control Director
- \* Outside Director, Outside Statutory Auditor

### Executive Officers

#### President & CEO

**Hiroshi Takenaka**

#### Executive Vice Presidents

**Hirofumi Kitayama**  
General Manager,  
Manufacturing Division (Quality)

**Kenji Washino**  
General Manager,  
Corporate Business Strategy,  
Organic EL/FPD/PVE

**Hikaru Ito**  
General Manager, SPE  
Senior General Manager,  
SPE Sales Division

#### Senior Vice Presidents

**Takashi Nakamura**  
General Manager,  
Corporate Administration Division  
Compliance/Internal Control

**Masami Akimoto**  
General Manager,  
System Development Division

**Takashi Ito**  
General Manager, PVE

**Chiaki Yamaguchi**  
General Manager, SPE Sales Division

**Gishi Chung**  
General Manager,  
SPE Process Development Division

**Shigetoshi Hosaka**  
General Manager,  
Corporate Development Division

#### Vice Presidents

**Yoshiteru Harada**  
Deputy General Manager,  
Corporate Administration Division  
HR/General Affairs/Accounting/  
Export and Logistics Control

**Hideyuki Tsutsumi**  
General Manager, Etch Systems BU

**Tatsuya Nagakubo**  
General Manager,  
HR/Human Resources Development  
Center/  
Corporate Branding Promotion

**Tetsuro Hori**  
General Manager,  
Corporate Strategic Planning/Finance/  
Legal/Intellectual Property

**Keisuke Koizumi**  
General Manager,  
Corporate Procurement  
General Manager, IT

**Seisu Ikeda (Yoh)**  
General Manager, Clean Track BU

**Toshiki Kawai**  
General Manager,  
Surface Preparation Systems BU

**Shingo Tada**  
General Manager,  
Thermal Processing Systems BU

**Takeshi Okubo**  
General Manager,  
Single Wafer Deposition BU  
General Manager, Organic EL

**Yuichi Abe**  
General Manager, Test Systems BU

**Kiyoshi Sunohara**  
General Manager, Field Solutions BU

**Yoshinobu Mitano**  
General Manager, 3DI

**Tsuguhiko Matsuura**  
General Manager, FPD BU  
Deputy General Manager, Organic EL

**Shinichi Sasahara**  
General Manager, FPD Sales  
General Manager, PV Project

**Yutaka Nanasawa**  
General Manager,  
PVE Integration Project

\*BU stands for "business unit"



## ENVIRONMENTAL, HEALTH AND SAFETY ACTIVITIES

Tokyo Electron's important corporate missions include placing the highest priority on ensuring people's health and safety and preserving the global environment when conducting business activities.

### Fundamental Policy

Tokyo Electron positions environmental, health and safety activities as one of its most important management issues to achieve both sustained corporate growth and a sustainable society. With that in mind, Tokyo Electron is committed to reducing the environmental impact of all its activities, and to ensuring absolute safety in the Company's facilities and in those of its customers.

In order to accelerate our environmental activities, in May 2008 we codified Tokyo Electron's environmental commitment, selecting "Technology for Eco Life" as a slogan to guide our environmental activities. One of the stipulated goals of this commitment is to develop production equipment that will enable customers to cut the total environmental burden of their factories in half by 2015, and also to cut the Company's own environmental burden from business activities and logistics in half by the same date. As a result of progress in the related activities, the Company expected to achieve these goals ahead of schedule. The Company has therefore set new goals this fiscal year, and under the slogan "Technology for Eco Life" continues its global environmental preservation activities centered on contributions by innovative product and technology.

Moreover, to push ahead with these environmental, health and safety initiatives, we believe that it is vital to promote communication with all stakeholders as well as to receive and give feedback. In line with this, we are also actively engaging in activities that contribute to society.

### EHS Management

Since 1997, Tokyo Electron has developed and implemented environmental management systems based on ISO 14001 standards, mainly for the plants conducting manufacturing operations, and obtained the relevant certification. Furthermore, to enhance the workability and effectiveness of the EHS Management System, we are continuously raising the level of the audits that check the system and its results. These audits are performed from various viewpoints: from within the workplace or the Group, or by a third party.

### Initiatives to Reduce the Environmental Burden of Products

#### Proactive Environmentally Conscious Product Design

Tokyo Electron believes that the promotion of product designs sensitive to the environment is vital. In particular, Tokyo Electron has positioned promotion of energy conservation in its products, as well as the reduction and replacement of regulated hazardous chemicals, as priority issues.

#### 1. Initiatives to Reduce the Environmental Impact During Equipment Usage

Tokyo Electron set a roadmap for reducing the environmental impact of major products, together with such policies for the

equipment usage as reducing the energy consumption, and reducing the heat, air output, water and chemical substances used. In this connection, we now make technological and operational proposals to our customers, and in cooperation with them adjust our approach to each product's characteristics in a multi-faceted manner. We are actively implementing initiatives to achieve these goals. Furthermore, we are working to reduce the total environmental burden during product usage: not merely of our products, but also of the facility equipment owned by customers by means of optimal power management.

#### 2. Initiatives Regarding Regulated Hazardous Substances in Products

As an environmental measure, Tokyo Electron promotes efforts to reduce hazardous chemical substances in its products. Chemical substances contained in the units and parts used in products are managed in a dedicated database. Tokyo Electron has positioned those products in which at least 98.5% of the constituent parts meet standards stipulated by the Europe RoHS directive\* as "equipment containing reduced amounts of chemicals." Shipment of these products first began in October 1, 2008.

\* Refers to the "Restriction of the use of certain Hazardous Substances in Electrical and Electronic Equipment" directive in Europe (2002/95/EC) and amendments thereto. With the exception of certain applications excluded from its scope, this directive prohibits the inclusion of lead, mercury, cadmium, hexavalent chromium, PBB, and PBDE over a maximum prescribed amount in products.

### Health and Safety Activities

Tokyo Electron promotes health and safety in all of its operations. This includes giving top priority to the health and safety not only to our employees but also our customers and cooperating companies, and to designing products with health and safety in mind.

In fiscal 2012, Tokyo Electron developed activities in line with its important goal of preventing accidents that could lead to serious injuries. As a result, succeeded in reducing the number of accidents to half of the number in fiscal 2011. The Company tenaciously continued to implement accident prevention measures such as prior checks of clean rooms before installing equipment, on-site risk prediction activities, safety patrols activities, and safety education for workers that uses accident examples. Tokyo Electron marks the 50th year of its founding this year, and will return to prioritizing fostering a safety culture in line with the safety slogan "Safety First," with the entire Company united in preventing accidents and disasters. For further details, see the "Tokyo Electron Environmental and Social Report 2012" (to be published in September 2012).



### Tokyo Electron's Environmental Goals

The Tokyo Electron Group has assessed the impact of its products on the environment throughout their entire lifecycle—from the development of major products, through manufacturing and logistics to product use. Based on this assessment, Tokyo Electron

has set a goal of achieving a 50% reduction of per-unit CO<sub>2</sub> emissions by 2015 compared with 2007 (FY2008) base line year, and we are promoting measures to reduce environmental impact.

### Achieving Environmental Goals and New Goals

#### 1. Develop equipment that enables a 50% reduction in the total environmental impact of customer factories

We are nearly achieving the target of CO<sub>2</sub> emissions per 300 mm wafer unit for the most of our major products.

#### 2. Reduce the environmental impact of our business activities and logistics by 50%

##### 2-1 Logistics

The amount of CO<sub>2</sub> emissions in fiscal 2012 was decreased by 54%, and reduced by 22% per ton-kilometer in comparison to the baseline year.

##### 2-2 Business Activities

CO<sub>2</sub> emissions for FY2012 centered on development and manufacturing factories decreased by approximately 25,000 tons compared to the baseline year (FY2008: CO<sub>2</sub> emissions approximately 113,000 tons) to approximately 88,000 tons. We achieved this by energy-saving environmental investment, including the installation of solar power generation systems at the Miyagi and Yamanashi plants, energy-saving activities, and plant integrations.

We expect to achieve our goal of reducing CO<sub>2</sub> emissions per unit of sales by 52% and by over 60% in total volume by using Domestic CDM\*<sup>1</sup> (Clean Development Mechanism) to achieve carbon offset\*<sup>2</sup> of about 50,000 tons, including the Great East Japan Earthquake Recovery Program under Japan's Domestic Carbon Credit System, and green power in the U.S.

Tokyo Electron has closed the initial environmental goals in these three fields of activities because we expect to achieve them, and set new environmental goals.

Based on a new environmental vision, these new environmental goals proclaim individual targets in the fields of products, plants and offices, procurement and logistics, and we will strengthen environmental management to contribute to global environmental preservation through enhanced initiatives. For further details, see the "Tokyo Electron Environmental and Social Report 2012" (to be published in September 2012).

\*1 Domestic CDM (Clean Development Mechanism)

The approved reduction amount in CO<sub>2</sub> emissions in Japan's Domestic CDM System (a Japanese government scheme that allows small and medium-sized businesses to receive funding, technology, and technical support from large businesses in working collaboratively to reduce CO<sub>2</sub> emissions and trade the reduced amount as emission credits)

\*2 Carbon offset

The compensation for part or all of greenhouse gas emissions that cannot easily be reduced by purchasing credits equal to the amount of reduction, or re-absorption, in greenhouse gas elsewhere.

### Initiatives in the Thermal Processing System TELINDY PLUS™

The Thermal Processing System Business Unit (TPS BU) has developed a process for forming silicon dioxide films for double patterning\*<sup>1</sup> at room temperature. In conventional processes, a temperature of several hundred degrees is required in order to break down gases and promote a vapor phase reaction, but this newly developed process takes place at room temperature through techniques such as selecting the source gas and generating radicals\*<sup>2</sup> of oxidized species using plasma.

This process has yielded the following results.

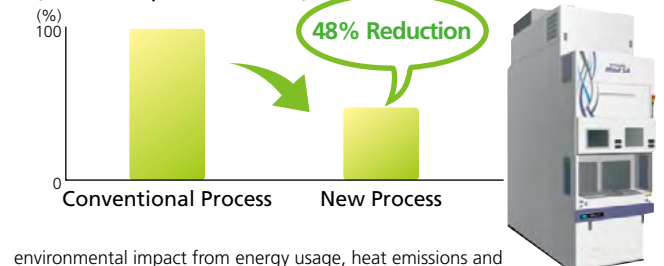
#### 1. Reduced number of process steps:

This process makes it possible to form film atop a highly heat-susceptible resist and achieve miniaturization using double patterning to reduce the number of processes, which results in reducing the energy used at other utilities.

#### 2. Reduced environmental impact from film formation:

Because heat is not required when forming the film, this process reduces the

Environmental Impact from Film Formation (CO<sub>2</sub> Emissions per Wafer Area Unit)



environmental impact from energy usage, heat emissions and cooling water by 48% in CO<sub>2</sub> equivalent.

#### 3. Reduced size of equipment:

Because no heater is required to apply heat to the wafer, this process is able to reduce the number of parts by 30% and footprint by 39%.

\*1 Double patterning: One type of miniaturization process.

\*2 Generating radicals: Describes one type of atom configuration where a single electron orbits around the atomic nucleus in the outer shell, where normally electrons orbit in a pair.

### Status of Tokyo Electron Group's Environmental Initiatives

Organization dedicated to the environment	Corporate Environment Promotion Dept.
Highest responsibility for the environment	Board of Directors and Board of Executive Officers
Environmental audits	Internal and external audits each conducted yearly; other irregular inter-Group audits
Introduction of environmental management systems	Acquired ISO 14001 at 8 plants and offices
Zero emissions of waste	Achieved at all domestic manufacturing bases; recycled products used in-house
Setting of energy conservation targets	Implementing energy-saving products and energy-saving targets at plants and offices
Environmental training for employees	Conducted for all employees
Punished for violating environmental regulations?	Tokyo Electron has never been punished for this

## RESEARCH AND DEVELOPMENT/INTELLECTUAL PROPERTY

### RESEARCH AND DEVELOPMENT

#### The semiconductor industry will continue to expand.

Electronic devices pervade every corner of the world, and the number of semiconductors in each device continues to increase. In the future, the reach of semiconductors will not be limited to computers and telecommunications but will expand to health-care, agriculture and myriad other applications. Already a core component supporting modern society, semiconductors will take on an even larger role as their applications expand.

Technology is driving the growth in the semiconductor industry. Speed is increasingly important in achieving technology development. In this ultra-competitive era, business opportunities are lost if technology—even superior technology—misses its window. Tokyo Electron establishes development sites close to the customers and builds collaborative relations to accelerate technology commercialization and ensure that the right technology is supplied to customers exactly when they need it.

The development of cutting-edge technology, commonly called “high technology,” requires the integration of expert knowledge in a variety of fields to invent entirely new technical concepts. The proactive use of open innovation to gain outside knowledge has become increasingly important as a result. In April 2012, Tokyo Electron relocated its corporate R&D division, which is tasked with developing future technologies, from Yamanashi to the newly established TEL Technology Center Tsukuba, in Ibaraki Prefecture (Japan). Tsukuba has been a magnet for R&D organizations, and we will increase collaborative research efforts with these outside organizations on new semiconductor materials, photovoltaic (PV) power generation, and other high-tech fields to nurture new seed technologies.

