TOKYO ELECTRON

ANNUAL REPORT 2019

For the Year Ended March 31, 2019

PR57-156

Contents

Corporate Philosophy

We strive to contribute to the development of a dream-inspiring society through our leading-edge technologies and reliable service and support.

Vision

A truly global company generating high added value and profits in the semiconductor and flat panel display industries through innovative technologies and groundbreaking proactive solutions that integrate diverse technologies.

The Corporate Philosophy defines the purpose of Tokyo Electron's existence and its mission in society. It represents Tokyo Electron's basic way of thinking and forms the foundation for its corporate activities.

The Vision describes Tokyo Electron's medium- to long-term business aspirations and the direction of Tokyo Electron's near future. Jointly with the Medium-term Management Plan, the Vision defines Tokyo Electron's focus in the industry.

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Disclaimer

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 markets
- Changes in the demand for products and services manufactured or offered by Tokyo Electron's customers, such as semiconductor manufacturers, FPD 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 15.

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To Our Stakeholders

Technology is Creating the Societies of the Future

To begin, we would like to express our gratitude for the ongoing support and confidence of our shareholders, investors and all of Tokyo Electron's stakeholders.

In 2018, the wafer fab equipment market grew to its largest ever, spurred by continued expansion in demand for mobile devices and data centers. In the flat panel display (FPD) production equipment market, capital investment remained strong for large-size TV production. Tokyo Electron increased its market share in these expanding markets and improved productivity. As a result, fiscal 2019 net sales, operating income and net income attributable to owners of the parent all reached record highs. Furthermore, ROE hit 30.1%, surpassing our medium-term management plan target of 30%.

The semiconductor and FPD production equipment markets are expected to continue expanding over the long term, reflecting broadening applications and growing technological needs related to the adoption of such new technologies as next-generation 5G telecommunications standards and artificial intelligence. By providing innovative technologies and solutions that integrate diverse technologies, we aim to sustainably improve Tokyo Electron's corporate value and thereby contribute to the development of a dream-inspiring society.

We look forward to your continued confidence and support.

Tetsuo Tsuneishi
Representative Director
Chairman of the Board

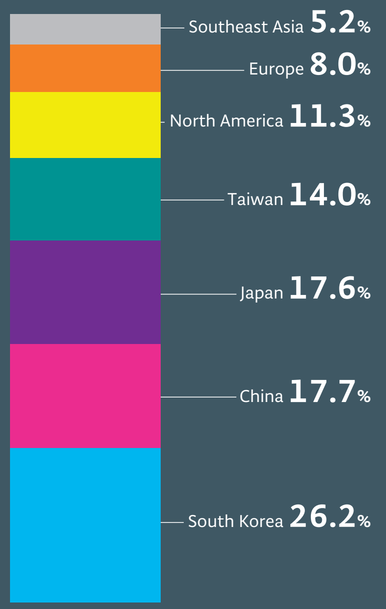
Toshiki Kawai
Representative Director
President & CEO

Business Overview and Financial Highlights

Semiconductor Production Equipment

- Coater/Developer
- Etch System
- Deposition System
- Cleaning System
- Wafer Prober

Sales by Region



Semiconductor devices are broadly used in mobile devices, such as smartphones and tablets, as well as the data centers that are indispensable for the processing of big data. With the arrival of the IoT, semiconductor applications will expand in all fields, from consumer electronics and automobiles to medicine and healthcare. Tokyo Electron provides a wide range of semiconductor production equipment used to manufacture such semiconductors along with reliable technical support and service. The main categories of our product lineup are coater/developers, etch systems, deposition systems and cleaning systems used in wafer processing as well as wafer probers used in the wafer testing process. In addition, we also offer such products as wafer bonders/debonders used in advanced packaging processes.

Coater/Developer CLEAN TRACK™ LITHIUS Pro™ Z

Plasma Etch System Tactras™

ALD System NT333™

Single Wafer Deposition System Triase+™

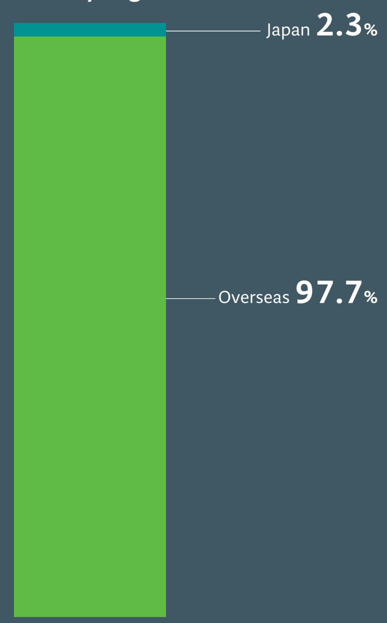
Single Wafer Cleaning System CELLESTA™ -*i*

Wafer Prober Precio™ XL

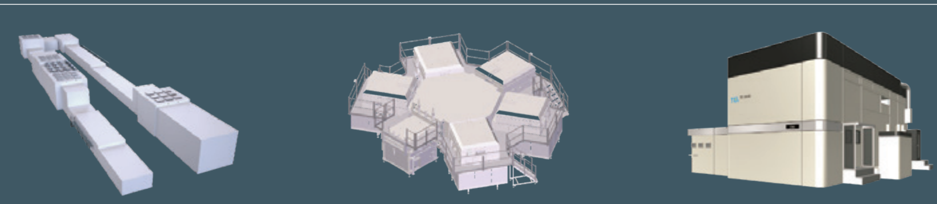
FPD Production Equipment

- FPD Coater/Developer
- FPD Etch/Ash System
- Inkjet Printing System for Manufacturing OLED Panels

Sales by Region



Flat panel displays (FPDs) are an essential part of everyday life, employed in such products as TVs, smartphones and tablets. Going forward, applications for FPDs are expected to expand even further with the adoption of flexible displays. Tokyo Electron supplies coater/developers and etch/ash systems for manufacturing FPDs along with solid technical support and service. We also offer inkjet printing systems for manufacturing OLED panels to take advantage of the expanding OLED display market.

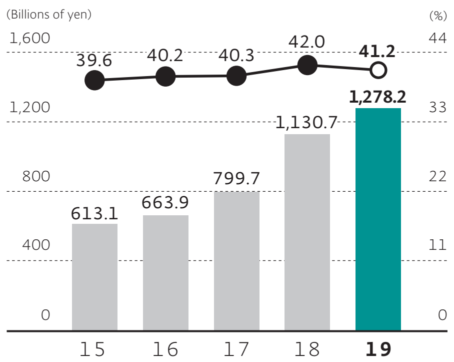


FPD Coater/Developer Exceliner™

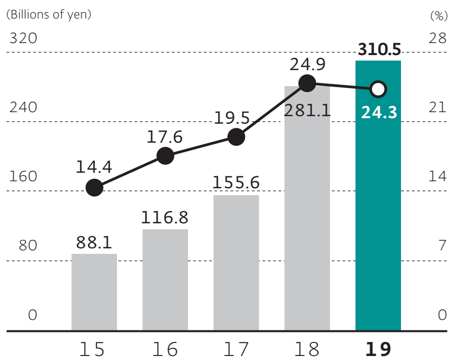
FPD Plasma Etch/Ash System Betelex™

Inkjet Printing System for Manufacturing OLED Panels Elius™

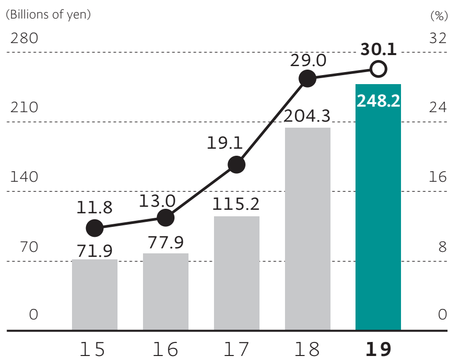
Net Sales and Gross Profit Margin



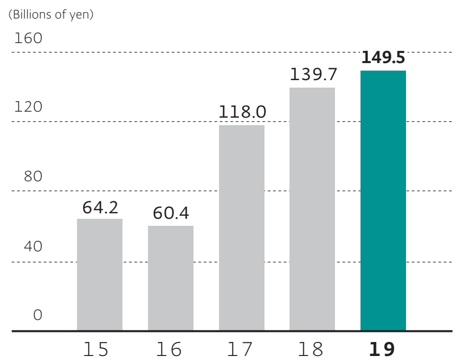
Operating Income and Operating Margin



Net Income Attributable to Owners of Parent and ROE

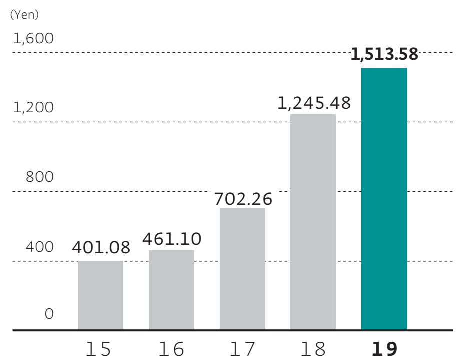


Free Cash Flow

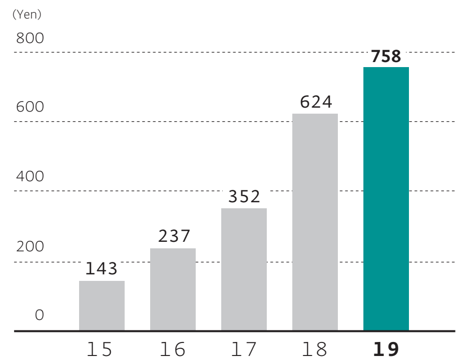


Free Cash Flow = Cash flows from operating activities + Cash flows from investing activities (excluding changes in short-term investments with original maturities of less than one year)

Net Income per Share



Cash Dividends per Share



The amounts in this report in billions, millions and thousands of yen; thousands of U.S. dollars; and thousands of shares as of and for the years ended March 31, 2016 and prior are rounded to the nearest unit. Such amounts as of and for the years ended March 31, 2017 and onward, including year-on-year differences, are truncated at the nearest unit. Accordingly, totals for the years ended March 31, 2017 and onward do not necessarily agree with the sum of the corresponding individual amounts.