Over the next five to ten years, the research and development activities at Tsukuba will crystallize into new products which will become the foundation of Tokyo Electron’s future growth.

#### Chip Scaling and 3DI Packaging Initiatives

The value of semiconductors is rooted in scaling, or miniaturization. Tokyo Electron has always been at the cutting edge of lithography technology innovation. We are developing resist coatings and development technology for extreme ultraviolet (EUV) lithography, a next-generation lithography technology, while continuing to enhance our multiple patterning technologies.

Additionally, we have begun intensive collaboration with universities and research consortiums on the development of directed self-assembly (DSA) technology in which patterns are automatically formed using a substance’s chemical attributes, eliminating the need for exposure. Through these efforts, we have built a structure to ensure we can fully support whatever lithography technology takes hold in the marketplace.

In the area of three-dimensional interconnect (3DI) packaging, in which multiple silicon chips are stacked to increase performance, we are pursuing commercialization of high-aspect-ratio silicon etch systems and proprietary polyimide dielectric film deposition systems to support through-silicon via (TSV) technology. These efforts will prepare Tokyo Electron for the full-fledged arrival of 3DI packaging technology.

#### Developing Low-Power-Consuming Semiconductors

In recent years, semiconductors’ power consumption has become a major issue. With an astounding number of miniaturized elements packed onto a small silicon chip, the chip’s power consumption rises dramatically and a significant amount of heat is generated. At datacenters where large numbers of servers and other electronic equipment are concentrated, it is amazing to find that cooling the electronic equipment requires more power than the equipment itself. It’s not an exaggeration to state that semiconductors will not advance unless their power consumption is reduced. Amid this conundrum, important technological innovations are being made with the goal of reducing the power consumption of semiconductors.

One approach to lower power consumption involves changing the structure and materials of transistors. Intel Corporation announced the introduction of the world’s first 22nm-node three-dimensional transistor (Tri-gate FET) which promises both low operating voltage and high performance. Tokyo Electron is supporting the device manufacturers of these kinds of three-dimensional transistors with the development of new products which incorporate proprietary low-damage plasma technologies needed in the transistor manufacturing process.

In other areas of technological innovation for transistors, indium gallium arsenide (InGaAs) and germanium (Ge) are among the new materials being adopted. Considering silicon’s long history as the core semiconductor material, its replacement with InGaAs and Ge represents a major innovation. Many of the current semiconductor manufacturing processes, including epitaxial growth, surface processing, and gate dielectric film formation, require innovation. Tokyo Electron views the changes in the industry as new opportunities. We are proactively responding to recent innovations in semiconductor materials with the development of new equipment and processes.

Another approach to reducing power consumption is the development of nonvolatile memory based on new scientific principles and materials. Semiconductor manufacturers are racing to develop spin transfer torque-magnetoresistive random access memory (STT-MRAM), a promising technology seen as the possible next-generation memory device. STT-MRAM records data in terms of 1s and 0s by changing the direction of the magnetic field. Since no electricity is used to store data, STT-MRAM device can operate using less than half the energy consumed by today’s DRAM and SRAM devices. We are collaborating with Tohoku University, the world’s leading technology research organization in this field, to develop cutting-edge manufacturing technology for STT-MRAM to ensure that we are fully prepared for the advent of the technology in the marketplace.

#### Addressing Environment and Energy-related Issues

The Tokyo Electron Group is leveraging all of its resources to address the global issues of the environment and energy.

PV power generation is widely considered to be the green energy solution of the future. Though the photovoltaic cell

industry continues to experience a harsh business environment due to oversupply and plunging panel prices, significant medium- to long-term industry growth is expected. Tokyo Electron is accelerating the development of thin-film silicon PV, considered optimal for large-scale power generation due to lower manufacturing costs gained from reduced silicon usage, with the goal of enhancing conversion efficiency. PV-related R&D will be consolidated at the newly established TEL Technology Center Tsukuba. The center will be engaged in research and development on PV manufacturing technology using different materials besides thin-film silicon, including new chemical compounds and organic materials.

#### Exploring New Fields

Tokyo Electron nurtures new fields of research in order to ensure the company’s sustainable growth.

One example is the development of manufacturing technology for printed electronics, a field attracting significant attention. Innovative printed electronics technologies utilizing patterning and deposition have the potential to greatly lower display panel manufacturing costs. Tokyo Electron is a member of the Japan Advanced Printed Electronics Technology Research Association (JAPER) and monitors the development of applicable products for insights on promising new technologies.

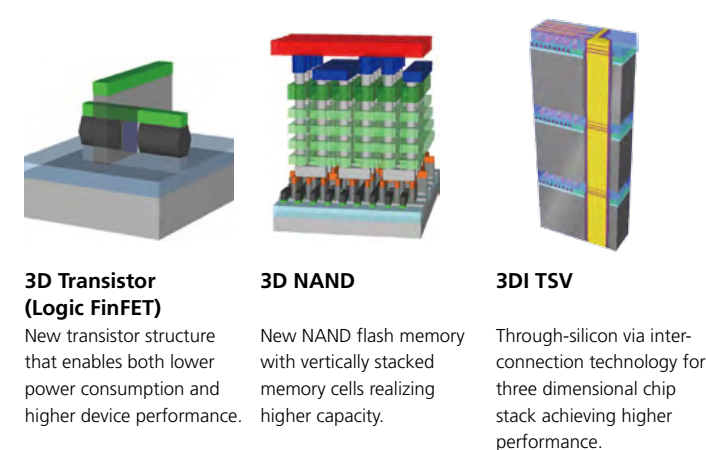
We also have our sights on life sciences and other fields with strong growth potential. The boundaries of our technological innovation are not limited to miniaturization and other semiconductor manufacturing technologies. Instead, we are pursuing applications of our technology to fields outside semiconductor manufacturing and taking initiatives to create new industries and business areas.



#### TEL Technology Center Tsukuba — Our New R&D Base

We have established a new R&D base in the city of Tsukuba, the world’s pre-eminent academic town. The center is engaged in research on PV manufacturing technology, semiconductor manufacturing technology, and a variety of new seeds technology.

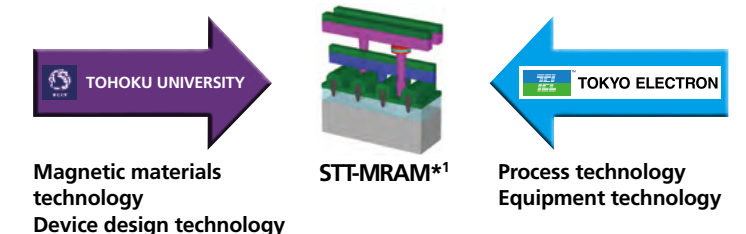
#### Evolution of Semiconductors



#### Joint Development of Next-generation Memory with Tohoku University

##### Advantages of STT-MRAM\*1

- Magnetic materials used
- Low power consumption
- Non-volatile



\*1 STT-MRAM: Spin Transfer Torque-Magnetoresistive Random Access Memory



## RESEARCH AND DEVELOPMENT/INTELLECTUAL PROPERTY

### INTELLECTUAL PROPERTY

#### Policy for Intellectual Property Activities

Tokyo Electron basic policy for intellectual property (IP) activities is that our IP activities should contribute to increase corporate revenues through supporting our business activities. It's also essential that our IP strategy is integrated with our technological and product strategies. Our IP strategy prioritizes differentiation of our products and bolstering our competitive advantages with our IP rights, over earning income from licensing to other companies.

Technologies are continuing to advance in complexity in our business fields and the risk to become involved in IP disputes in the development of new products increases significantly unless we fully respect the IP rights of other companies. To minimize the risks of disputes, Tokyo Electron monitors others' IP and takes appropriate approaches including obtaining licenses from others if necessary.

#### Operation of Intellectual Property Activities

Tokyo Electron continues aggressive R&D activities to satisfy the requests of our customers. In order to maintain competitiveness from the achievements of our R&D activities, it is necessary that we protect such achievements through steadily obtaining IP rights. To facilitate obtaining IP rights, we cooperate closely among our R&D operations and we have local IP departments in our major plants. We also assign IP engineers/staff locally in several countries outside of Japan in response to an increase of our R&D activities globally. We also revised our internal regulations regarding IP management last fiscal year to deal with frequent interaction and joint R&D activities between engineers in different countries.

For effective IP activities, it is necessary to respond flexibly to dramatically changing markets and various technological trends. To exchange information about the market and technological trends frequently, IP engineers in charge of surveys and external affairs related to IP are assigned our corporate headquarters, which has sales and marketing divisions. In addition, IP engineers in the plants and headquarters, a manager of sales or marketing division, and a manager of R&D division have meetings periodically so that our IP activities are conducted to include market and technological trends.

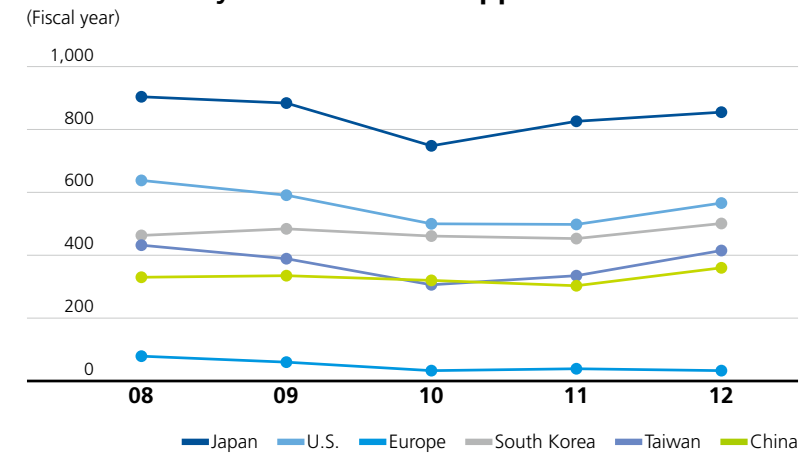
#### Status of Intellectual Property Rights

Tokyo Electron vigorously builds an IP portfolio that encompasses our technology in each business field. We obtain IP rights not only for core technologies but also for technologies associated with and around our core technologies.

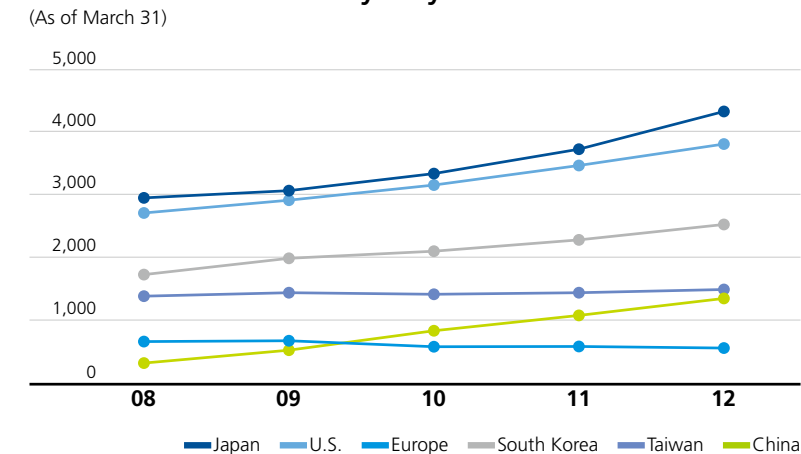
We always optimize the numbers of our patent applications and patents in each country, reflecting market and competitor trends in each of our business fields. The graph in this section shows the numbers of patent applications and patents of Tokyo Electron in each country. In recent years, we have filed about 70%\*<sup>1</sup> of our applications globally, reflecting the importance of overseas markets for our business. In particular, we have been increasing the numbers of patent applications and patents in South Korea and China. These numbers are based on our patent strategies reflecting the recent growing importance of the South Korean and Chinese markets for our business, as well as the rise of semiconductor and FPD production equipment manufacturers in South Korea.

\*<sup>1</sup> This figure is the percentage of patents filed overseas out of all our patents filed with the Japan Patent Office. The average among Japanese companies is about 25%.

#### Number of Tokyo Electron Patent Applications



#### Number of Patents Held by Tokyo Electron



## FINANCIAL REVIEW

## SALES AND INCOME

## Operating Environment

During fiscal 2012, the global economy slowed overall, especially in developed nations, due to future uncertainty rooted in Europe's financial crises. However, in the second half of the fiscal year, there were signs of the beginning of a gradual recovery, mainly in the U.S. In emerging countries such as China and India, the speed of growth slowed, but economic growth continued, led by internal demand. Japan's economy quickly began its recovery from the Great East Japan Earthquake at an early stage, but the subsequent worldwide economic recession and historically high yen have slowed this recovery.

In the electronics industry, in which Tokyo Electron serves, smartphones and tablets have spread widely, resulting in an overall positive performance. However, as sales of PCs and televisions continued to be sluggish, sales of semiconductors and LCD panels that are key components in these products were not sufficient to lead to active capital investments.

## Sales

Net sales in fiscal 2012 decreased 5.3% year on year to ¥633.1 billion. This was mainly because memory manufacturers refrained from investments due to sluggish PC sales. Sales in Japan were down 5.9% year on year, to ¥171.4 billion, and overseas sales decreased 5.1% to ¥461.7 billion. Overseas sales as a share of total consolidated sales remained at about the same level, up from 72.8% in fiscal 2011 to 72.9% in fiscal 2012.