Interview with the CEO

The Dawn of the Big Data Era

Targeting World-Class Profitability

Question 01

Tokyo Electron achieved record-high profit[1] in fiscal 2019; how is the medium-term management plan progressing?

Tokyo Electron has been working to expand sales and profit in the key fields of etch, deposition and cleaning. We are focusing on these fields over the medium term in expectation of ongoing technological innovation and market expansion, and because they offer opportunities to leverage our accumulated technologies and business expertise.

Over the last five years, the wafer fab equipment (WFE)[2] market has rapidly expanded from around US$30 billion to almost US$60 billion. In that time, Tokyo Electron has reorganized its business units to combine best known methods for various products while advancing highly efficient product development through coordination between development and account sales divisions. These and other efforts have steadily grown our market share and significantly improved the profitability of our products. In addition, thanks to increases in our installed base and support capabilities, the field solutions business (encompassing sales of parts and used equipment, modifications and maintenance services) has grown substantially. As a result, sales and profit growth has outpaced market growth, and we have reached the ROE target established in the medium-term management plan. We are very pleased with these achievements, which reaffirm that our business strategies are progressing as planned. Going forward, we will continue to improve product competitiveness, responsiveness to customers and productivity to realize further business expansion.

1 Gross profit, operating income and net income attributable to owners of the parent reached record highs.

2 Wafer fab equipment (WFE): The semiconductor production process is divided into front-end production, in which circuits are formed on wafers and inspected, and back-end production, in which wafers are cut into chips, assembled and inspected again. WFE refers to the production equipment used in front-end production and in wafer-level packaging production.

Toshiki Kawai
Representative Director
President & CEO

Question 02

After several years of expansion, the WFE market is expected to contract in 2019. What changes are occurring in Tokyo Electron's business environment?

Over the past two years in particular, we have seen brisk investment in expanding DRAM and NAND production capacity, reflecting increased memory in mobile devices and a shift in demand from HDDs to SSDs for personal computers and data centers. There has been a great deal of greenfield investment in NAND, due to the shift from 2D to 3D device structures. Semiconductor demand remains robust, but supply of CPUs, which are necessary for use with memory devices, has fallen behind, so memory device manufacturers are temporarily adjusting their capital investment. Furthermore, another factor behind the contraction is likely that some investment in data centers is on hold as companies wait for the release of new CPUs and peripheral devices suitable for 5G applications.

Due to the shrinkage of the WFE market, Tokyo Electron forecasts a year-on-year decrease in net sales in fiscal 2020. The importance of semiconductors going forward, however, is not going anywhere. Taking the current market adjustment as an opportunity, in fiscal 2020, we are steadily investing in strategic technological development and human resources, with a focus on future growth. Maintaining industry-leading technological innovativeness is, I believe, crucial.

Question 03

Could you explain how you arrived at the new financial model announced in May 2019?

In addition to the adjustment in investment by semiconductor manufacturers, we continue to monitor risks to the macro economy, such as the U.S.-China trade friction and Brexit negotiations. However, as when we announced our previous financial model last year, we still expect continued growth in the semiconductor and flat panel display (FPD) markets over the medium and long terms. With such developments as the IoT and 5G, all kinds of things will be connected to networks, and data traffic will grow exponentially. At the same time, the establishment of systems to process and analyze vast amounts of data, including data centers and AI, will accelerate the transition to the big data era. The expansion of applications and technological innovation in semiconductor and FPDs will power this transition.

We amended our financial model to reflect this medium- to long-term outlook. We retained the projections of the model announced last year for net sales and operating income and supplemented these with a new scenario of ¥2 trillion in net sales. We also removed the upper limit on ROE, making our target simply "over 30%." We aim to realize growth in line with this model within five years. Previously, we linked our sales targets to projected WFE market size, but the new model intentionally drops this linkage. This decision reflects a shift in focus from the WFE market size estimates of external research institutions to the SAM[3] in which we are focusing our efforts on business expansion and improved profitability. Going forward, we will strive to achieve an operating margin of over 30% and ROE of over 30%.

3 SAM: Served available market

WEB For details on the medium-term management plan, please visit our website.
www.tel.com/ir/policy/mplan/

Financial Model (within 5 years)

Net sales	¥1,500 billion	¥1,700 billion	¥2,000 billion
Operating margin	26.5%	28%	>30%
ROE		>30%	

Question 04

How does Tokyo Electron aim to grow in the medium- to long-term in order to achieve the new financial model's targets?

The big data era is upon us, requiring even higher-performance semiconductors and FPDs. In turn, the technological requirements facing production equipment manufacturers are constantly growing more sophisticated. Boasting diverse technologies and a wide-ranging product lineup, Tokyo Electron is among the few manufacturers that can meet these rising expectations. We are focusing on fields where we expect ongoing technological innovation and market growth, and in which we can leverage our strengths, working to increase our market share and profitability.

As you know, Tokyo Electron is a manufacturer. We believe that constantly striving to provide the best products and best services on the market is the key to sustained growth. In line with this belief, we will invest ¥400 billion in research and development over the coming three years. We will also enhance development and production capabilities in etch and deposition, where we expect outsized growth. Tokyo Electron possesses technologies related to such key processes as lithography, etching, deposition and cleaning. To leverage these strengths and provide solutions that co-optimize multiple processes, we will conduct joint development with customers from the early stages of each new technology node. In addition, by identifying and addressing technological needs and product requirements before mass production, we will further improve the efficiency of technology marketing and development. We will reflect the technological expertise gained through these initiatives in next-generation equipment to create a virtuous cycle, enhancing customer satisfaction and advancing development, always a step ahead of the competition.

Furthermore, we are targeting stable growth in the field solutions business by leveraging the insights provided by our installed base, which is the largest in the industry. Increasingly sophisticated process technologies are more reliant on proper maintenance to ensure that equipment consistently operates at optimal performance. By realizing high-value-added services, such as predictive maintenance using equipment operational data, we will provide support that maximizes uptime and improves yields for our customers. Through these measures, we aim to achieve the targets of the new financial model and increase corporate value over the long term.

Question 05

What led to the decision to implement a share repurchase of up to ¥150 billion, and what is your approach to using cash on hand going forward?

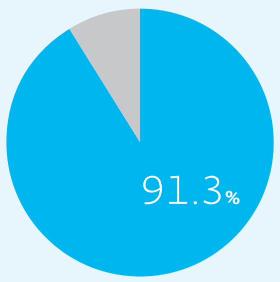
Our shareholder return policy is to maintain a payout ratio of 50% of net income attributable to owners of the parent and flexibly consider share repurchases. Based on this policy, annual cash dividends for fiscal 2019 came to ¥758 per share, a record high. The share repurchase announced in May 2019 is also in line with this policy. The decision to implement the buyback stems from our belief that our growth potential was not adequately reflected in our stock price, as well as our confidence that Tokyo Electron will realize profit growth going forward.

As for uses of cash on hand, investment in future growth is our foremost priority. Tokyo Electron's growth depends on continuously creating innovative technologies that solve the constantly evolving challenges our customers face. In addition to our internal research and development, we will collaborate with consortia. We are often asked about M&A, and we do not rule out the possibility. M&A could be an option provided we can realistically expect solid return on investment, medium- to long-term business expansion, clear benefit to our stakeholders and increased shareholder value. When approaching such opportunities, however, we will also consider the potential for business collaboration. We will continue to manage our balance sheet appropriately with due consideration placed on our ability to generate cash, maintain necessary cash on hand and preserve capital for growth investments going forward.

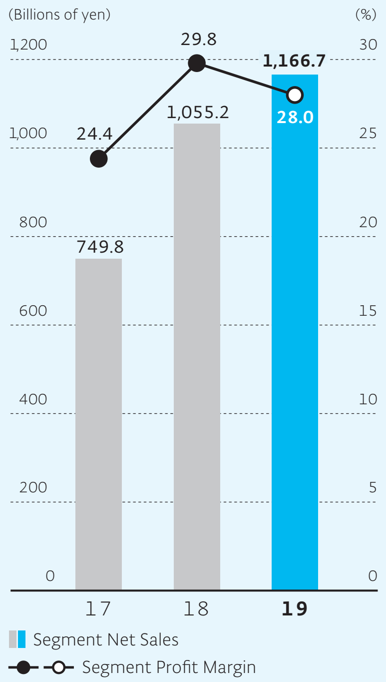
Review of Operations and Business Outlook

Semiconductor Production Equipment (SPE)

Share of Net Sales



Segment Net Sales and Profit Margin



Segment profit corresponds to income before income taxes on the consolidated statements of income.

2018 Business Environment

Investment in semiconductors for mobile devices and data centers was robust, backed by growing data traffic due in part to the spread of streaming and downloadable video services. Under these conditions, capital investment, especially in DRAM, saw significant growth. As a result, the 2018 global market for wafer fab equipment (WFE)[1] grew 16% year on year to a record high of about US$59 billion.