Orders received during the fiscal year decreased by 26.4%, to ¥541.0 billion, and the order backlog at the end of March 2012 decreased 29.8% year on year, to ¥216.7 billion. Behind these decreases were declines in the willingness to invest by memory manufacturers and panel manufacturers, the Tokyo Electron Group's customers, due to surplus inventory in DRAMs caused by sluggish sales of PCs, and to surplus inventory in LCD panels caused by sluggish sales of TVs.

	Millions of Yen				
Sales and Income	2008	2009	2010	2011	2012
Net sales .....	¥906,092	¥508,082	¥418,637	¥668,722	<b>¥633,091</b>
Gross profit .....	311,298	137,408	108,316	234,758	<b>211,445</b>
Gross profit margin .....	34.4%	27.0%	25.9%	35.1%	<b>33.4%</b>
Selling, general and administrative expenses .....	142,800	122,697	110,497	136,888	<b>151,002</b>
Operating income (loss) .....	168,498	14,711	(2,181)	97,870	<b>60,443</b>
Operating margin .....	18.6%	2.9%	(0.5)%	14.6%	<b>9.5%</b>
Income (loss) before income taxes and minority interests .....	169,220	9,637	(7,768)	99,579	<b>60,602</b>
Net income (loss) .....	106,271	7,543	(9,033)	71,924	<b>36,726</b>

## Gross Profit, SG&amp;A Expenses and Operating Income (Loss)

Cost of sales for the period was down 2.8% year on year, to ¥421.6 billion, and the cost of sales ratio was 66.6%, 1.7 percentage points worse than in fiscal 2011.

As a result, gross profit decreased by 9.9% year on year, to ¥211.4 billion, and the gross profit margin decreased to 33.4%, from 35.1% in fiscal 2011.

SG&A expenses increased by 10.3% year on year, to ¥151.0 billion as a result of aggressive spending in research and development. As a percentage of consolidated net sales, the SG&A ratio increased to 23.9%, from 20.5% in the previous year. Consequently, operating income decreased by 38.2% to ¥60.4 billion and the operating margin declined from 14.6% to 9.5%.

## Research &amp; 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 ¥81.5 billion in R&D expenses in fiscal 2012, up 15.5% 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 and multiple 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 3DI packaging technology, OLED displays, photovoltaic cells and other new product segments.

## Other Income (Expenses) and Net Income

During fiscal 2012, Tokyo Electron posted income of ¥1.4 billion in gain on collection of written-off receivables and ¥1.1 billion in revenue from development grants, and expenses of ¥1.8 billion in provision of allowance for doubtful accounts and a ¥0.9 billion loss from natural disasters. As a result, other income (expenses) amounted to a net income of ¥0.2 billion.

This contributed to ¥60.6 billion in income before income taxes and minority interests, compared with ¥99.6 billion in fiscal 2011. A net income for fiscal 2012 of ¥36.7 billion was recorded, compared to ¥71.9 billion in fiscal 2011. Net income per share was ¥205.04 in fiscal 2012, compared with ¥401.73 in fiscal 2011.

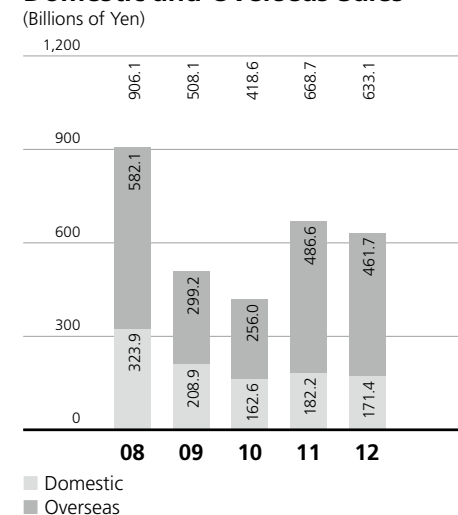
## Comprehensive Income

For fiscal 2012, Tokyo Electron posted comprehensive income of ¥37.0 billion, compared with ¥69.6 billion in the previous fiscal year. This mainly reflected a gain of ¥0.8 billion from changes in fair value of investment securities and a loss of ¥0.9 billion due to foreign currency translation adjustments with high yen appreciation.

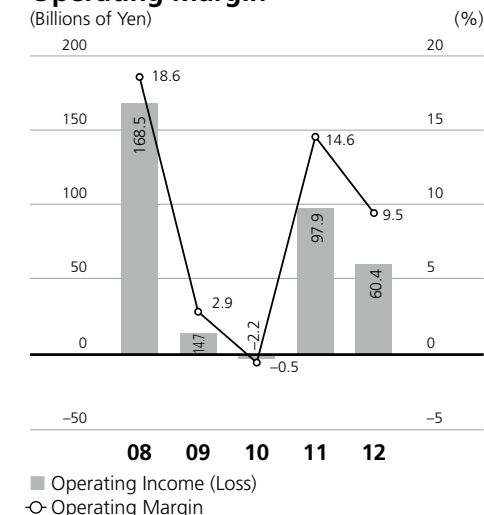
## Dividend Policy and Dividends

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. As a result, the Company paid an interim dividend of ¥53 (a ratio of 35.6%), and set the year-end dividend at ¥27 (a ratio of 48.0%). Thus, the total dividend applicable to fiscal 2012 was ¥80 (a combined ratio of 39.0%). Looking ahead, we will respond to the support of all our shareholders through achieving business expansion and earnings growth.

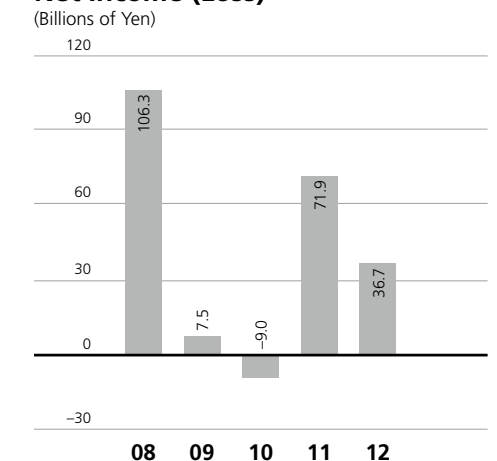
## Domestic and Overseas Sales



## Operating Income (Loss) and Operating Margin



## Net Income (Loss)





FINANCIAL REVIEW

FINANCIAL REVIEW

PERFORMANCE BY SEGMENT

■ Semiconductor Production Equipment

Net sales (including intersegment sales or transfers) for fiscal 2012 decreased by 6.5% year on year, to ¥477.9 billion. While logic manufacturers made substantial investments led by smartphones, tablets and other cutting-edge mobile devices, memory manufacturers refrained from making investments due to lower PC sales. The segment profit declined by 26.3% to ¥89.0 billion and the segment profit margin decreased from 23.6% to 18.6%.

The segment's net sales to external customers decreased 6.5% year on year, to ¥477.9 billion. Orders in this segment dropped 23.0% to ¥437.6 billion. The order backlog declined 17.6% to ¥188.7 billion as of March 31, 2012.

For a business overview of this segment, please see pages 8.

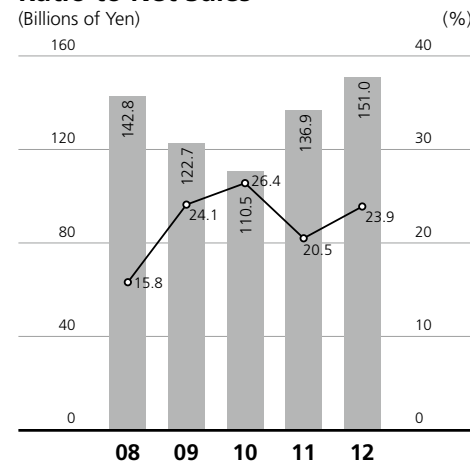
■ FPD/PV (Flat Panel Display and Photovoltaic Cell) Production Equipment

Net sales (including intersegment sales or transfers) in the segment stood at ¥69.9 billion, up 4.7% year on year. The segment profit decreased 65.8% to ¥2.3 billion and the segment profit margin from 10.0% in the previous fiscal year to 3.3%. Demand for FPD production equipment for small- and medium-sized panels was robust due to strong demand for mobile devices, however, demand for FPD production equipment for large-sized panels was weak due to sluggish demand for TVs. Sales of PV production equipment rose year on year.

The segment's net sales to external customers increased 4.7% to ¥69.9 billion. Orders in this segment dropped 75.3% to ¥18.6 billion. The fiscal year-end order backlog declined 78.3% to ¥14.2 billion as of March 31, 2012.

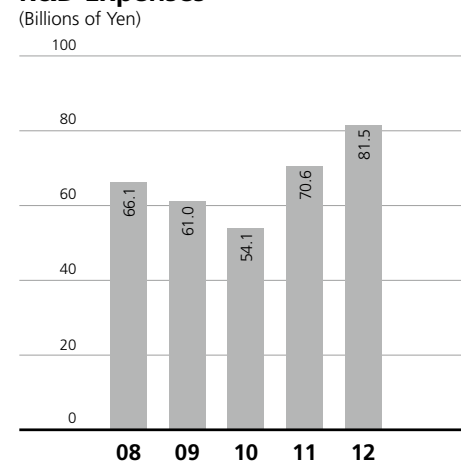
For a business overview of this segment, please see pages 8.

Selling, General and Administrative Expenses and Ratio to Net Sales

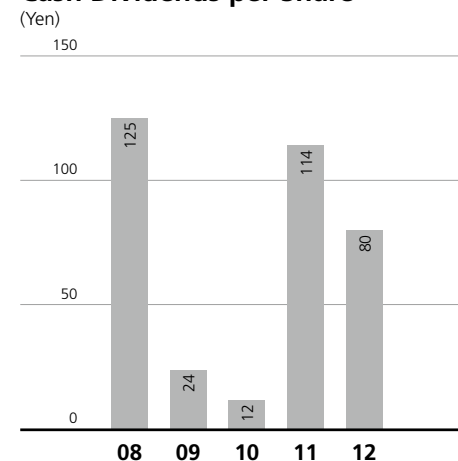


■ Selling, General and Administrative Expenses  
○ Ratio to Net Sales

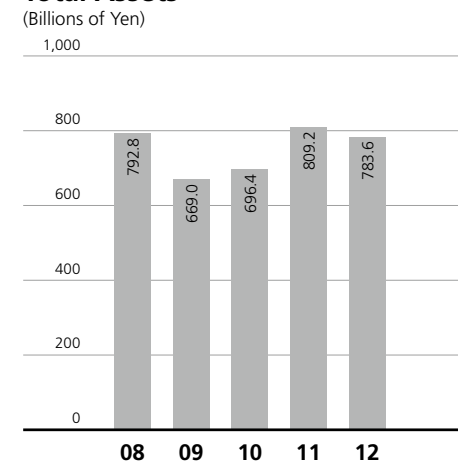
R&D Expenses



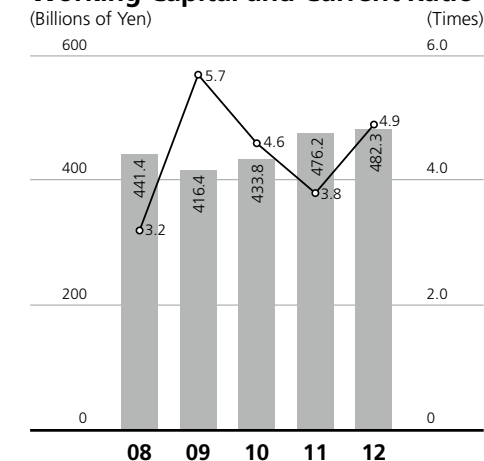
Cash Dividends per Share



Total Assets

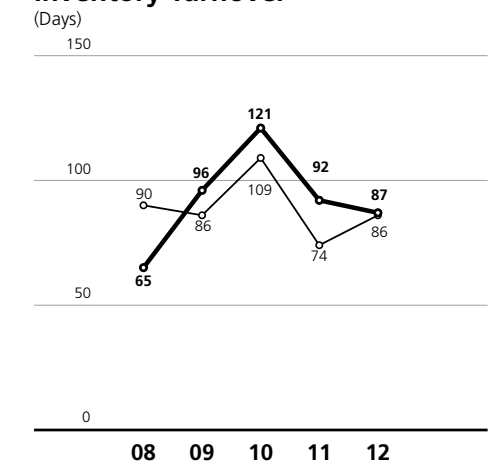


Working Capital and Current Ratio



■ Working Capital  
○ Current Ratio

Receivable Turnover and Inventory Turnover



○ Receivable Turnover  
● Inventory Turnover

■ Electronic Components and Computer Networks

Net sales (including intersegment sales or transfers) in the segment decreased 5.5% year on year to ¥86.3 billion. Demand for electronic components used in consumer electronics and industrial electronic equipment were sluggish except for components used in mobile devices such as smartphones. Increased corporate demand for cloud computing and the increased usage of data centers propelled sales of computer networks products as well as maintenance services. As a result, the segment profit decreased 20.5% to ¥2.3 billion and segment profit margin declined from 3.2% to 2.7%.