1 Wafer fab equipment (WFE): The semiconductor production process is divided into front-end production, in which circuits are formed on wafers and inspected, and back-end production, in which wafers are cut into chips, assembled and inspected again. WFE refers to the production equipment used in front-end production and in wafer-level packaging production.

Fiscal 2019 Business Overview

Segment net sales grew 10.6% year on year to ¥1,166.7 billion.

- By application, sales of equipment for DRAM grew substantially year on year.
- By product, etch systems saw especially large growth in both market share and sales, due in significant part to increased market share of products for key 3D NAND processes.
- Sales in the field solutions business (encompassing sales of parts and used equipment, modifications and maintenance services) rose 14.8% year on year to ¥288.2 billion, reflecting growth in parts sales.

The segment profit margin decreased from 29.8% in the previous fiscal year to 28.0%, due to aggressive investment aimed at medium- and long-term growth.

Business Outlook

Semiconductor demand is expected to expand over the medium to long term, due to dramatically increasing data traffic resulting from the adoption of such technologies as IoT and AI. Within the SPE market, Tokyo Electron particularly expects ongoing innovation and market expansion in etch, deposition and cleaning systems, and has designated these as its three key fields. By differentiating our technologies and services in these fields, we aim to grow sales and profit.

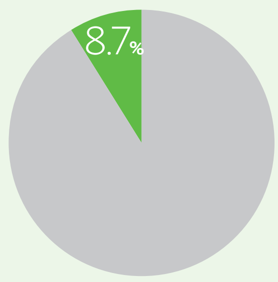
As the miniaturization of DRAM and logic chips continues and the number of layers in 3D NAND increases, the use of new materials and increasingly complex device structures are creating greater technological challenges. To turn these business opportunities into growth, in the area of etch, we will strengthen our competitive advantage based on process performance and productivity in HARC,[2] interconnects and patterning processes. In deposition, we boast technologies for batch, semi-batch and single wafer processes, and we will leverage this strength to offer optimal deposition methods while advancing the development of technologies for new materials. In cleaning, we will provide technologies to reduce fine pattern collapse and remove foreign particles and residue that reduce yields. In these ways, Tokyo Electron seeks to expand its SAM[3] share in the three key fields.

In the longer term, the importance of co-optimizing multiple processes will grow, creating greater needs for services that help increase uptime and yields. Tokyo Electron will leverage the insights provided by its diverse product lineup to conduct joint development with customers from the early stages of each new technology node. By doing so, we aim to be at the forefront in offering integration technologies that realize co-optimization. In addition, by providing services with higher added value, such as remote equipment maintenance and equipment diagnosis using AI, we aim to achieve further business growth.

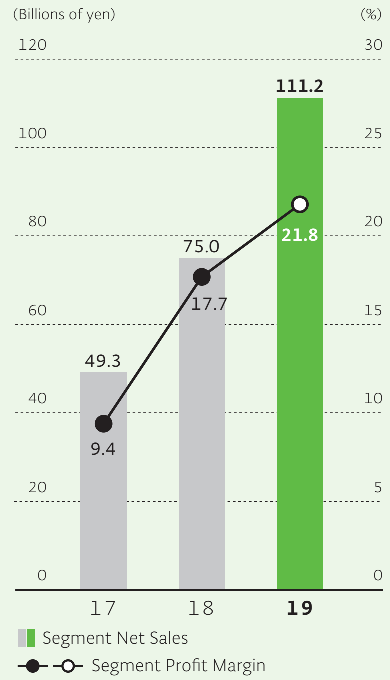
2 HARC (High aspect ratio contact) process: A process for forming deep holes or trenches that requires advanced processing technology
3 SAM: Served available market

FPD Production Equipment

Share of Net Sales



Segment Net Sales and Profit Margin



Segment profit corresponds to income before income taxes on the consolidated statements of income.

2018 Business Environment

Capital investment in small- and medium-sized panels edged down year on year, reflecting stagnant demand for OLED panels for smartphones and other mobile devices. However, capital investment in generation 10.5 LCD panels for large-sized TVs over 65 inches increased significantly year on year. As a result, the equipment market for TFT array processes,[1] in which Tokyo Electron operates, remained strong at about US$9.8 billion.

1 TFT (Thin-film transistor) array process: The process of manufacturing the substrates with the electric circuit functions that drive displays

Fiscal 2019 Business Overview

Segment net sales rose 48.2% year on year to ¥111.2 billion.

The segment profit margin reached 21.8%, a record high, due to product differentiation in each generation.

- Tokyo Electron expanded its highly profitable PICP™[2] etch systems from small- and medium-sized panels to generation 8.5 panels.
- Tokyo Electron used its track record in generation 10 panels to secure a large share of the equipment market for generation 10.5 panels.

2 PICP™: A plasma source that produces extremely uniform high-density plasma on panel substrates

Business Outlook

In the FPD market, technological innovation is expected in both products for mobile devices and for TVs. In response to increasingly advanced technological requirements, Tokyo Electron aims to achieve differentiation using its superior process technologies to expand its market share and raise the operating margin to 30%.

In small- and medium-sized panels for mobile devices, in addition to such technologies as LTPS[3] and IGZO[4] that enable even greater resolution, self-lighting OLED panels and foldable devices made with flexible displays are expected to gain broader utilization going forward. These changes will drive an increase in the number of masks and dry etch processes as well as a need for more precise patterning. Tokyo Electron will further enhance the performance of its dry etch systems and coater/developers to leverage these expanding business opportunities and achieve business growth.

Looking at large-sized panels, a shift from LCD to OLED is expected across a wide range of applications, including televisions, high-end monitors, and displays installed in vehicles and public places. Tokyo Electron will maintain its competitive advantage in generation 10.5 panels while expanding its PICP™ etch systems, which provide superior processing uniformity, from small- and medium-sized panels to generation 8.5 and 10.5 panels. Furthermore, Tokyo Electron has begun sales of inkjet printing systems, which until now it has sold only for large-sized panels, for generation 4.5 panels in anticipation of expansion in OLED panel applications. Tokyo Electron's inkjet printing systems can be used to manufacture high-resolution panels for 8K TVs and monitors. Leveraging the overwhelmingly high productivity of the inkjet method, Tokyo Electron will take advantage of the coming mass production of OLED displays.

3 LTPS: Low temperature poly-silicon
4 IGZO: An oxide semiconductor containing indium, gallium and zinc

Message from the Chairman of the Board

Steadily Enhancing Board Effectiveness

Four years have passed since the introduction of Japan's Corporate Governance Code, and governance reforms are beginning to extend beyond form and into substance. Tokyo Electron has strengthened its corporate governance, as this is the foundation supporting our efforts to attain world-class profitability and increase corporate value over the short, medium and long terms. Using the Audit & Supervisory Board System, Tokyo Electron achieves an effective balance of aggressive management and careful oversight. We seek to continually enhance corporate governance, adapting to the changing business environment and requirements of society.

In fiscal 2019, the year ended March 31, 2019, to further improve the effectiveness of our corporate governance and enhance our corporate value, we continued the practice inaugurated in fiscal 2018 of holding an off-site meeting as an opportunity for our directors and Audit & Supervisory Board members to discuss important matters other than Board of Directors meeting agenda items. At this two-day meeting, we exchanged views on Tokyo Electron's vision of becoming a truly global company, renewing our shared understanding of the Company's long-term direction in an effort to make corporate governance more effective. In addition, the directors and Audit & Supervisory Board members actively debated measures necessary to achieve the goals of the medium-term management plan as well as initiatives related to ESG issues and the Sustainable Development Goals that will improve corporate value. We engaged in fruitful discussion on how the Board of Directors and Audit & Supervisory Board, which oversee the execution of such measures, can function best, including the optimal composition of internal and outside members. The meeting thus enabled us to set a course to address a range of important issues.

We welcomed a new outside director in June 2019, the first woman to serve on the Board. As a result, six of 16 current directors and Audit & Supervisory Board members are independent outside members. The new outside director, Ms. Makiko Eda, brings global insight fostered by experience living overseas as well as many years of experience working in marketing for a major American semiconductor manufacturer. As Chief Representative Officer at World Economic Forum Japan, she possesses broad-ranging knowledge of sustainable global economic growth and related challenges. I am sure that she will put her knowledge of the semiconductor industry, corporate management and economics to great use at Tokyo Electron. Our other outside directors, Mr. Charles Ditmars Lake II, who is an executive at an American life insurance company, and Mr. Michio Sasaki, who served for many years as president of Keyence, a corporation well known for being highly profitable, also provide us with tremendous advice and suggestions based on their deep insight. The diverse values and perspectives of all of our directors and Audit & Supervisory Board members contribute to highly productive discussion, further enhancing the effectiveness of the Board of Directors.

As we enter a new era of IoT, AI and big data, the semiconductor and FPD markets continue to expand. As chairman, I am working to ensure the Board of Directors can take decisive action and sustainably enhance corporate value in a dynamic business environment.

Tetsuo Tsuneishi
Representative Director
Chairman of the Board

Corporate Governance

Basic Stance

In an environment where over 80% of our sales come from overseas, Tokyo Electron regards maintaining governance as essential to becoming a truly global company that achieves sustainable growth.

To that end, Tokyo Electron strives to build frameworks to maximize the use of its worldwide resources. In addition to strengthening its management platform and technology base, the Company maintains a governance structure that will enable it to attain world-class profitability.

Tokyo Electron uses the Audit & Supervisory Board System, which consists of a Board of Directors and an Audit & Supervisory Board. Effective governance is achieved based on the supervision of management by the Audit & Supervisory Board.

Board of Directors

Roles and Responsibilities of the Board of Directors

The Board of Directors works to achieve sustainable growth and increase corporate value over the medium to long term based on its fiduciary responsibility to shareholders. The roles and responsibilities of the Board of Directors are as follows:

(1) Establishing management strategy and vision
(2) Making major operational decisions based on strategic direction
(3) Engaging in constructive, open-minded debate

The Board of Directors seeks the active participation of those present in discussions in order to obtain a wide range of opinions, and supervises management and operational execution based on active debate.

The Board of Directors respects minority or opposing viewpoints, including opinions voiced by outside directors; revises the conditions for implementation or the content of proposals as necessary; and engages in extensive debate with the goal of reaching decisions based on consensus. However, emphasis is placed on making necessary decisions quickly to avoid missing opportunities.

Board Size and Independent Outside Directors

Tokyo Electron considers it essential to maintain a Board of Directors with the appropriate size to ensure high quality, active debate; a robust balance of knowledge, experience and skills among both executive directors and independent directors; and diversity, including gender and nationality. The current Board of Directors consists of 11 directors, including one woman and one foreign national, and Tokyo Electron believes this to be the appropriate size, at present, to achieve a good balance in terms of knowledge, experience and skills.

Tokyo Electron regards the active expression of opinions, not only by independent directors, but also by Audit & Supervisory Board members, as the cornerstone that supports the sound decision making of the Board of Directors. Currently, six out of the 16 participants in the Board of Directors meetings, including the Audit & Supervisory Board members, are outside members, consisting of three independent directors and three outside Audit & Supervisory Board members. Tokyo Electron believes that the current Board of Directors meetings achieve an appropriate sense of productive tension and constructive debate essential for making operational decisions due to the combined presence of executive directors, who are highly knowledgeable about Tokyo Electron's businesses, and outside members, who provide objectivity.

Nominations for Director and CEO

Tokyo Electron has established a Nomination Committee to ensure fairness and efficacy in management. The Nomination Committee proposes director candidates to the Board of Directors prior to their election at the General Meeting of Shareholders and also nominates CEO candidates for appointment by the Board of Directors. The Nomination Committee is composed of four directors and Audit & Supervisory Board members, including at least one outside director or outside Audit & Supervisory Board member; the CEO is not a member of the committee. The authority to propose the election or dismissal of the CEO or directors is entrusted to the Nomination Committee.

In addition, to develop the next generation of management and executive human resources, the Nomination Committee carefully surveys and analyzes the status of the successor pool, then reports to the Board of Directors, which provides appropriate supervision to ensure that adequate time and resources are being devoted to implementing the successor development plan.

Director and CEO Compensation

Tokyo Electron's compensation policy prioritizes the following considerations.

(1) Globally competitive compensation levels and systems that can secure excellent management human resources
(2) Strong correspondence with short-term performance and medium- and long-term increases in corporate value aimed at sustainable growth
(3) Assuring transparency and fairness in the process of determining compensation as well as the appropriateness of compensation

In line with this policy, Tokyo Electron has adopted a director and executive officer compensation system that is closely linked to performance and shareholder value. The compensation of directors currently comprises a fixed basic wage, annual performance-linked compensation and medium-term performance-linked compensation. Outside directors receive only a fixed basic wage and an annual performance-linked cash bonus.

To ensure management transparency and fairness as well as the appropriateness of compensation, Tokyo Electron maintains a Compensation Committee, which comprises three or more directors (excluding the representative directors) or Audit & Supervisory Board members and includes at least one outside director. The Compensation Committee utilizes advice from external experts and conducts an analysis of compensation at high-tech companies in and outside Japan. Based on this analysis, the committee proposes a policy and system for the compensation of the Board of Directors and executive officers that will be globally competitive and optimally suited to the Company as well as individual compensation amounts for the representative directors.

In principle, annual performance-linked compensation consists of monetary compensation and stock option share-based compensation; the ratio of these two components is roughly 1:1 for directors. Stock options are awarded with the exercise price set at one yen per share, and a three-year vesting period from the date of allotment before the options may be exercised.

In order to incentivize the CEO and other directors to improve corporate performance, Tokyo Electron has designated the net income attributable to owners of the parent and return on equity (ROE) for the current period, which are indicators related to profit, as the main benchmarks for calculating their annual performance-linked compensation.

The medium-term performance-linked compensation utilizes performance shares (share-based compensation) with the aim of using shareholdings to align the perspectives of directors with those of shareholders and incentivize directors to increase corporate value. The number of Tokyo Electron shares issued to directors is calculated based on each director's position and duties and varies from 0% to 150% according to the attainment of performance targets over the relevant three-year term.

In the determination of medium-term performance-linked compensation, the operating margin is used as an indicator of profitability and ROE as an indicator of capital efficiency to assess the attainment of performance targets and appropriately link such compensation with medium-term enhancement of corporate value.

Does Tokyo Electron have these major components of corporate governance? (As of July 1, 2019)

Compensation Committee	Yes	Composed of directors, including outside directors and excluding representative directors, or Audit & Supervisory Board members
Nomination Committee	Yes	Composed of directors or Audit & Supervisory Board members, excluding the CEO and including at least one outside director or Audit & Supervisory Board member
Outside directors	Yes	Three of the 11 directors are outside directors
Outside Audit & Supervisory Board members	Yes	Three of the five Audit & Supervisory Board members are outside Audit & Supervisory Board members
Executive officer system	Yes	
Disclosure of individual remuneration of representative directors	Yes	Disclosed since 1999
Annual performance-linked compensation system	Yes	
Medium-term performance-linked compensation scheme	Yes	Adopted in 2018
Stock options system	Yes	Does not apply to outside directors and Audit & Supervisory Board members
Retirement allowance system for executives	No	
Anti-takeover measures	No	

Corporate Governance

Evaluation of the Effectiveness of the Board of Directors

To evaluate the Board of Directors, including the Nomination Committee and Compensation Committee, Tokyo Electron conducts a question-based survey of all directors and Audit & Supervisory Board members as well as interviews with some of these individuals.

In fiscal 2019, Tokyo Electron hired a third-party institution to provide advice on the drafting of the survey, hold the interviews, and compile and analyze the results. Using the compiled data and analysis, the outside directors and outside Audit & Supervisory Board members held discussions of the Board of Director's effectiveness. These findings were then shared with and discussed by the entire Board of Directors, which evaluated its effectiveness and disclosed a summary of the results.

At meetings of the Board of Directors, directors and Audit & Supervisory Board members actively engage in discussion based on their diverse viewpoints and experiences. Important items are examined in terms of risk, openly debated and considered carefully. To complement Board of Directors meetings, Tokyo Electron held an off-site meeting focused on operational strategy, vision and governance.

Tokyo Electron thus believes that its Board of Directors is appropriately carrying out its role as defined in the Corporate Governance Guidelines, namely (1) Establishing management strategy and vision and (2) Making major operational decisions based on strategic direction.

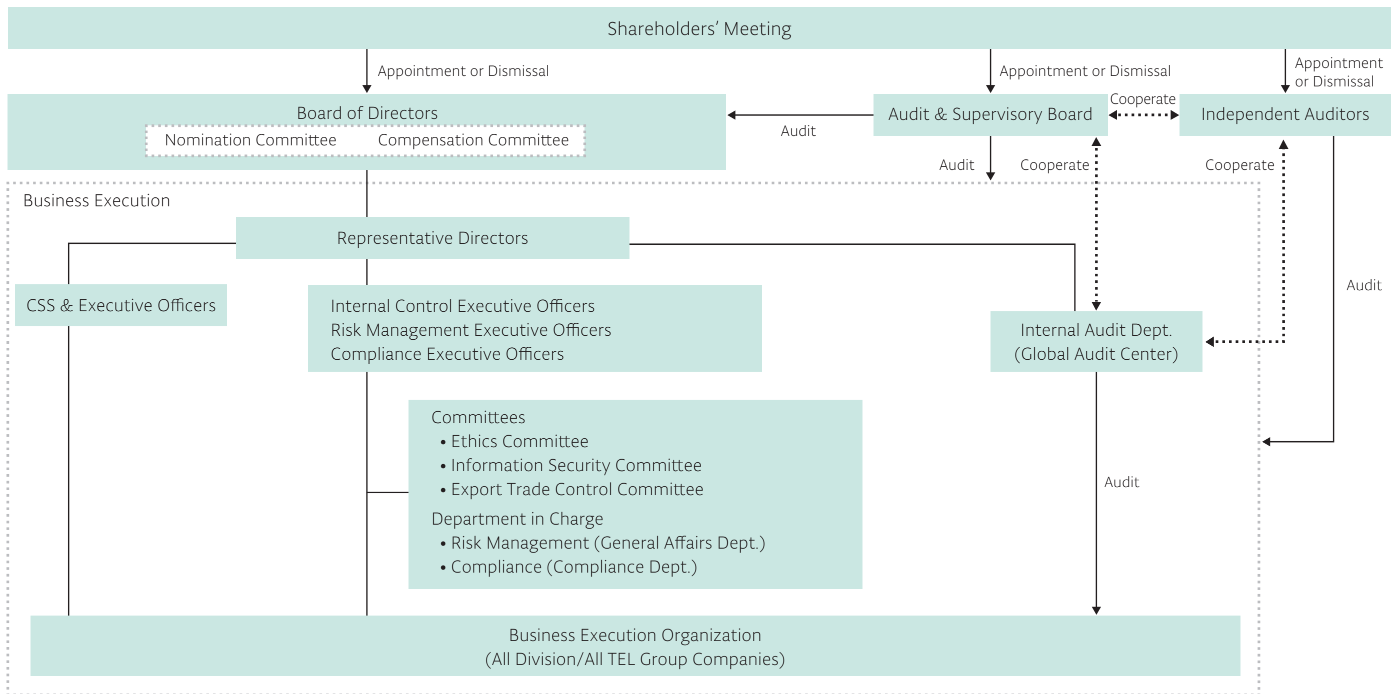
Accordingly, Tokyo Electron believes that the Board of Directors, including the Nomination Committee and Compensation Committee, is functioning effectively.