The segment's net sales to external customers decreased 5.9% to ¥84.9 billion. Orders in this segment decreased 7.4% to ¥84.3 billion. The fiscal year-end order backlog declined 4.1% to ¥13.8 billion.

For a business overview of this segment, please see pages 8.

■ Others

Sales in the "Others" segment mainly include group-wide logistics services, leasing and insurance.

Net sales to external customers in the segment amounted to ¥0.5 billion, almost the same level as in fiscal 2011.

Segment Information

2012:

	Reportable Segment				Total	Eliminations and Corporate	Consolidated
	Semiconductor production equipment	FPD/PV production equipment	Electronic components & computer networks	Other			
Net sales							
Sales to external customers .....	¥477,873	¥69,889	¥84,868	¥ 461	¥633,091	¥ -	¥633,091
Intersegment sales or transfers .....	-	-	1,432	14,565	15,997	(15,997)	-
Total .....	477,873	69,889	86,300	15,026	649,088	(15,997)	633,091
Segment profit .....	89,020	2,271	2,312	1,827	95,430	(34,828)	60,602
Segment assets .....	262,789	21,295	46,391	1,927	332,402	451,209	783,611
Others							
Depreciation and amortization .....	11,282	687	570	170	12,709	11,489	24,198
Capital expenditures, including intangible and other assets .....	13,518	672	407	36	14,633	28,572	43,205

FINANCIAL REVIEW

FINANCIAL REVIEW

FINANCIAL POSITION AND CASH FLOWS

Assets, Liabilities and Net Assets

Assets

Current assets decreased by ¥37.2 billion from the end of the previous fiscal year, to ¥607.1 billion, reflecting decreases of ¥37.4 billion in liquidity on hand (cash and cash equivalents + short-term investments) and of ¥19.5 billion in inventories, and an increase of ¥13.9 billion in trade notes and accounts receivable. The turnover period for trade notes and accounts receivable increased from 74 days in fiscal 2011 to 87 days in fiscal 2012, and the inventory turnover period decreased from 92 days in fiscal 2011, to 86 days in fiscal 2012.

Net property, plant and equipment increased by ¥14.3 billion year on year, to ¥126.9 billion, as ¥24.2 billion in depreciation and amortization was outweighed by ¥39.5 billion in fixed asset acquisitions.

Investments and other assets decreased by ¥2.7 billion year on year, to ¥49.7 billion.

As a result, as of March 31, 2012, total assets stood at ¥783.6 billion, a decrease of ¥25.6 billion year on year.

Liabilities and Net Assets

Current liabilities decreased by ¥43.2 billion, from the end of fiscal 2011, to ¥124.8 billion. This reflected decreases of ¥21.0 billion in income taxes payable,

¥5.5 billion in trade notes and accounts payable and ¥5.6 billion in customer advances. The balance of interest-bearing debt, which consists only of short-term borrowings, stood at ¥4.4 billion as of March 31, 2012. The debt/equity ratio declined to 0.8%, 0.6 points lower than the end of March 2011.

Non-current liabilities increased by ¥3.8 billion, to ¥60.2 billion.

Net assets increased by ¥13.8 billion year on year, to ¥598.6 billion. This reflected an increase in retained earnings of ¥13.5 billion resulting from a net income of ¥36.7 billion and ¥23.1 billion in dividends paid. As a result, the equity ratio improved from 70.8% at the end of March 2011 to 74.9% as of March 31, 2012, and ROE dropped to 6.3%, from 13.3% in fiscal 2011.

Capital Expenditures\*1 and Depreciation and Amortization\*2

Total capital expenditures increased by 1.0% year on year in fiscal 2012, to ¥39.5 billion.

- New Miyagi plant (Taiwa-cho, Kurokawa-gun, Miyagi Prefecture)
- New Kunshan plant (Kunshan, Jiangsu Province, China)
- TEL Technology Center Tsukuba (Tsukuba, Ibaraki Prefecture)
- Purchase of evaluation and measuring equipment

Depreciation and amortization increased by 36.7% year on year, to ¥24.2 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 ¥29.7 billion, ¥53.5 billion less than in fiscal 2011. The main contributors were ¥60.6 billion in income before income taxes and minority interests, ¥24.2 billion in depreciation and amortization, and a ¥16.0 billion decrease in inventories. Major negative factors included a ¥47.6 billion in income taxes paid and a ¥15.5 billion increase in trade notes and accounts receivable.

Investing activities used net cash of ¥8.4 billion, compared with ¥35.9 billion used in fiscal 2011. This mainly reflected a ¥36.0 billion outflow to purchase property, plant and equipment and a ¥31.0 billion inflow from a net decrease in short-term investments.

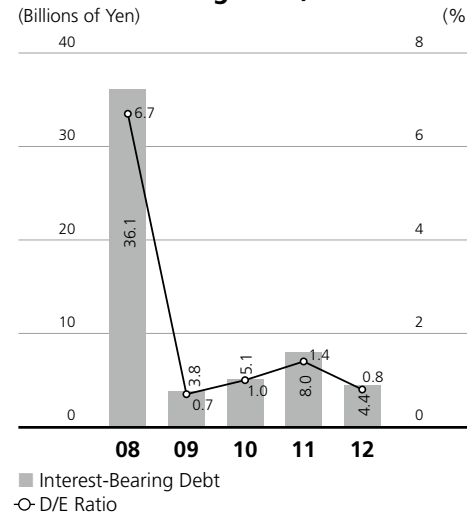
Financing activities used net cash of ¥27.3 billion, compared with ¥5.2 billion in fiscal 2011. The main outflow was ¥23.1 billion in dividends paid and ¥3.6 billion in repayment of short-term borrowings.

As a result, the balance of cash and cash equivalents at the end of March 2012 stood at ¥158.8 billion, a decrease of ¥6.3 billion from the ¥165.1 billion balance at the end of fiscal 2011. Total liquidity on hand, which consists of cash, cash equivalents and short-term investments, decreased by ¥37.4 billion year on year, from ¥285.1 billion at the end of March 2011 to ¥247.6 billion at the end of March 2012.

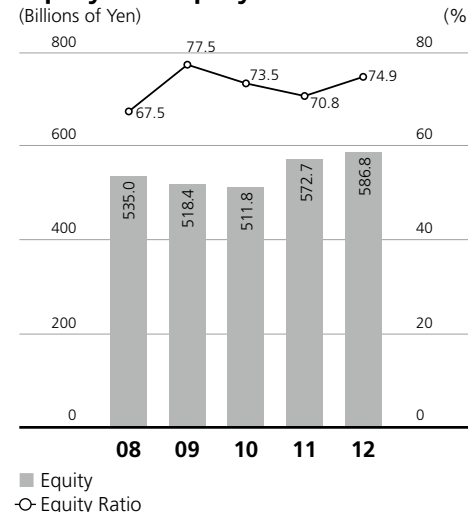
Financial Position	Millions of Yen				
	2008	2009	2010	2011	2012
Total current assets	¥640,234	¥505,687	¥552,939	¥644,231	¥607,051
Net property, plant and equipment	104,106	99,906	92,128	112,552	126,885
Total investments and other assets	48,478	63,405	51,285	52,422	49,675
Total assets	792,818	668,998	696,352	809,205	783,611
Total current liabilities	198,821	89,272	119,162	168,038	124,794
Total liabilities	247,573	139,733	172,982	224,403	185,008
Total net assets (Total shareholders' equity)	545,245	529,265	523,370	584,802	598,603

Cash Flows	Millions of Yen				
	2008	2009	2010	2011	2012
Cash flows from operating activities	¥116,939	¥81,030	¥48,285	¥83,239	¥29,712
Cash flows from investing activities	(30,186)	(160,622)	9,613	(35,882)	(8,352)
Cash flows from financing activities	(27,033)	(46,016)	(288)	(5,237)	(27,335)
Cash and cash equivalents at end of year	193,493	65,883	123,940	165,051	158,776

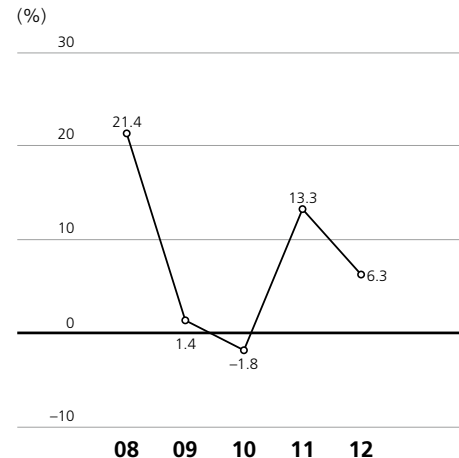
Interest-Bearing Debt, D/E Ratio



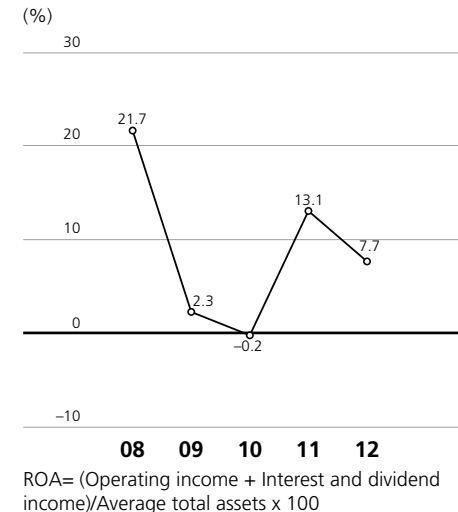
Equity and Equity Ratio



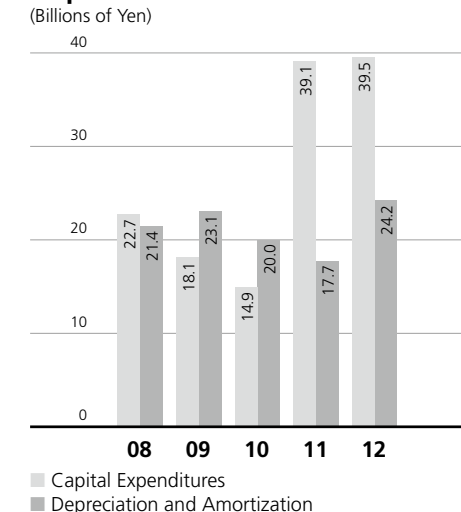
ROE



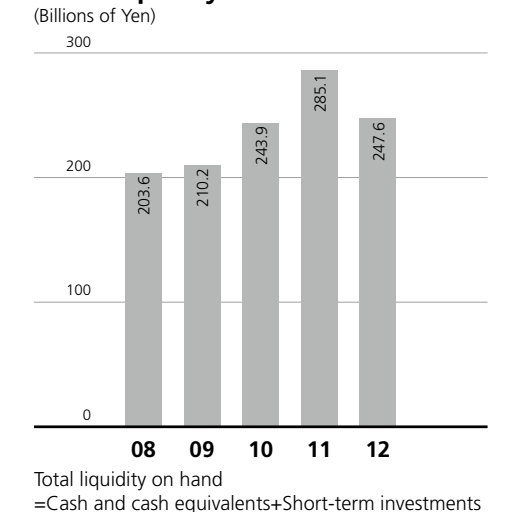
ROA



Capital Expenditures and Depreciation and Amortization



Total Liquidity on Hand





## FINANCIAL REVIEW

### 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 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, 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 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) 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, 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, unavoidable occurrences, 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, competition over standardization, and loss of key personnel. Any of these factors could adversely affect Tokyo Electron's business performance.

## ■ CONSOLIDATED ELEVEN-YEAR SUMMARY

## CONSOLIDATED ELEVEN-YEAR SUMMARY

Tokyo Electron Limited and Subsidiaries  
As of and for the years ended March 31

	Thousands of U.S. dollars		Millions of yen									
	2012	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Net sales <sup>1</sup> .....	<b>\$7,702,774</b>	<b>¥ 633,091</b>	¥ 668,722	¥ 418,637	¥ 508,082	¥ 906,092	¥ 851,975	¥ 673,686	¥ 635,710	¥ 529,654	¥ 460,580	¥ 417,825
Semiconductor production equipment .....	<b>5,814,247</b>	<b>477,873</b>	511,332	262,392	325,383	726,440	642,625	486,883	457,191	425,747	364,689	325,715
FPD/PV production equipment <sup>2</sup> .....	<b>850,335</b>	<b>69,889</b>	66,721	71,361	88,107	68,016	100,766	81,176	75,038	–	–	–
Computer networks .....	–	–	–	–	–	–	19,169	17,497	15,966	18,448	17,193	17,031
Electronic components and computer networks .....	<b>1,032,583</b>	<b>84,868</b>	90,216	84,473	94,207	111,181	88,294	86,881	86,249	84,229	77,380	73,658
Other .....	<b>5,609</b>	<b>461</b>	453	411	385	455	1,121	1,249	1,266	1,230	1,318	1,421
Operating income (loss) .....	<b>735,406</b>	<b>60,443</b>	97,870	(2,181)	14,711	168,498	143,979	75,703	63,983	22,280	1,119	(18,310)
Income (loss) before income taxes .....	<b>737,340</b>	<b>60,602</b>	99,579	(7,768)	9,637	169,220	144,414	75,328	55,775	14,936	(23,010)	(22,919)
Net income (loss) .....	<b>446,843</b>	<b>36,726</b>	71,924	(9,033)	7,543	106,271	91,263	48,006	61,601	8,297	(41,554)	(19,938)
Comprehensive income (loss) <sup>3</sup> .....	<b>449,617</b>	<b>36,954</b>	69,598	(4,751)	–	–	–	–	–	–	–	–
Domestic sales .....	<b>2,084,974</b>	<b>171,364</b>	182,165	162,609	208,871	323,946	313,816	262,532	232,678	242,318	190,513	186,516
Overseas sales .....	<b>5,617,800</b>	<b>461,727</b>	486,557	256,028	299,211	582,146	538,159	411,154	403,032	287,336	270,067	231,309
Depreciation and amortization <sup>4</sup> .....	<b>294,415</b>	<b>24,198</b>	17,707	20,002	23,068	21,413	18,820	19,170	21,463	24,963	27,374	26,294
Capital expenditures <sup>5</sup> .....	<b>481,093</b>	<b>39,541</b>	39,140	14,919	18,108	22,703	27,129	13,335	9,876	11,007	12,359	30,946
R&D expenses .....	<b>991,678</b>	<b>81,506</b>	70,568	54,074	60,988	66,073	56,962	49,182	43,889	44,150	50,123	53,827
Total assets .....	<b>9,534,140</b>	<b>783,611</b>	809,205	696,352	668,998	792,818	770,514	663,243	644,320	561,632	524,901	556,915
Total net assets (Total shareholders' equity) <sup>6</sup> .....	<b>7,283,161</b>	<b>598,603</b>	584,802	523,370	529,265	545,245	469,811	376,900	332,165	275,800	252,904	307,579
Number of employees .....		<b>10,684</b>	10,343	10,068	10,391	10,429	9,528	8,901	8,864	8,870	10,053	10,171
Net income (loss) per share of common stock: <sup>7</sup>	U.S. dollars	Yen										
Basic .....	<b>\$ 2.49</b>	<b>¥ 205.04</b>	¥ 401.73	¥ (50.47)	¥ 42.15	¥ 594.01	¥ 511.27	¥ 267.61	¥ 343.63	¥ 46.37	¥ (238.57)	¥ (113.85)
Diluted <sup>8</sup> .....	<b>2.49</b>	<b>204.72</b>	401.10	–	42.07	592.71	509.84	267.32	343.54	45.78	–	–
Net assets per share of common stock .....	<b>39.85</b>	<b>3,275.14</b>	3,198.66	2,859.37	2,896.55	2,989.70	2,573.72	2,112.30	1,863.28	1,543.73	1,456.23	1,756.73
Cash dividends per share of common stock .....	<b>0.97</b>	<b>80.00</b>	114.00	12.00	24.00	125.00	103.00	55.00	45.00	10.00	8.00	8.00
Number of shares outstanding (thousands) .....		<b>180,611</b>	180,611	180,611	180,611	180,611	180,611	180,611	180,611	180,611	175,698	175,691
Number of shareholders .....		<b>42,414</b>	44,896	39,285	42,509	43,324	41,289	46,272	60,857	60,873	49,259	37,116
ROE .....		<b>6.3</b>	13.3	(1.8)	1.4	21.4	21.8	13.5	20.3	3.1	(14.8)	(6.2)
Operating margin .....		<b>9.5</b>	14.6	(0.5)	2.9	18.6	16.9	11.2	10.1	4.2	0.2	(4.4)
Equity ratio .....		<b>74.9</b>	70.8	73.5	77.5	67.5	59.7	56.8	51.6	49.1	48.2	55.2
Asset turnover (times) .....		<b>0.79</b>	0.89	0.61	0.70	1.16	1.19	1.03	1.05	0.97	0.85	0.65
Net sales per employee .....	U.S. dollars	Thousands of yen										
	<b>\$ 720,964</b>	<b>¥ 59,256</b>	¥ 64,655	¥ 41,581	¥ 48,896	¥ 86,882	¥ 89,418	¥ 75,687	¥ 71,718	¥ 59,713	¥ 45,815	¥ 41,080

1 Until fiscal 2004, the FPD (Flat Panel Display) division was included in Semiconductor production equipment. From fiscal 2008, Computer networks is included in Electronic components and computer networks.

2 From fiscal 2009, the FPD division was changed to the FPD/PV production equipment division. Photovoltaic Cell (PV) production equipment is included in FPD/PV production equipment.

3 From fiscal 2011, the Company applied "Accounting Standards for Presentation of Comprehensive Income" (Statement No. 25) released by the Accounting Standards Board of Japan (ASBJ). Accordingly, comprehensive income (loss) have been disclosed from fiscal 2010.

4 Depreciation and amortization does not include amortization and loss on impairment of goodwill.

5 Capital expenditures only represent the gross increase in property, plant and equipment.

6 From fiscal 2007, "Total net assets" has been disclosed in accordance with "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Guidance No. 8) released by the Accounting Standards Board of Japan (ASBJ). "Total net assets" through fiscal 2006 represents "Total shareholders' equity" under the former accounting standards.

7 From fiscal 2003, the Company applied "Accounting Standards Regarding Net Income per Share (Business Accounting Standards No. 2)" and "Practical Guidelines for Applying Accounting Standards Regarding Net Income per Share (Practical Guidelines for Applying Accounting Standards No. 4)" released by the Accounting Standards Board of Japan (ASBJ).

8 From fiscal 2011, the Company calculated net income per share of common stock (diluted) in accordance with "Accounting Standard for Earnings Per Share" (Statement No. 2 issued as of June 30, 2010) and "Guidance on Accounting Standard for Earnings Per Share" (Guidance No. 4 issued as of June 30, 2010) released by the Accounting Standards Board of Japan (ASBJ). Dilution is not assumed for the years ended March 31, 2010, 2003 and 2002.

9 Effective from fiscal 2005, Tokyo Electron changed its method of revenue recognition upon receiving customer confirmation of product set-up and testing of products for Semiconductor and FPD production equipment. The effect of this change decreased net sales, operating income and income before income taxes by ¥80,956 million, ¥20,541 million and ¥20,563 million, respectively, for the year ended March 31, 2005, compared with the corresponding amounts which would have been recorded if the previous method had been applied.

10 Effective from fiscal 2005, Tokyo Electron changed its method to account for after-sale repair expenses by recording accrued warranty expenses for Semiconductor and FPD production equipment. The effect of this change decreased operating income and income before income taxes by ¥635 million and ¥13,106 million, respectively, for the year ended March 31, 2005, compared with the corresponding amounts which would have been recorded if the previous method had been applied.



## ■ CONSOLIDATED BALANCE SHEETS

## CONSOLIDATED BALANCE SHEETS

Tokyo Electron Limited and Subsidiaries  
As of March 31, 2012 and 2011

ASSETS	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
<b>Current assets:</b>			
Cash and cash equivalents.....	¥158,776	¥165,051	\$1,931,817
Short-term investments .....	88,849	120,000	1,081,020
Trade notes and accounts receivable.....	150,306	136,385	1,828,763
Allowance for doubtful accounts.....	(1,376)	(1,154)	(16,742)
Inventories .....	149,470	168,925	1,818,591
Deferred income taxes.....	23,546	27,610	286,482
Prepaid expenses and other current assets.....	37,480	27,414	456,016
Total current assets .....	607,051	644,231	7,385,947
<b>Property, plant and equipment:</b>			
Land.....	26,260	25,773	319,504
Buildings .....	143,462	121,598	1,745,492
Machinery and equipment.....	115,834	104,699	1,409,344
Construction in progress .....	9,515	19,509	115,768
Total property, plant and equipment .....	295,071	271,579	3,590,108
Less: Accumulated depreciation.....	168,186	159,027	2,046,307
Net property, plant and equipment .....	126,885	112,552	1,543,801
<b>Investments and other assets:</b>			
Investment securities .....	16,082	15,726	195,669
Deferred income taxes.....	17,585	20,728	213,955
Intangible assets.....	4,704	4,212	57,233
Other assets .....	15,152	13,787	184,353
Allowance for doubtful accounts.....	(3,848)	(2,031)	(46,818)
Total investments and other assets.....	49,675	52,422	604,392
<b>Total assets .....</b>	<b>¥783,611</b>	<b>¥809,205</b>	<b>\$9,534,140</b>

See accompanying Notes to Consolidated Financial Statements.

## LIABILITIES AND NET ASSETS

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
<b>Current liabilities:</b>			
Short-term borrowings .....	¥ 4,403	¥ 7,996	\$ 53,572
Trade notes and accounts payable .....	58,243	63,766	708,639
Customer advances .....	26,373	31,925	320,878
Income taxes payable .....	4,289	25,328	52,184
Accrued employees' bonuses.....	8,646	11,131	105,195
Accrued warranty expenses.....	8,904	7,594	108,334
Accrued expenses and other current liabilities.....	13,936	20,298	169,558
Total current liabilities .....	124,794	168,038	1,518,360
<b>Accrued pension and severance costs .....</b>	<b>55,266</b>	<b>52,826</b>	<b>672,418</b>
<b>Other liabilities.....</b>	<b>4,948</b>	<b>3,539</b>	<b>60,201</b>
Total liabilities .....	185,008	224,403	2,250,979
<b>Contingent liabilities</b>			
<b>Net assets:</b>			
<b>Shareholders' equity</b>			
Common stock .....	54,961	54,961	668,707
Authorized: 300,000,000 shares			
Issued: 180,610,911 shares as of March 31, 2012 and 2011			
Capital surplus.....	78,023	78,046	949,300
Retained earnings.....	471,186	457,658	5,732,888
Treasury stock, at cost.....	(9,748)	(10,484)	(118,603)
1,446,079 and 1,554,231 shares as of March 31, 2012 and 2011, respectively			
<b>Accumulated other comprehensive income</b>			
Net unrealized gains on investment securities .....	3,576	2,807	43,509
Net deferred losses on hedging instruments.....	(51)	(12)	(621)
Foreign currency translation adjustments .....	(11,158)	(10,234)	(135,759)
<b>Share subscription rights .....</b>	<b>1,157</b>	<b>1,499</b>	<b>14,077</b>
<b>Minority interests .....</b>	<b>10,657</b>	<b>10,561</b>	<b>129,663</b>
Total net assets .....	598,603	584,802	7,283,161
<b>Total liabilities and net assets .....</b>	<b>¥783,611</b>	<b>¥809,205</b>	<b>\$9,534,140</b>

**CONSOLIDATED STATEMENTS OF INCOME**Tokyo Electron Limited and Subsidiaries  
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
<b>Net sales</b> .....	<b>¥ 633,091</b>	¥ 668,722	<b>\$7,702,774</b>
Cost of sales.....	<b>421,646</b>	433,964	<b>5,130,137</b>
<b>Gross profit</b> .....	<b>211,445</b>	234,758	<b>2,572,637</b>
Selling, general and administrative expenses.....	<b>151,002</b>	136,888	<b>1,837,231</b>
<b>Operating income</b> .....	<b>60,443</b>	97,870	<b>735,406</b>
<b>Other income (expenses):</b>			
Interest and dividend income.....	<b>1,010</b>	696	<b>12,289</b>
Revenue from development grants.....	<b>1,131</b>	3,027	<b>13,761</b>
Provision of allowance for doubtful accounts.....	<b>(1,848)</b>	0	<b>(22,485)</b>
Reversal of allowance for doubtful accounts.....	<b>—</b>	1,892	<b>—</b>
Gain on sale of property, plant and equipment.....	<b>566</b>	34	<b>6,886</b>
Gain on collection of written-off receivables.....	<b>1,437</b>	—	<b>17,484</b>
Loss on business restructuring .....	<b>(849)</b>	—	<b>(10,330)</b>
Loss on devaluation of investment securities.....	<b>(817)</b>	(74)	<b>(9,940)</b>
Maintenance cost for closed domestic facilities.....	<b>(112)</b>	(186)	<b>(1,363)</b>
Loss from natural disasters .....	<b>(936)</b>	(1,114)	<b>(11,388)</b>
Expenses for plant relocation.....	<b>(144)</b>	(1,839)	<b>(1,752)</b>
Other, net .....	<b>721</b>	(727)	<b>8,772</b>
<b>Income before income taxes and minority interests</b> .....	<b>60,602</b>	99,579	<b>737,340</b>
Income taxes:			
Current .....	<b>15,023</b>	29,483	<b>182,784</b>
Deferred.....	<b>8,400</b>	(2,712)	<b>102,202</b>
<b>Income before minority interests</b> .....	<b>37,179</b>	72,808	<b>452,354</b>
Minority interests.....	<b>453</b>	884	<b>5,511</b>
<b>Net income</b> .....	<b>¥ 36,726</b>	¥ 71,924	<b>\$ 446,843</b>
<b>Per share of common stock:</b>			
Net income — basic .....	<b>¥ 205.04</b>	¥ 401.73	<b>\$ 2.49</b>
Net income — diluted .....	<b>204.72</b>	401.10	<b>2.49</b>
Net assets.....	<b>3,275.14</b>	3,198.66	<b>39.85</b>
Cash dividends.....	<b>80.00</b>	114.00	<b>0.97</b>

See accompanying Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**Tokyo Electron Limited and Subsidiaries  
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
<b>Income before minority interests</b> .....	<b>¥37,179</b>	¥72,808	<b>\$452,354</b>
<b>Other comprehensive income (loss):</b>			
Changes in fair value of investment securities.....	<b>769</b>	303	<b>9,356</b>
Changes in deferred gains (losses) on hedging instruments .....	<b>(69)</b>	72	<b>(839)</b>
Foreign currency translation adjustments.....	<b>(925)</b>	(3,585)	<b>(11,254)</b>
Total other comprehensive income (loss).....	<b>(225)</b>	(3,210)	<b>(2,737)</b>
<b>Comprehensive income</b> .....	<b>36,954</b>	69,598	<b>449,617</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company .....	<b>36,532</b>	68,732	<b>444,482</b>
Minority interests .....	<b>422</b>	866	<b>5,135</b>

See accompanying Notes to Consolidated Financial Statements.



■ CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS | ■ CONSOLIDATED STATEMENTS OF CASH FLOWS

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Tokyo Electron Limited and Subsidiaries  
Years ended March 31, 2012 and 2011

	Millions of yen										
	Shareholders' equity				Accumulated other comprehensive income						Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on investment securities	Deferred losses on hedging instruments	Foreign currency translation adjustments	Share subscription rights	Minority interests		
Balance as of April 1, 2010	¥54,961	¥78,034	¥393,970	¥(10,900)	¥2,504	¥(68)	¥(6,683)	¥1,578	¥9,974	¥523,370	
Cash dividends	-	-	(8,236)	-	-	-	-	-	-	(8,236)	
Net income	-	-	71,924	-	-	-	-	-	-	71,924	
Repurchase of treasury stocks	-	-	-	(37)	-	-	-	-	-	(37)	
Disposal of treasury stocks	-	12	-	453	-	-	-	-	-	465	
Other, net	-	-	-	-	303	56	(3,551)	(79)	587	(2,684)	
Balance as of March 31, 2011	¥54,961	¥78,046	¥457,658	¥(10,484)	¥2,807	¥(12)	¥(10,234)	¥1,499	¥10,561	¥584,802	
Cash dividends	-	-	(23,102)	-	-	-	-	-	-	(23,102)	
Net income	-	-	36,726	-	-	-	-	-	-	36,726	
Repurchase of treasury stocks	-	-	-	(12)	-	-	-	-	-	(12)	
Disposal of treasury stocks	-	(23)	(96)	748	-	-	-	-	-	629	
Other, net	-	-	-	-	769	(39)	(924)	(342)	96	(440)	
Balance as of March 31, 2012	¥54,961	¥78,023	¥471,186	¥(9,748)	¥3,576	¥(51)	¥(11,158)	¥1,157	¥10,657	¥598,603	

	Thousands of U.S. dollars										
	Shareholders' equity				Accumulated other comprehensive income						Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on investment securities	Deferred losses on hedging instruments	Foreign currency translation adjustments	Share subscription rights	Minority interests		
Balance as of March 31, 2011	\$668,707	\$949,580	\$5,568,293	\$(127,558)	\$34,153	\$(146)	\$(124,516)	\$18,238	\$128,494	\$7,115,245	
Cash dividends	-	-	(281,080)	-	-	-	-	-	-	(281,080)	
Net income	-	-	446,843	-	-	-	-	-	-	446,843	
Repurchase of treasury stocks	-	-	-	(146)	-	-	-	-	-	(146)	
Disposal of treasury stocks	-	(280)	(1,168)	9,101	-	-	-	-	-	7,653	
Other, net	-	-	-	-	9,356	(475)	(11,243)	(4,161)	1,169	(5,354)	
Balance as of March 31, 2012	\$668,707	\$949,300	\$5,732,888	\$(118,603)	\$43,509	\$(621)	\$(135,759)	\$14,077	\$129,663	\$7,283,161	

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Tokyo Electron Limited and Subsidiaries  
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 60,602	¥ 99,579	\$ 737,340
Depreciation and amortization	24,198	17,707	294,415
Amortization of goodwill	-	242	-
Increase in accrued pension and severance costs	2,446	2,317	29,760
Increase (decrease) in allowance for doubtful accounts	2,111	(4,341)	25,684
Increase (decrease) in accrued employees' bonuses	(2,506)	5,087	(30,490)
Increase in accrued warranty expenses	1,343	2,352	16,340
Interest and dividend income	(1,010)	(696)	(12,289)
Increase in trade notes and accounts receivable	(15,540)	(13,319)	(189,074)
(Increase) decrease in inventories	16,023	(36,533)	194,951
(Increase) decrease in prepaid consumption tax	1,508	(8,025)	18,348
Increase (decrease) in accrued consumption tax	(2,417)	2,305	(29,408)
Increase (decrease) in trade notes and accounts payable	(5,807)	1,667	(70,653)
Increase (decrease) in customer advances	(4,567)	9,575	(55,566)
(Increase) decrease in specific doubtful receivables	(1,890)	5,303	(22,995)
Other, net	1,912	6,902	23,263
<b>Subtotal</b>	<b>76,406</b>	<b>90,122</b>	<b>929,626</b>
Receipts from interest and dividends	978	746	11,900
Interest paid	(43)	(46)	(523)
Income taxes paid	(47,629)	(7,583)	(579,499)
<b>Net cash provided by operating activities</b>	<b>29,712</b>	<b>83,239</b>	<b>361,504</b>
<b>Cash flows from investing activities:</b>			
Payment for purchases of short-term investments	(284,500)	(360,000)	(3,461,492)
Proceeds from maturities of short-term investments	315,500	360,000	3,838,667
Payment for purchase of property, plant and equipment	(36,010)	(33,542)	(438,131)
Proceeds from sale of property, plant and equipment	1,102	509	13,408
Payment for acquisition of intangible assets	(2,140)	(926)	(26,037)
Other, net	(2,304)	(1,923)	(28,033)
<b>Net cash used in investing activities</b>	<b>(8,352)</b>	<b>(35,882)</b>	<b>(101,618)</b>
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term borrowings	(3,594)	2,891	(43,728)
(Increase) decrease in treasury stock, net	(12)	428	(146)
Dividends paid	(23,102)	(8,236)	(281,080)
Other, net	(627)	(320)	(7,629)
<b>Net cash used in financing activities</b>	<b>(27,335)</b>	<b>(5,237)</b>	<b>(332,583)</b>
Effect of exchange rate changes on cash and cash equivalents	(300)	(1,009)	(3,650)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(6,275)</b>	<b>41,111</b>	<b>(76,347)</b>
Cash and cash equivalents at beginning of year	165,051	123,940	2,008,164
<b>Cash and cash equivalents at end of year</b>	<b>¥ 158,776</b>	<b>¥ 165,051</b>	<b>\$ 1,931,817</b>

See accompanying Notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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 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 ¥82.19 to \$1.00, the approximate rate as of March 31, 2012. 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 30 and 32 subsidiaries for the years ended March 31, 2012 and 2011, 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 balance sheets.

#### (c) 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.

#### (d) Short-term investments

Short-term investments consist of short term deposits and low-risk financial instruments with original maturities of more than three months.

#### (e) 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 securities. Held-to-maturity debt securities are stated mainly at amortized cost. 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.

#### (f) 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.

#### (g) 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

#### (h) 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.

#### (i) 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.

#### (j) 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.

#### (k) 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 the fair value of pension assets. 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 following 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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (l) 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.

### (m) 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.

### (n) 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.

### (o) 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.

### (p) 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.

### (q) Per share information

Net income 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.

### (r) Research and development expenses

Research and development expenses are charged to earnings as incurred and amounted to ¥81,506 million (\$991,678 thousand) and ¥70,568 million for the years ended March 31, 2012 and 2011, respectively.

### (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, 2012.

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

### (a) Accounting standards for earnings per share

Effective from April 1, 2011, the Company adopted "Accounting Standard for Earnings Per Share" (Statement No. 2 issued as of June 30, 2010 by the Accounting Standards Board of Japan) and "Guidance on Accounting Standards for Earnings Per Share" (Guidance No. 4 issued as of June 30, 2010 by the Accounting Standards Board of Japan). Based on these new standards, the Company has changed its method of calculating diluted net income per share. Under the new method, for share option rights which vest after a specified period of service, the fair value amount of the share options for service expected to be provided in the future is included in the proceeds assumed to be received when options are exercised.

### (b) Accounting standard for accounting changes and error corrections

Effective from April 1, 2011, the Company and its domestic subsidiaries adopted "Accounting Standard for Accounting Changes and Error Corrections" (Statement No. 24 issued by the Accounting Standards Board of Japan) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (Guidance No. 24, issued by the Accounting Standards Board of Japan) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011. The adoption of this standard had no significant impact on the consolidated financial statements.

### (c) 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.

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

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 standard requires the Company to adopt a management approach as the segment reporting method. As a result of the adoption of this standard the Company changed the basis of segmentation and segment measures.

### (e) Accounting standard for presentation of comprehensive income

Effective from the year ended March 31, 2011, the Company adopted "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 standard the Company prepared a consolidated statements of comprehensive income from the year ended March 31, 2011.

### (f) Accounting standard for consolidated financial statements

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 Consolidated Financial Statements" (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 before minority interests" in the consolidated statements of Income.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 4. Securities

Other securities as of March 31, 2012 and 2011 are as follows:

2012	Millions of yen	
	Cost	Carrying value
Noncurrent		
Securities with market prices		
Equity securities.....	¥ 9,212	¥14,699
Securities without market prices		
Unlisted stock .....	485	473
Other.....	910	910
<b>Total .....</b>	<b>¥10,607</b>	<b>¥16,082</b>

2011	Millions of yen	
	Cost	Carrying value
Current		
Noncurrent		
Securities with market prices		
Equity securities.....	¥ 9,763	¥ 14,445
Securities without market prices		
Unlisted stock .....	365	370
Other.....	911	911
<b>Total .....</b>	<b>¥ 11,039</b>	<b>¥ 15,726</b>

2012	Thousands of U.S. dollars	
	Cost	Carrying value
Noncurrent		
Securities with market prices		
Equity securities.....	\$112,082	\$178,842
Securities without market prices		
Unlisted stock .....	5,901	5,755
Other.....	11,072	11,072
<b>Total .....</b>	<b>\$129,055</b>	<b>\$195,669</b>

Held-to-maturity securities classified as current assets are ¥211,790 million (\$2,576,835 thousand) and nil as of March 31, 2012 and 2011, respectively.

Reconciliation of held-to-maturity securities as of March 31, 2012 and Other securities as of March 31, 2011 to the amounts of short-term investments in the consolidated balance sheets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Held-to-maturity (current) .....	¥ 211,790	¥ —	\$ 2,576,835
Other securities (current).....	—	232,058	—
Deposits and low-risk financial instruments with original maturities of three months or less .....	(132,790)	(142,058)	(1,615,647)
Deposits with original maturities of more than three months .....	9,849	30,000	119,832
<b>Short-term investments.....</b>	<b>¥ 88,849</b>	<b>¥ 120,000</b>	<b>\$ 1,081,020</b>

Loss on devaluation of investment securities were ¥817 million (\$9,940 thousand) and ¥74 million for the years ended March 31, 2012 and 2011, respectively.

Net gain on sale of investment securities was ¥38 million (\$462 thousand) and ¥91 million for the years ended March 31, 2012 and 2011, respectively.

## 5. Inventories

Inventories as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Finished products.....	¥101,790	¥111,918	\$1,238,472
Work in process, raw materials and supplies.....	47,680	57,007	580,119
<b>Total .....</b>	<b>¥149,470</b>	<b>¥168,925</b>	<b>\$1,818,591</b>

The amounts of change in inventory provision included in cost of sales in the consolidated statements of income for the years ended March 31, 2012 and 2011 were an increase of ¥1,115 million (\$13,566 thousand) and ¥1,202 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.

## 7. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2012 and 2011.

## 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 0.40% and 0.39% as of March 31, 2012 and 2011, respectively.

As of March 31, 2012, Tokyo Electron has unused lines of credit amounting to ¥150,248 million (\$1,828,057 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, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Benefit obligation .....	¥(94,369)	¥(89,350)	\$(1,148,181)
Fair value of plan assets .....	45,139	41,282	549,203
Funded status .....	(49,230)	(48,068)	(598,978)
Unrecognized actuarial difference .....	(1,809)	(90)	(22,010)
Unrecognized prior service cost.....	—	25	—
<b>Net amount recognized .....</b>	<b>(51,039)</b>	<b>(48,133)</b>	<b>(620,988)</b>

Amounts recognized in the consolidated balance sheets consist of:

	Millions of yen	Thousands of U.S. dollars
Prepaid pension and severance costs (Note 1) .....	3,607	4,097
Accrued pension and severance costs (Note 2) .....	(54,646)	(52,230)
<b>Net amount recognized .....</b>	<b>¥(51,039)</b>	<b>¥(48,133)</b>

Notes: 1. The prepaid pension and severance costs as of March 31, 2012 and 2011 is included in other assets in the consolidated balance sheets.

2. The provision for accrued pension and severance costs for directors and statutory auditors (¥620 million (\$7,544 thousand) as of March 31, 2012 and ¥596 million as of March 31, 2011) is not included.