Going forward, the Board of Directors will strive to increase its diversity, including gender and nationality, and create more opportunities to discuss Tokyo Electron's medium- and long-term vision and growth strategy. The Board will also examine ways to reinforce Group governance systems, including those overseas, and the proper division of roles and authority between the Board of Directors and executive bodies. Furthermore, the Board regards the effective operation of the successor development plan and provision of value to society in areas related to ESG issues and the United Nations' Sustainable Development Goals (SDGs) as important management priorities that it will continue to discuss.

Audit & Supervisory Board

The Audit & Supervisory Board currently consists of five members and includes three outside Audit & Supervisory Board members. Two members are full-time. The full-time Audit & Supervisory Board members collect information through onsite surveys, and the board maintains appropriate coordination with the Internal Audit Department and the independent auditors as part of a structure that enables Audit & Supervisory Board members to obtain all information necessary for audits.

Corporate Governance Framework, Internal Control System and Risk Management System (As of July 1, 2019)



Zoom

Moreover, the composition of Audit & Supervisory Board members provides a good balance of knowledge required for operational audits and accounting audits, including financial and accounting knowledge, legal knowledge, and audit experience at other companies. Tokyo Electron thus believes its Audit & Supervisory Board members are able to perform their auditing functions effectively.

Risk Management

Approach to Risk Management

Reflecting changes in society and the business environment, the risks facing businesses are growing increasingly complex and diverse. Tokyo Electron considers understanding and appropriately addressing the risks that it may face in its businesses, as well as their impacts, to be a crucial factor to sustainable corporate growth.

Risk Management System

In order to promote more effective risk management, Tokyo Electron carries out enterprise risk management through a body established within the General Affairs Department at its headquarters. This body supervises risk management, analyzing a wide range of risks arising in business activities (such as compliance risk, human resource and labor risk, and business continuity risks) to identify key risks. It then monitors the management of these risks by the respective departments responsible and supports their risk management activities. The status of these activities is regularly reported to the Board of Directors and the Audit & Supervisory Board.

Auditing by the Internal Audit Department

The Global Audit Center serves as the internal audit department for the entire Group and implements audits based on the audit plan. Based on the results of these audits, the Center then gives instructions for making improvements as needed, follows up on progress toward these improvements and provides support. The Group's internal control over financial reporting in fiscal 2019 was evaluated as effective by the independent auditors.

Risk Management Initiatives

Each year, we set priority management targets and strive to steadily reduce risk. In fiscal 2019, we reinforced measures in the following areas.

Compliance

We appointed people responsible for compliance at key overseas bases and established a system whereby they report the progress of compliance-related activities to the Group headquarters each month. In addition, compliance risk audits are conducted through systematic visits to overseas subsidiaries.

Business Continuity Plans (BCPs)

Tokyo Electron is improving its plans based on lessons from past disasters and is surveying the earthquake risks at its overseas locations. We are also working, on an ongoing basis, to establish alternate production structures within our network and to develop multiple sources of important parts.

Mental Health, Long Work Hours, and Harassment

Tokyo Electron carries out mental health-related measures based on employee stress checks and multiple seminars aimed at helping managers look after their employees. In addition, we have introduced a mechanism to monitor excessive work hours that lead to health risks. Tokyo Electron also holds harassment prevention seminars led by lawyers. The Ethics Committee Chairman and Human Resource Department provide messaging about changing mindsets and behaviors.

Management of Confidential Information

The Human Resources Department and the Intellectual Property Department cooperate to strengthen measures to prevent leaks of confidential information, particularly targeting employees who leave the Company to ensure the proper return and destruction of confidential information. We also take thoroughgoing steps to ensure that mid-career hires do not divulge confidential information about their previous employers. We use a combination of industry-leading security systems, provide security training for employees, and work to protect our information from the sabotage of our servers or computers as well as data theft, data manipulation and other forms of cyber attack. The information security environment, including cyber attack methods, is changing constantly. To stay ahead of these changes, Tokyo Electron is constantly gathering information and formulating and implementing necessary countermeasures on a global basis.

Compliance

Approach to Compliance

Stakeholder trust is essential to business activities. In order to maintain this trust, it is essential to continuously ensure compliance and enhance corporate ethics. The Fundamental Policies concerning Internal Controls within the Tokyo Electron Group and the Code of Ethics of the Tokyo Electron Group (Code of Ethics) stipulate that all Group executives and employees must comply with laws and regulations and act with high ethical standards and a strong awareness of compliance.

Compliance Systems and Initiatives

Compliance System

Tokyo Electron has built a structure to implement its compliance program globally. Under the head of the Legal, Compliance Division, compliance representatives have been newly appointed at major overseas bases to create a system for direct reporting through the chain of command to the Legal, Compliance Division. The Company has restructured its compliance system. Specifically, compliance-related issues are immediately reported by the head of the Legal, Compliance Division to the CEO, Board of Directors, and the Audit & Supervisory Board so that they can be addressed quickly and effectively.

Corporate Ethics

Tokyo Electron has established the Code of Ethics as a standard of conduct by which employees and executives should abide. To ensure awareness of this code, we distribute it in the form of booklets in Japanese and four other languages to all employees. Tokyo Electron revises its Code of Ethics as needed, in response to changes to external and internal conditions. In addition, an Ethics Committee has been established to support and supervise the activities of Group companies in Japan and overseas aimed at more effectively promoting and raising awareness of compliance and corporate ethics. Furthermore, directors and senior executives sign an oath to uphold the Code of Ethics and comply with corruption-related laws every year.

Compliance Regulations

Based on its Code of Ethics, each Group company in Japan and abroad has established its own compliance regulations to ensure that every individual taking part in the business activities of the Group clearly understands the pertinent laws, regulations and internal company rules, and consistently applies these in all of their activities.

Compliance Education

Tokyo Electron conducts online education and face-to-face training on topics including corporate ethics and the basics of compliance, export compliance, insider trading prevention, the Act for Subcontracting, and the prevention of harassment. Depending on the topic, this education is implemented for specific levels or across the board. We also implement ongoing testing to check the degree of understanding among employees. From fiscal 2020, we will deploy a more comprehensive, systematic education program, advancing multilingual support in an effort to foster compliance awareness and reinforce behavior-oriented awareness-building activities among all Group employees.

Internal Reporting System

As a means for employees to provide information outside the chain of command about behavior that may be in violation of laws or corporate ethics, we have established a hotline (organized around the tenets of confidentiality, anonymity, and prohibition of retribution) to receive internal reports. In addition, we established an external contact point for employees and another contact point specifically for suppliers and third parties. Each overseas location has its own internal reporting hotline, and we are building a unified internal reporting system for all overseas bases.

As a result of these initiatives, in fiscal 2019 there were no reports or cases of noncompliance with laws, regulations, or the Code of Ethics that could have had a material impact on the Tokyo Electron Group's business or local communities.

Promoting Dialog with Investors

Basic Stance

Tokyo Electron endeavors to provide opportunities for constructive dialog with growing numbers of investors around the world to contribute to the Company's sustainable growth and increase corporate value over the medium and long term. Furthermore, to the extent that this is reasonable and possible, the Company places emphasis on having the Chairman of the Board and CEO communicate with investors through direct dialog.

IR Activities

Striving to maintain dialog with investors, Tokyo Electron maintains a dedicated Investor Relations Department under the direct control of the CEO. The Chairman of the Board and CEO serve as spokespersons for the Company at such events as earnings release conferences and medium-term management plan briefings for securities analysts and institutional investors, IR conferences in and outside Japan, and individual meetings.

The spokespersons for the IR Department hold individual meetings with investors and periodically relay the opinions of investors at these events to the Chairman of the Board and CEO so that feedback can be of use in management.

Shareholders' Meeting

Tokyo Electron schedules its shareholders' meeting to avoid days on which many such meetings are concentrated as part of its measures to vitalize these meetings and to promote smooth and efficient voting. The Company also mails a Notice of Annual General Meeting of Shareholders to shareholders more than three weeks in advance of the meeting and discloses notices on its website before they are mailed, striving to provide shareholders with information as early as possible. Shareholders are free to cast their votes via the internet, and Tokyo Electron participates in the web based voting platform for institutional investors operated by ICJ, Inc.

To supplement the above shareholder meeting-related initiatives, Tokyo Electron's website carries the resolutions, voting results and presentation materials of shareholders' meetings.

WEB For more details on our corporate governance, please refer to the Tokyo Electron Corporate Governance Guidelines.
www.tel.com/about/cg

Third-Party Recognition

Tokyo Electron has been selected for inclusion in world-leading environmental, social and governance (ESG) investment indices.

In fiscal 2019, following from the previous fiscal year, Tokyo Electron was again selected as a constituent stock under indices including DJSI[1] Asia Pacific 2018, FTSE4Good,[2] FTSE Blossom Japan Index, MSCI World ESG Leaders Index,[3] and MSCI Japan ESG Select Leaders Index.[4]

1 DJSI (Dow Jones Sustainability Index): ESG investment indices developed by U.S.-based S&P Dow Jones Indices LLC and Switzerland-based RobecoSAM AG. The Asia Pacific index covers companies in that region.
2 FTSE4Good: An index related to environmental performance and corporate social responsibility developed by the UK-based FTSE Group
3 MSCI World ESG Leaders Index: Companies that have high ESG performance are selected from the MSCI Global Sustainability Index, an ESG investment index developed by Morgan Stanley Capital International (MSCI)
4 MSCI Japan ESG Select Leaders Index: The MSCI Japan ESG Select Leaders Index is an index constructed from companies that have high ESG performance selected from its parent index (MSCI Japan IMI Top 500 Index: Top 500 securities based on free float-adjusted market capitalization). The index targets 50% of the free float-adjusted market capitalization within each GICS sector of the parent index.

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM
FTSE4Good
MSCI 2018 Constituent MSCI ESG Leaders Indexes

For details on Tokyo Electron's ESG-related initiatives, please refer to our Sustainability Report 2019.

Directors, Audit & Supervisory Board Members and Executive Officers (As of July 1, 2019)

Directors

Tetsuo Tsuneishi
Representative Director
Chairman of the Board

Toshiki Kawai
Representative Director
President & CEO

Sadao Sasaki
Corporate Director

Yoshikazu Nunokawa
Corporate Director

Tatsuya Nagakubo
Corporate Director

Kiyoshi Sunohara
Corporate Director

Seisu Ikeda
Corporate Director

Yoshinobu Mitano
Corporate Director

Charles Ditmars Lake II*
Corporate Director
Chairman and Representative Director, Aflac Life Insurance Japan Ltd.
President, Aflac International Incorporated

Michio Sasaki*
Corporate Director
Outside Director, ZUIKO CO., LTD.
Outside Director, SHIFT, Inc.

Makiko Eda*
Corporate Director
Chief Representative Officer, World Economic Forum Japan

* Outside Director

Executive Officers

Tetsuo Tsuneishi
Chairman of the Board

Toshiki Kawai
President & CEO, GM, Corporate Innovation Division

Sadao Sasaki
EVP & GM, Development & Production 1st Division, Development & Production 4th Division, EHS, Quality, Procurement, Production Technology
President, Tokyo Electron Technology Solutions Ltd.

Yoshikazu Nunokawa
EVP & GM, Finance Division, Export & Logistics Control Division, IT Division, Internal Control

Tatsuya Nagakubo
SVP & GM, Human Resources, General Affairs, CSR Division, Legal, Compliance Division, Chairman of Ethics Committee

Kiyoshi Sunohara
SVP & GM, Field Solutions Business Division, Business Innovation Project

Seisu Ikeda
SVP & GM, Account Sales Division

Yoshinobu Mitano
SVP & GM, SPE Business Division

Barry Mayer
SVP & GM, Global Strategy

David Brough
SVP & GM, Global Strategy
President, Tokyo Electron Europe Ltd.

Tetsuro Hori
SVP & GM, Business Innovation Project

Kenji Washino
SVP & GM, Backend Process Business Division

Tsuguhiko Matsuura
SVP & GM, FPD Business Division

Hideyuki Tsutsumi
SVP & GM, Vice Division GM, Corporate Innovation Division

Takeshi Okubo
SVP & GM, Global Sales Division

Masaki Yoshizawa
VP & GM, Strategy

Tadashi Shimizu
VP & GM, Business Innovation Project

Hiroshi Kawamoto
VP & GM, Finance Division

Takeo Sasaki
VP & GM, Export & Logistics Control Division

Yutaka Nanasawa
VP & GM, IT Division, Business Innovation Project
President, TEL Solar Services AG

Keiichi Akiyama
VP & GM, CTSPS BU

Isamu Wakui
VP & GM, ES BU

Hiroshi Ishida
VP & GM, TFF BU

Toshihiko Nishigaki
VP & GM, Deputy GM, Corporate Innovation Division (Digital Transformation)
President, TEL FSI, Inc.

Masayuki Kojima
VP & GM, Development & Production 2nd Division
President, Tokyo Electron Miyagi Ltd.

Shinichi Hayashi
VP & GM, Development & Production 3rd Division, Deputy GM, Corporate Innovation Division
President, Tokyo Electron Kyushu Ltd.

Shingo Tada
VP & GM, Deputy GM, Account Sales Division

Masahiro Morita
VP & GM, Account Sales, Global Sales

EVP: Executive Vice President
SVP: Senior Vice President
VP: Vice President
GM: General Manager

Audit & Supervisory Board Members

Yoshiteru Harada
Audit & Supervisory Board Member

Kazushi Tahara
Audit & Supervisory Board Member

Takatoshi Yamamoto*
Audit & Supervisory Board Member

Ryuji Sakai*
Audit & Supervisory Board Member
Attorney at law, Nagashima Ohno & Tsunematsu

Kyosuke Wagai*
Audit & Supervisory Board Member
Certified Public Accountant, Wagai CPA Office

* Outside Audit & Supervisory Board Member

Financial Review

Sales and Income

Operating Environment

The overall world economy in fiscal 2019 held firm, with the United States economy remaining solid, despite signs of stagnation in the economies of China, Asia and Europe.

In the electronics industry, investment in mobile devices and data centers remained brisk. Demand for semiconductors, especially memory, increased. As a result, the wafer fab equipment market grew a further 16% year on year from the previous year's record-breaking US$50 billion, reaching approximately US$59 billion. At the same time, the display industry saw full-scale investment in large generation 10.5 panels, despite adjustments in investment in small- and medium-sized OLED panels due to slower growth in shipments of mobile devices. Accordingly, the market for flat panel display (FPD) production equipment maintained the brisk level from the previous year, staying at around US$20 billion.

Sales

Net sales in fiscal 2019 rose 13.0% year on year to ¥1,278.2 billion. This reflected the favorable market environment for semiconductors and FPD as well as the increase in the Company's share of each market. By segment, net sales in the semiconductor production equipment (SPE) segment grew 10.6% year on year to ¥1,166.7 billion. Net sales in the FPD production equipment segment grew 48.2% year on year to ¥111.2 billion. For details on performance by segment, please refer to Review of Operations and Business Outlook on page 7. Furthermore, net sales in the field solutions business (encompassing sales of parts and used equipment, modifications and maintenance services) rose 14.8% year on year to ¥288.2 billion, accounting for 22.6% of consolidated net sales.

Gross Profit, SG&A Expenses and Operating Income

Gross profit in fiscal 2019 was up 10.8% year on year to ¥526.1 billion, reflecting the growth in net sales. The gross profit margin fell 0.8 percentage points to 41.2%, due to an increase in the production cost ratio following an expansion of the production and service systems.

SG&A expenses rose 11.2% year on year to ¥215.6 billion, but the ratio of SG&A expenses to consolidated net sales dropped 0.2 percentage points from the previous fiscal year to 16.9% in the fiscal year under review. The Group actively advanced R&D with the aim of outperforming the SPE market, where growth is expected. Consequently, operating income increased 10.5% year on year to ¥310.5 billion, and the operating margin decreased 0.6 percentage points to 24.3%. This was due to increases in the R&D expense ratio and the production cost ratio.

R&D Expenses

R&D expenses were up 17.4% year on year to ¥113.9 billion. The increase was focused consistently with the previous year: the reinforcement of R&D in the fields of etch, deposition and cleaning systems, in which the Company is working to expand its market share under the medium-term management plan. Tokyo Electron also focused on R&D aimed at enhancing the competitiveness of future products. This included not only enhancing the performance of individual products, but developing innovative technologies to optimize entire processes, as well as making products more intelligent.

Tokyo Electron regards advanced technological prowess as the source of its growth. Accordingly, the Company actively invests in growth to produce next-generation products, mainly focusing on fields in which market growth is forecast. In the fiscal year under review, Tokyo Electron increased its market share in key fields related to cutting-edge DRAM and 3D NAND flash memory production, making progress toward the goals of the medium-term management plan.

In FPD production equipment, Tokyo Electron developed a new version of the PICP™ plasma etch system for generation 10.5 panels, which are expected to see rapid market growth. This system excels in uniformity and was originally released for small- and medium-sized panels. In addition, the Company released a high-resolution inkjet printing system for small- and medium-sized panels amid growing demand for higher definition OLED displays.

Other Income (Expenses) and Net Income Attributable to Owners of Parent

During fiscal 2019, net other expenses came to ¥0.1 billion (digits below ¥0.1 billion are truncated), reflecting ¥1.0 billion in extraordinary loss due mainly to a loss on sales and disposal of property, plant and equipment, as well as net unrealized losses on investment securities, offsetting ¥0.8 billion in extraordinary income due to a gain on sales of investment securities and property, plant and equipment. Income before income taxes came to ¥321.5 billion, up 16.8% year on year. As a result, net income attributable to owners of the parent totaled ¥248.2 billion in fiscal 2019, up 21.5% from fiscal 2018. Net income per share (basic) rose 21.5% year on year to ¥1,513.58.

Comprehensive Income

In fiscal 2019, Tokyo Electron recognized comprehensive income of ¥242.6 billion, up from ¥206.1 billion in fiscal 2018. This was mainly due to the ¥248.2 billion in net income, ¥4.1 billion in unrealized loss on investment securities related to strategically held shares, ¥0.2 billion in net deferred loss on hedging instruments, and ¥1.1 billion in loss on foreign currency translation adjustments.