Net periodic pension cost of the plans is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost.....	¥5,597	¥5,474	\$68,099
Interest cost .....	1,768	1,666	21,511
Expected return on plan assets.....	(814)	(767)	(9,904)
Amortization of actuarial difference .....	401	286	4,879
Amortization of prior service cost.....	25	100	304
<b>Net pension cost.....</b>	<b>¥6,977</b>	<b>¥6,759</b>	<b>\$84,889</b>

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

	2012 and 2011
Allocation method of benefit obligation.....	<b>Straight-line method</b>
Discount rate .....	<b>2.00%</b>
Expected rate of return on plan assets.....	<b>2.00%</b>
Amortization period of actuarial difference .....	<b>4 years</b>
Amortization period of prior service cost .....	<b>4 years</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 10. Income Taxes

Significant components of the deferred tax assets and liabilities of Tokyo Electron as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
<b>Deferred tax assets</b>			
Accrued pension and severance costs .....	¥ 19,538	¥21,172	\$ 237,717
Tax credit for research and development.....	12,564	5,910	152,865
Elimination of unrealized profit in inventories .....	9,161	10,309	111,461
Devaluation of inventories.....	4,749	4,716	57,781
Accrued warranty expenses.....	2,971	2,795	36,148
Accrued employees' bonuses.....	2,954	4,471	35,941
Net operating loss carryforwards.....	1,609	1,475	19,577
Allowance for doubtful accounts .....	1,035	690	12,593
Other.....	6,994	11,768	85,095
Total gross deferred tax assets.....	61,575	63,306	749,178
Less valuation allowance .....	(15,134)	(9,031)	(184,134)
Total deferred tax assets.....	46,441	54,275	565,044
<b>Deferred tax liabilities</b>			
Undistributed earnings of foreign subsidiaries .....	(3,760)	(3,087)	(45,748)
Net unrealized gains on investment securities.....	(1,981)	(1,916)	(24,103)
Prepaid pension and severance costs .....	(1,200)	(1,635)	(14,600)
Reserves under Special Taxation Measures Law .....	(1,084)	(8)	(13,189)
Other.....	(748)	(1,524)	9,100
Total deferred tax liabilities.....	(8,773)	(8,170)	(106,740)
Net deferred tax assets.....	¥ 37,668	¥46,105	\$ 458,304

Net deferred tax assets are included in the consolidated balance sheets as of March 31, 2012 and 2011 as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current assets.....	¥23,546	¥27,610	\$286,482
Investments and other assets .....	17,585	20,728	213,955
Other current liabilities.....	(1)	(1)	(12)
Other liabilities.....	(3,462)	(2,232)	(42,122)

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 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, 2012 and 2011.

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, 2012 and 2011. On December 2, 2011, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 38.01% for years beginning on or after April 1, 2012 and 35.64% for years beginning on or after April 1, 2015. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2012 to March 31, 2015 and on or after April 1, 2015 are 38.01% and 35.64%, respectively, as of March 31, 2012. Due to these changes in statutory income tax rates, net deferred tax assets decreased by ¥3,310 million (\$40,273 thousand) as of March 31, 2012 and deferred income tax expense recognized for the year ended March 31, 2012 increased by ¥3,587 million (\$43,643 thousand).

Significant components of the difference between the statutory and effective tax rates for the years ended March 31, 2012 and 2011 are as follows:

	2012	2011
Statutory tax rate in Japan .....	40.69 %	40.69 %
Adjustments:		
Effect of enacted changes in Japanese tax rates on net deferred tax assets .....	5.92	—
Tax credit for research and development .....	(5.20)	(7.22)
Difference in statutory tax rates of subsidiaries.....	(4.04)	(2.26)
Others, net .....	1.28	(4.33)
Effective tax rate .....	38.65 %	26.88 %

### 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 15, 2012, the distribution of cash dividends amounting to ¥4,837 million (\$58,851 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2012 since they are recognized in the period in which they are resolved at the board of directors' meeting.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 12. Other Comprehensive Income (loss)

Other comprehensive income for the year ended March 31, 2012 is as follows:

	Thousands of U.S. dollars	
	2012	2012
Net unrealized gains on investment securities		
Unrealized gains arising during the year	¥ 302	\$ 3,674
Reclassification adjustments	531	6,461
Sub-total, before tax	833	10,135
Tax expense	(64)	(779)
Sub-total, net of tax	769	9,356
Net deferred losses on hedging instruments		
Deferred losses arising during the year	(9)	(109)
Reclassification adjustments	(101)	(1,229)
Sub-total, before tax	(110)	(1,338)
Tax benefit	41	499
Sub-total, net of tax	(69)	(839)
Foreign currency translation adjustments		
Adjustments during the year	(925)	(11,254)
Reclassification adjustments	—	—
Sub-total, before tax	(925)	(11,254)
Tax (expense) or benefit	—	—
Sub-total, net of tax	(925)	(11,254)
Total other comprehensive income (loss)	¥(225)	\$ (2,737)

Tax effects and amounts reclassified to net income in the period that were recognized in other comprehensive income in the current or previous periods (reclassification adjustments) are required to be disclosed effective from the year ended March 31, 2012.

## 13. 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.

Options to purchase 234,200 shares of the Company were authorized and granted at an exercise price of ¥1 for the year ended March 31, 2012. The options under the plans have an exercise period of twenty years from the date of grant, with restriction on exercise up to three years after the date of grant. No options to purchase shares of the Company were authorized and granted for the year ended March 31, 2011.

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, 2012 and 2011 is as follows:

Tokyo Electron Limited	2012			2011		
	Number of shares	Weighted-average exercise price		Number of shares	Weighted-average exercise price	
		Yen	U.S. dollars		Yen	U.S. dollars
Outstanding at the beginning of year	1,296,800	¥ 5,086	\$ 61.88	1,779,100	¥ 5,720	—
Granted	234,200	1	0.01	—	—	—
Exercised	111,100	1	0.01	67,100	1	—
Expired (forfeited)	586,600	6,786	82.56	415,200	8,625	—
Outstanding at the end of year	833,300	3,139	38.19	1,296,800	5,086	—
Exercisable at the end of year	599,100	4,365	53.11	1,120,500	5,886	—
Tokyo Electron Device Limited	2012			2011		
	Number of shares	Weighted-average exercise price		Number of shares	Weighted-average exercise price	
		Yen	U.S. dollars		Yen	U.S. dollars
Outstanding at the beginning of year	650	¥308,698	\$3,755.91	650	¥308,698	—
Granted	—	—	—	—	—	—
Exercised	—	—	—	—	—	—
Expired (forfeited)	—	—	—	—	—	—
Outstanding at the end of year	650	308,698	3,755.91	650	308,698	—
Exercisable at the end of year	650	308,698	3,755.91	650	308,698	—

## 14. Leases

As mentioned in note 2 (m), 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, 2012 and 2011, are as follows:

Leased assets not recorded in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Acquisition cost	¥286	¥947	\$3,480
Accumulated depreciation	216	690	2,628
Net leased property	¥ 70	¥257	\$ 852

Future minimum lease payments:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥48	¥139	\$584
Due over one year	22	118	268
Total	¥70	¥257	\$852

Lease payments relating to finance leases accounted for as operating leases amounted to ¥97 million (\$1,180 thousand) and ¥158 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, 2012 and 2011, respectively.

Future minimum lease payments on non-cancelable operating leases:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥2,013	¥1,984	\$24,492
Due over one year	2,905	4,361	35,345
Total	¥4,918	¥6,345	\$59,837

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 15. Fair Value of Financial Instruments

## Policy for Financial Instruments

Tokyo Electron limits its fund management to short-term bank deposits and low-risk financial instruments, 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 counterparties. 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 low risk financial instruments 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.

Short-term borrowings and trade payables, which consist of notes and accounts 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 16 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, 2012 and 2011, are set out below. Fair value of financial instruments which is practically difficult to estimate are excluded (see note 4).

	Millions of yen	
	Carrying amount	Estimated fair value <sup>1</sup>
<b>2012:</b>		
Assets		
Cash and cash equivalents.....	<b>¥158,776</b>	<b>¥158,776</b>
Short-term investments .....	<b>88,849</b>	<b>88,638</b>
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥1,376 million).....	<b>148,930</b>	<b>148,930</b>
Investment securities .....	<b>14,699</b>	<b>14,699</b>
Liabilities		
Short-term borrowings .....	<b>4,403</b>	<b>4,403</b>
Trade notes and accounts payable .....	<b>58,243</b>	<b>58,243</b>
Derivatives (see note 16)		
Hedge accounting not applied.....	<b>(400)</b>	<b>(400)</b>
Hedge accounting applied.....	<b>(153)</b>	<b>(153)</b>

	Millions of yen	
	Carrying amount	Estimated fair value <sup>1</sup>
<b>2011:</b>		
Assets		
Cash and cash equivalents.....	¥165,051	¥165,051
Short-term investments .....	120,000	120,000
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥1,154 million).....	135,231	135,231
Investment securities .....	14,445	14,445
Liabilities		
Short-term borrowings .....	7,996	7,996
Trade notes and accounts payable .....	63,766	63,766
Derivatives (see note 16)		
Hedge accounting not applied.....	327	327
Hedge accounting applied.....	(44)	(44)

	Thousands of U.S. dollars	
	Carrying amount	Estimated fair value <sup>1</sup>
<b>2012:</b>		
Assets		
Cash and cash equivalents.....	<b>\$1,931,817</b>	<b>\$1,931,817</b>
Short-term investments .....	<b>1,081,020</b>	<b>1,078,452</b>
Trade notes and accounts receivable, net of allowance for doubtful accounts (\$16,742 thousand).....	<b>1,812,021</b>	<b>1,812,021</b>
Investment securities .....	<b>178,842</b>	<b>178,842</b>
Liabilities		
Short-term borrowings .....	<b>53,572</b>	<b>53,572</b>
Trade notes and accounts payable .....	<b>708,639</b>	<b>708,639</b>
Derivatives (see note 16)		
Hedge accounting not applied.....	<b>(4,866)</b>	<b>(4,866)</b>
Hedge accounting applied.....	<b>(1,862)</b>	<b>(1,862)</b>

Receivables and payables derived from derivative transactions are stated on a net basis. The figures in parentheses represent net payables.

Note: 1. Fair value calculation of financial instruments

Cash and cash equivalents, trade notes and accounts receivable, short-term investments, short-term borrowings and trade notes and accounts 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 16 for detailed discussion on derivative financial instruments.

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

	Millions of yen	
	Within 1 year	After 1 through 5 years
<b>2012:</b>		
Cash and cash equivalents .....	<b>¥158,776</b>	¥ -
Short-term investments.....	<b>88,849</b>	-
Trade notes and accounts receivable .....	<b>150,306</b>	-

	Thousands of U.S. dollars	
	Within 1 year	After 1 through 5 years
<b>2011:</b>		
Cash and cash equivalents .....	¥165,051	¥ -
Short-term investments.....	120,000	-
Trade notes and accounts receivable .....	136,385	-

	Thousands of U.S. dollars	
	Within 1 year	After 1 through 5 years
<b>2012:</b>		
Cash and cash equivalents .....	<b>\$1,931,817</b>	\$ -
Short-term investments.....	<b>1,081,020</b>	-
Trade notes and accounts receivable .....	<b>1,828,763</b>	-

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

	Millions of yen		
	Within 1 year	After 1 through 2 years	After 2 through 5 years
<b>2012:</b>			
Short-term borrowings.....	<b>¥4,403</b>	¥ -	¥ -
Capital lease obligations.....	<b>335</b>	<b>267</b>	<b>42</b>

	Millions of yen		
	Within 1 year	After 1 through 2 years	After 2 through 5 years
<b>2011:</b>			
Short-term borrowings.....	¥7,996	¥ -	¥ -
Capital lease obligations.....	127	103	64

	Thousands of U.S. dollars		
	Within 1 year	After 1 through 2 years	After 2 through 5 years
<b>2012:</b>			
Short-term borrowings.....	<b>\$53,572</b>	\$ -	\$ -
Capital lease obligations.....	<b>4,076</b>	<b>3,249</b>	<b>511</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 16. 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 semi-annual basis to the Corporate Director in charge of Finance.