Dividend Policy and Dividends

It is the policy of Tokyo Electron to pay dividends on the basis of business performance. The Company aims for a payout ratio of 50% of net income attributable to owners of the parent. Furthermore, with an eye to ensuring stable dividends, a lower limit of ¥150 per share has been set on annual dividends.[1] Reflecting the Company's strong sales and profit growth, Tokyo Electron paid annual dividends for fiscal 2019 of ¥758 per share (for a payout ratio of 50.1%), its highest ever. Going forward, the Company will seek to build world-class profitability and reciprocate the support of shareholders by delivering profit growth.

1 This lower limit may be revised in the event that the Company does not generate net income for two consecutive fiscal years.

Financial Position and Cash Flows

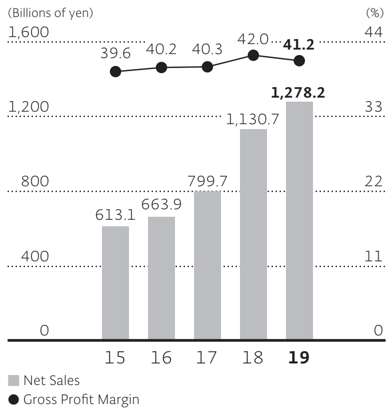
Assets, Liabilities and Net Assets

Assets

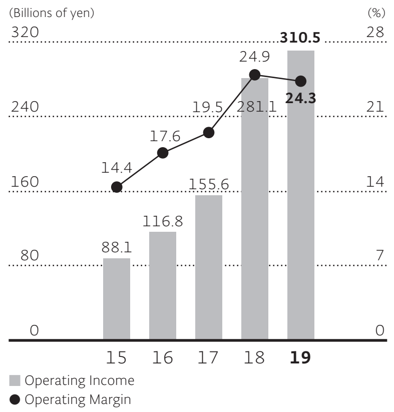
Current assets increased ¥36.2 billion from the end of the previous fiscal year to ¥982.8 billion, reflecting a ¥25.2 billion decrease in cash and cash equivalents and ¥44.0 billion increase in short-term investments. The turnover period for trade notes and accounts receivable in fiscal 2019 was 42 days, compared with 52 days in fiscal 2018, and the inventory turnover period in fiscal 2019 was 101 days, compared with 111 days in fiscal 2018.

Sales and Income	2015	2016	2017	2018	2019
			Millions of yen		
Net sales	¥613,125	¥663,949	¥799,719	¥1,130,728	¥1,278,240
Gross profit	242,774	267,210	322,291	475,032	526,183
Gross profit margin	39.6%	40.2%	40.3%	42.0%	41.2%
Selling, general and administrative expenses	154,661	150,421	166,594	193,860	215,612
Operating income	88,113	116,789	155,697	281,172	310,571
Operating margin	14.4%	17.6%	19.5%	24.9%	24.3%
Income before income taxes	86,828	106,467	149,116	275,242	321,508
Net income attributable to owners of parent	71,888	77,892	115,208	204,371	248,228

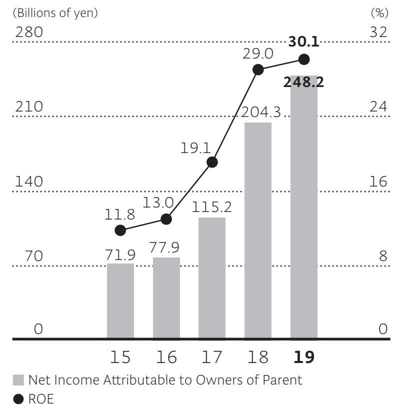
Net Sales and Gross Profit Margin



Operating Income and Operating Margin



Net Income Attributable to Owners of Parent and ROE



ROE = Net income attributable to owners of parent / Average total equity x 100

Financial Review

Net property, plant and equipment increased ¥24.1 billion year on year to ¥150.0 billion. This was largely due to finishing construction of a new development building at the Miyagi Plant to bolster the development of next-generation technologies, beginning construction of new production buildings at the Yamanashi and Tohoku plants, and acquiring new evaluation tools.

Investments and other assets decreased ¥5.5 billion year on year to ¥124.6 billion. This reflected a ¥6.8 billion year-on-year decrease in intangible assets to ¥9.0 billion, due primarily to depreciation and amortization, as well as the removal of TEL NEXX, Inc. from the scope of consolidation. As a result, total assets as of March 31, 2019 stood at ¥1,257.6 billion, up ¥54.8 billion year on year.

Liabilities and Net Assets

Current liabilities decreased ¥63.5 billion from the end of fiscal 2018 to ¥304.8 billion at the end of fiscal 2019. This was mainly due to a ¥33.1 billion decrease in trade notes and accounts payable and a ¥22.9 billion decrease in customer advances.

Non-current liabilities increased ¥1.7 billion year on year to ¥64.6 billion.

Net assets came to ¥888.1 billion at the end of fiscal 2019, up ¥116.6 billion from the end of fiscal 2018. This was mainly due to a ¥123.4 billion increase in retained earnings, reflecting the recording of ¥248.2 billion in net income attributable to owners of the parent and ¥124.7 billion paid in cash dividends (¥56.9 billion for the fiscal 2018 year-end dividend and ¥67.8 billion for the fiscal 2019 interim dividend).

As a result, the equity ratio rose 6.2 percentage points year on year to 70.0% at the end of March 2019. ROE climbed to 30.1% from 29.0% in fiscal 2018.

In addition, Tokyo Electron adopted Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) from April 1, 2018. Prior year comparisons retroactively apply these standards to the abovementioned figures for assets, liabilities and net assets as of March 31, 2018.

Millions of yen

Financial Position	2015	2016	2017	2018	2019
Total current assets	¥670,883	¥617,416	¥775,938	¥ 946,597	¥ 982,897
Net property, plant and equipment	106,896	96,317	100,441	125,952	150,069
Total investments and other assets	98,375	79,635	81,067	130,246	124,661
Total assets	876,154	793,368	957,447	1,202,796	1,257,627
Total current liabilities	172,812	166,061	247,770	368,452	304,882
Total liabilities	234,991	229,129	311,447	431,287	369,510
Total net assets	641,163	564,239	645,999	771,509	888,117

Note: From fiscal 2019, the Company applied the Accounting Standards Board of Japan's "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, revised on February 16, 2018). Total current assets, total investments and other assets, total assets and total liabilities for fiscal 2018 have been restated in accordance with the revised accounting standard.

Capital Expenditures[1] and Depreciation and Amortization[2]

Capital expenditures totaled ¥49.7 billion in fiscal 2019, a 9.1% year-on-year increase. Major expenditures included the acquisition of evaluation tools in order to strengthen key areas in the SPE business as well as the completion of construction of a new development building at the Miyagi Plant and start of construction of new production buildings at the Tohoku and Yamanashi plants to meet rising demand for etch and deposition equipment.

Depreciation and amortization increased 18.0% to ¥24.3 billion.

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

Cash Flows

The balance of cash and cash equivalents at the end of March 2019 stood at ¥232.6 billion, a decrease of ¥25.2 billion from the end of fiscal 2018. Cash on hand, which consists of cash and cash equivalents as well as short-term investments with original maturities of less than one year not included in cash and cash equivalents, increased ¥18.7 billion year on year to ¥392.6 billion at the end of March 2019. Cash flows during the fiscal year under review were as follows.

Net cash provided by operating activities came to ¥189.5 billion, up ¥2.9 billion from fiscal 2018. Major contributors were ¥321.5 billion in income before income taxes, ¥24.3 billion in depreciation and amortization, and a ¥10.5 billion decrease in trade notes and accounts receivable. Major outflows included ¥102.9 billion in income taxes paid, a ¥31.7 billion decrease in trade notes and accounts payable, a ¥22.0 billion decrease in customer advances, and a ¥14.7 billion increase in inventories.

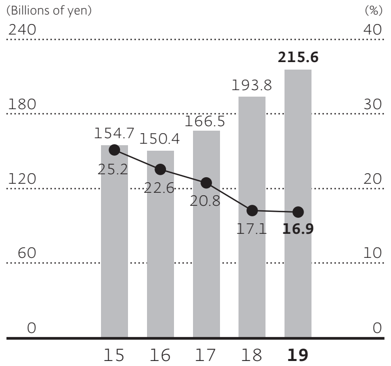
Net cash used in investing activities was ¥84.0 billion, compared with ¥11.8 billion used in the previous fiscal year. This was mainly due to ¥46.5 billion used as payment for purchases of property, plant and equipment and a net outflow of ¥44.0 billion due to an increase in short-term investments.

Net cash used in financing activities came to ¥129.7 billion, compared with ¥82.5 billion in fiscal 2018. This was mainly attributable to ¥124.7 billion in dividends paid.