The estimated fair values of the derivative financial instruments as of March 31, 2012 and 2011 are as follows:

#### 1. Derivative financial instruments not designated as hedging instruments

	Millions of yen		
	Contract Amount	Fair value	Unrealized gains (losses)
<b>2012:</b>			
Sell U.S. dollars .....	¥ 9,874	¥(464)	¥(464)
Sell Korean won.....	701	23	23
Buy U.S. dollars.....	5,804	41	41
<b>Total .....</b>	<b>¥16,379</b>	<b>¥(400)</b>	<b>¥(400)</b>

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

	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gains (losses)
<b>2012:</b>			
Sell U.S. dollars .....	\$120,136	\$(5,645)	\$(5,645)
Sell Korean won.....	8,529	280	280
Buy U.S. dollars.....	70,617	499	499
<b>Total .....</b>	<b>\$199,282</b>	<b>\$(4,866)</b>	<b>\$(4,866)</b>

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

#### 2. Derivative financial instruments designated as hedging instruments

	Millions of yen		Thousands of U.S. dollars	
	Contract Amount	Fair value	Contract Amount	Fair value
<b>2012: Hedge accounting</b>				
Sell U.S. dollars .....	¥ 6,879	¥(181)	\$ 83,696	\$(2,203)
Sell Korean won.....	85	(7)	1,034	(85)
Sell Chinese yuan.....	192	1	2,336	12
Buy U.S. dollars.....	4,325	17	52,622	207
Buy EURO .....	195	17	2,373	207
<b>Total .....</b>	<b>¥11,676</b>	<b>¥(153)</b>	<b>\$142,061</b>	<b>\$(1,862)</b>

	Millions of yen	
	Contract Amount	Fair value
<b>2011: Hedge accounting</b>		
Sell U.S. dollars .....	¥ 6,411	¥(54)
Sell Korean won.....	37	11
Buy U.S. dollars.....	4,099	(1)
<b>Total .....</b>	<b>¥10,547</b>	<b>¥(44)</b>

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		Thousands of U.S. dollars
	2012	2011	
Sell U.S. dollars .....	¥ 58	¥ 90	\$ 705
Sell Chinese yuan.....	9,854	—	119,893
Buy U.S. dollars.....	65	62	791
<b>Total .....</b>	<b>¥9,977</b>	<b>¥152</b>	<b>\$121,389</b>

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 and liabilities.

### 17. Other Income (Expenses)

Reversal of allowance for doubtful accounts of ¥1,892 million 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 were recognized as a result of the transfer of etch system business for the year ended March 31, 2011.

Loss from natural disasters of ¥936 million (\$11,388 thousand) and ¥1,114 million for the years ended March 31, 2012 and 2011, respectively, represents losses relating to the Great East Japan Earthquake which occurred on March 11, 2011, which mainly consists of repair costs for damaged facilities and fixed costs during the inactive period and repair costs for damaged facilities.

Loss on business restructuring of ¥849 million (\$10,330 thousand) for the year ended March 31, 2012 consists of devaluation of inventories, loss on impairment of property, plant and equipment and loss on disposal of inventories and property, plant and equipment.

### 18. 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, discrete financial information is available and its operating result is regularly reviewed by 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 reportable segment net sales, segment profit, segment assets and other items

The accounting policies applied in each reportable segment are generally consistent with those 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 those assets have been allocated to reportable segments on a systematic basis.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Information about reportable segment net sales, segment profit, segment assets and other items

Reportable segment information as of and for the year ended March 31, 2012 and 2011 are as follows:

	Reportable Segment				Total	Eliminations and Corporate	Consolidated
	Semiconductor production equipment	FPD/PV production equipment	Electronic components & computer networks	Other			
Millions of yen							
<b>2012:</b>							
Net sales							
Sales to external customers.....	¥477,873	¥69,889	¥84,868	¥ 461	¥633,091	¥ -	¥633,091
Intersegment sales or transfers.....	-	-	1,432	14,565	15,997	(15,997)	-
Total .....	477,873	69,889	86,300	15,026	649,088	(15,997)	633,091
Segment profit.....	89,020	2,271	2,312	1,827	95,430	(34,828)	60,602
Segment assets.....	262,789	21,295	46,391	1,927	332,402	451,209	783,611
Depreciation and amortization.....	11,282	687	570	170	12,709	11,489	24,198
Capital expenditures, including intangible and other assets.....	13,518	672	407	36	14,633	28,572	43,205

	Reportable Segment				Total	Eliminations and Corporate	Consolidated
	Semiconductor production equipment	FPD/PV production equipment	Electronic components & computer networks	Other			
Millions of yen							
<b>2011:</b>							
Net sales							
Sales to external customers.....	¥511,332	¥66,721	¥90,216	¥ 453	¥668,772	¥ -	¥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
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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Thousands of U.S. dollars						
	Reportable Segment			Other	Total	Eliminations and Corporate	Consolidated
	Semiconductor production equipment	FPD/PV production equipment	Electronic components & computer networks				
<b>2012:</b>							
Net sales							
Sales to external customers	\$5,814,247	\$850,335	\$1,032,583	\$ 5,609	\$7,702,774	\$ –	\$7,702,774
Intersegment sales or transfers	–	–	17,423	177,211	194,634	(194,634)	–
Total	5,814,247	850,335	1,050,006	182,820	7,897,408	(194,634)	7,702,774
Segment profit	1,083,100	27,631	28,130	22,229	1,161,090	(423,750)	737,340
Segment assets	3,197,335	259,095	564,436	23,446	4,044,312	5,489,828	9,534,140
Depreciation and amortization	137,267	8,359	6,935	2,068	154,629	139,786	294,415
Capital expenditures, including intangible and other assets	164,473	8,176	4,952	438	178,039	347,633	525,672

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 ¥34,828 million (\$423,750 thousand) and ¥32,731 million for the years ended March 31, 2012 and 2011, respectively, includes corporate expenses not allocated to any reportable segments. The corporate expenses mainly consist of research and development costs of ¥26,071 million (\$317,204) and ¥22,719 million for the years ended March 31, 2012 and 2011, respectively, pertaining to fundamental research and element research, not allocated to any of the reportable segments.

(2) "Eliminations and Corporate" segment assets totaling ¥451,209 million (\$5,489,828 thousand) and ¥474,337 million as of March 31, 2012 and 2011, respectively, consist mainly of cash and cash equivalents, short-term investments and buildings not allocated to any of the reportable segments.

3. "Eliminations and Corporate" capital expenditures totaling ¥28,572 million (\$347,633 thousand) and ¥26,723 million for the years ended March 31, 2012 and 2011, respectively, consist mainly of capital expenditures for buildings not allocated to any of the reportable segments.

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

## Other Information

(1) Domestic and overseas net sales by destination for the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Net sales			
Japan	¥171,364	¥182,165	\$2,084,974
United States of America	114,951	103,013	1,398,601
Korea	114,218	106,374	1,389,682
Taiwan	86,882	169,276	1,057,087
Other	145,676	107,894	1,772,430
Total	¥633,091	¥668,722	\$7,702,774

Note: Sales are classified in countries or regions based on location of customers.

(2) Net property, plant and equipment by location as of March 31, 2012 and 2011 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Japan	Other	Total	Japan	Other	Total
<b>2012:</b>						
Property, plant and equipment	¥107,874	¥19,011	¥126,885	\$1,312,495	\$231,306	\$1,543,801

	Millions of yen		
	Japan	Other	Total
2011:			
Property, plant and equipment	¥ 97,775	¥14,777	¥112,552

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (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	Thousands of U.S. dollars
		2012	2012
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD/PV production equipment	¥116,919	\$1,422,545
Intel Corporation	Semiconductor production equipment	90,399	1,099,878

Name of customer	Related reportable segment	Millions of yen
		2011
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD/PV production equipment	¥101,074

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

### 19. Subsequent Event

#### Grant of stock options under stock option plans

On May 15, 2012, 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, option to purchase up to 53,800 shares of the Company at an exercise price of ¥1 (\$0.01), will be granted to directors of the Company as of March 31, 2012 (excluding outside directors and directors who resigned on June 22, 2012), and options to purchase up to 77,000 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, 2012, certain directors of the Company who resigned on June 22, 2012, certain directors and executive officers of domestic subsidiaries and certain chairmen, presidents, and vice chairmen of overseas subsidiaries as of March 31, 2012, who were 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 annual general meeting of the shareholders of the Company on June 22, 2012.



## INDEPENDENT AUDITORS' REPORT



To the Board of Directors  
of Tokyo Electron Limited:

We have audited the accompanying consolidated financial statements of Tokyo Electron Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tokyo Electron Limited and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

June 22, 2012  
Tokyo, Japan

KPMG AZSA LLC

**GROUP COMPANIES**

As of March 31, 2012, the Tokyo Electron Group was made up of the parent company and its 30 consolidated subsidiaries.

Company	Main business
<b>JAPAN</b>	
Consolidated subsidiaries	
Tokyo Electron Yamanashi Limited	Manufacture and development
Tokyo Electron Kyushu Limited	Manufacture and development
Tokyo Electron Tohoku Limited	Manufacture and development
Tokyo Electron Miyagi Limited	Manufacture and development
Tokyo Electron TS Limited	Manufacture and development
Tokyo Electron Technology Development Institute, Inc.	Manufacture and development
Tokyo Electron Software Technologies Limited	Development
Tokyo Electron PV Limited	Development
Tokyo Electron FE Limited	Field solutions
Tokyo Electron Device Limited	Sales
Tokyo Electron BP Limited	Logistics, leasing, facility management, etc.
Tokyo Electron Agency Limited	Nonlife insurance
Pan Electron Limited	Sales
<b>AMERICA</b>	
Consolidated subsidiaries	
Tokyo Electron U.S. Holdings, Inc.	Holding company
Tokyo Electron America, Inc.	Sales and field support
Timbre Technologies, Inc.	Development
TEL Technology Center, America, LLC	Development
TEL Epion Inc.	Development
TEL Venture Capital, Inc.	Identification and evaluation of new technologies

Company	Main business
<b>EUROPE</b>	
Consolidated subsidiaries	
Tokyo Electron Europe Limited	Sales and field support
Tokyo Electron Israel Limited	Field support
<b>ASIA</b>	
Consolidated subsidiaries	
Tokyo Electron Korea Limited	Sales and field support
Tokyo Electron Korea Solution Limited	Field solutions
Tokyo Electron Taiwan Limited	Sales and field support
Tokyo Electron (Kunshan) Limited	Manufacture
Tokyo Electron (Shanghai) Limited	Sales and field support
Tokyo Electron (Shanghai) Logistic Center Limited	Logistics
Tokyo Electron Device Asia Pacific Limited	Sales
Tokyo Electron Device Singapore Pte. Ltd.	Sales
Tokyo Electron India Private Limited	Sales and field support

## INVESTOR INFORMATION

(As of March 31, 2012)

### Corporate Name and Head Office:

Tokyo Electron Limited  
Akasaka Biz Tower  
3-1 Akasaka 5-chome, Minato-ku,  
Tokyo 107-6325, Japan

### Established:

November 11, 1963

### Annual General Meeting of Shareholders:

June

### Common Stock:

Stock trading unit	100 shares
Authorized	300,000,000 shares
Issued and outstanding	180,610,911 shares
Number of shareholders	42,414

### Common Stock Listed on:

The Tokyo Stock Exchange 1st Section (#8035)

### Independent Auditors:

KPMG AZSA LLC

### Administrator of Shareholders' Register:

Sumitomo Mitsui Trust Bank, Limited  
8-4 Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan  
Tel (toll free): 0120-782-031 (available only in Japan)

### For Further Information, Contact:

Investor Relations  
Tokyo Electron Limited  
Akasaka Biz Tower  
3-1 Akasaka 5-chome, Minato-ku,  
Tokyo 107-6325, Japan  
Tel: +81-3-5561-7000

### URL:

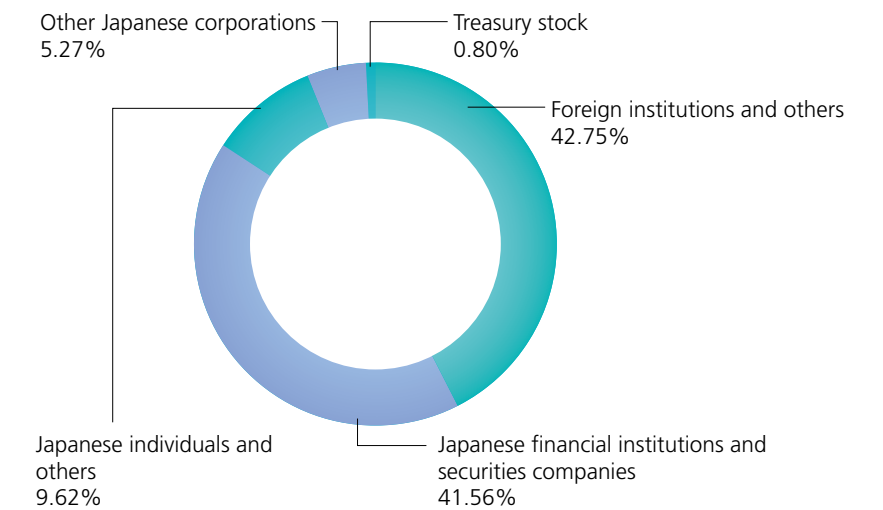
<http://www.tel.com>

### Principal Shareholders:

	Number of shares held (thousands)	Voting share ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	19,501	10.88
Japan Trustee Services Bank, Ltd. (trust account)	15,183	8.47
Tokyo Broadcasting System Holdings, Inc.	7,727	4.31
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	4,262	2.37
State Street Bank and Trust Company 505225	4,175	2.33
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	3,849	2.14
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	2,948	1.64
JPMorgan Securities Japan Co., Ltd.	2,908	1.62
Trust & Custody Services Bank, Ltd. (Investment trust account)	2,714	1.51
Mellon Bank Treaty Clients Omnibus	2,366	1.32

Shares of less than one thousand have been rounded down in the "Number of shares held."  
Voting share ratio is calculated by the number of shares held excluding treasury stocks (1,446,079 shares).

### Distribution of Ownership Among Shareholders:



### Stock Price and Trading Volume