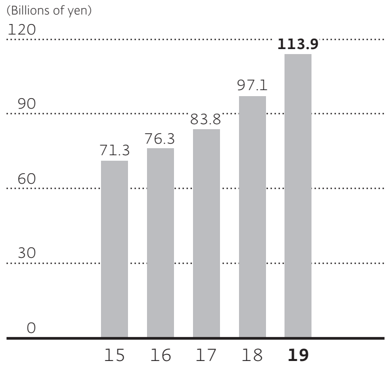
Millions of yen

Cash Flows	2015	2016	2017	2018	2019
Cash flows from operating activities	¥ 71,806	¥ 69,398	¥136,948	¥186,582	¥189,572
Cash flows from investing activities	155,738	(150,014)	(28,893)	(11,833)	(84,033)
Cash flows from financing activities	(18,214)	(138,601)	(39,380)	(82,549)	(129,761)
Cash and cash equivalents at end of year	317,632	95,638	164,366	257,877	232,634

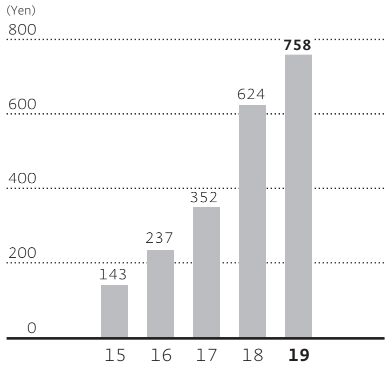
Selling, General and Administrative Expenses and Ratio to Net Sales



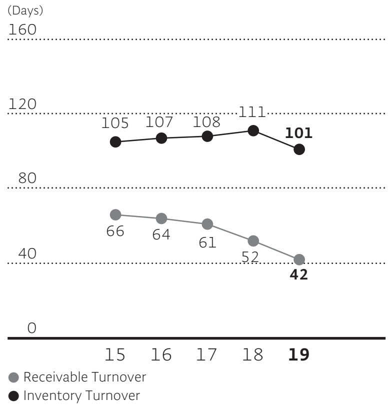
R&D Expenses



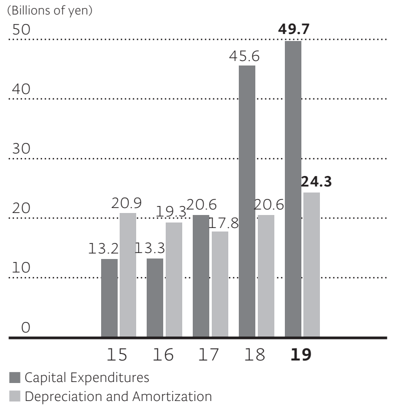
Cash Dividends per Share



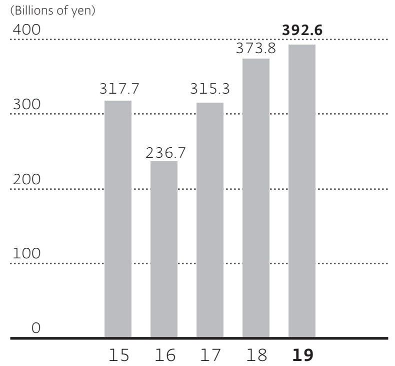
Receivable Turnover and Inventory Turnover



Capital Expenditures and Depreciation and Amortization



Cash on Hand



Cash on Hand = Cash and cash equivalents + Short-term investments with original maturities of less than one year

Business-Related and Other Risks

The following risks may have a material impact on Tokyo Electron's business performance, stock price, or financial position.

(1) Impact from Changes in the Semiconductor Market

Tokyo Electron has achieved a high profit margin by concentrating resources in high-tech fields, including semiconductor production equipment, where technological innovation is rapid but Tokyo Electron can effectively use its strengths. Although technological change is responsible for the semiconductor market's rapid growth, Tokyo Electron has actively undertaken structural reforms to be able to generate profits under any circumstances, including when the market contracts temporarily due to imbalance of supply and demand. However, order cancellations, excess capacity and personnel and increased inventories resulting from an 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) Influence of Corporate Acquisitions

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

(9) Impact from Major Lawsuits or Legal Actions

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

(10) Impact of Laws and Regulations

Tokyo Electron operates globally and is therefore subject to and strives to ensure compliance with the laws and regulations of the countries and regions where it does business, including import and export regulations, environmental regulations and transfer pricing rules. However, should the Company be unable to respond adequately to unforeseen tightening or other changes to such laws or regulations, such changes could adversely affect Tokyo Electron's business performance.

(11) 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, infectious diseases and other unavoidable occurrences, financial or stock markets, government or other regulations, supply chains, market conditions for products and real estate, the ability to recruit personnel in Japan and overseas, competition over standardization, and loss of key personnel. Any of these factors could adversely affect Tokyo Electron's business performance.

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										
	2019	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Net sales[1]	$11,516,718	¥1,278,240	¥1,130,728	¥799,719	¥663,949	¥613,125	¥612,170	¥ 497,300	¥ 633,091	¥ 668,722	¥ 418,637	¥ 508,082
Semiconductor production equipment	10,512,487	1,166,781	1,055,234	749,893	613,033	576,242	478,842	392,027	477,873	511,332	262,392	325,383
FPD production equipment	1,002,449	111,261	75,068	49,387	44,687	32,710	28,317	20,077	69,889	66,721	71,361	88,107
PV production equipment	—	—	—	—	—	3,618	3,806	83	—	—	—	—
Electronic components and computer networks	—	—	—	—	—	—	100,726	84,665	84,868	90,216	84,473	94,207
Other	1,780	197	425	438	6,229	555	479	448	461	453	411	385
Operating income (loss)	2,798,191	310,571	281,172	155,697	116,789	88,113	32,205	12,549	60,443	97,870	(2,181)	14,711
Income (loss) before income taxes	2,896,735	321,508	275,242	149,116	106,467	86,828	(11,756)	17,767	60,602	99,579	(7,768)	9,637
Net income (loss) attributable to owners of parent	2,236,489	248,228	204,371	115,208	77,892	71,888	(19,409)	6,076	36,726	71,924	(9,033)	7,543
Comprehensive income (loss)[2]	2,186,648	242,696	206,152	119,998	60,984	80,295	(10,889)	15,826	36,954	69,598	(4,751)	—
Domestic sales	1,881,220	208,796	148,760	101,122	121,808	95,046	161,631	118,504	171,364	182,165	162,609	208,871
Overseas sales	9,635,497	1,069,443	981,967	698,597	542,141	518,079	450,539	378,796	461,727	486,557	256,028	299,211
Depreciation and amortization[3]	219,151	24,323	20,619	17,872	19,257	20,878	24,888	26,631	24,198	17,707	20,002	23,068
Capital expenditures[4]	448,277	49,754	45,603	20,697	13,341	13,184	12,799	21,774	39,541	39,140	14,919	18,108
R&D expenses	1,026,946	113,980	97,103	83,800	76,287	71,350	78,664	73,249	81,506	70,568	54,074	60,988
Total assets[7]	11,330,999	1,257,627	1,202,796	957,447	793,368	876,154	828,592	775,528	783,611	809,205	696,352	668,998
Total net assets	8,001,777	888,117	771,509	645,999	564,239	641,163	590,614	605,127	598,603	584,802	523,370	529,265
Number of employees		12,742	11,946	11,241	10,629	10,844	12,304	12,201	10,684	10,343	10,068	10,391
	U.S. dollars	Yen										
Net income (loss) per share of common stock:												
Basic	$ 13.64	¥ 1,513.58	¥ 1,245.48	¥ 702.26	¥ 461.10	¥ 401.08	¥ (108.31)	¥ 33.91	¥ 205.04	¥ 401.73	¥ (50.47)	¥ 42.15
Diluted[5]	13.58	1,507.22	1,241.22	700.35	460.00	400.15	—	33.85	204.72	401.10	—	42.07
Net assets per share of common stock	48.40	5,371.78	4,674.49	3,919.50	3,428.37	3,567.23	3,225.92	3,309.58	3,275.14	3,198.66	2,859.37	2,896.55
Cash dividends per share of common stock	6.83	758.00	624.00	352.00	237.00	143.00	50.00	51.00	80.00	114.00	12.00	24.00
Number of shares outstanding (thousands)		165,210	165,210	165,210	165,211	180,611	180,611	180,611	180,611	180,611	180,611	180,611
Number of shareholders		50,843	35,186	21,937	24,664	20,829	30,563	41,287	42,414	44,896	39,285	42,509
		%										
ROE		30.1	29.0	19.1	13.0	11.8	(3.3)	1.0	6.3	13.3	(1.8)	1.4
Operating margin		24.3	24.9	19.5	17.6	14.4	5.3	2.5	9.5	14.6	(0.5)	2.9
Equity ratio[7]		70.0	63.8	67.2	70.9	73.0	69.8	76.5	74.9	70.8	73.5	77.5
Total asset turnover (times)[7]		1.04	1.05	0.91	0.80	0.72	0.76	0.64	0.79	0.89	0.61	0.70
	U.S. dollars	Thousands of yen										
Net sales per employee	$ 903,839	¥ 100,317	¥ 94,653	¥ 71,143	¥ 62,466	¥ 56,540	¥ 49,754	¥ 40,759	¥ 59,256	¥ 64,655	¥ 41,581	¥ 48,896

1 From fiscal 2015, Electronic components and computer networks was excluded because Tokyo Electron Device Limited, a former consolidated subsidiary, became an equity method affiliate. Photovoltaic panel (PV) production equipment was included in FPD production equipment until fiscal 2012 but from fiscal 2016, it has been included in Other.
2 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) has been disclosed from fiscal 2010.
3 Depreciation and amortization does not include amortization and loss on impairment of goodwill.
4 Capital expenditures only represent the gross increase in property, plant and equipment.
5 From fiscal 2011, the Company calculated net income per share of common stock (diluted) in accordance with "Accounting Standard for Earning Per Share" (Statement No. 2) and "Guidance on Accounting Standard for Earnings Per Share" (Guidance No. 4) released by the ASBJ. Dilution is not assumed for the years ended March 31, 2014 and 2010.
6 The amounts in this summary in millions and thousands of yen; thousands of U.S. dollars; and thousands of shares as of and for the years ended March 31, 2016 and prior are rounded to the nearest unit. Such amounts as of and for the years ended March 31, 2017 and onward are truncated at the nearest unit. Accordingly, totals for the years ended March 31, 2017 and onward do not necessarily agree with the sum of the corresponding individual amounts.
7 From fiscal 2019, the Company applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Statement No. 28, revised on February 16, 2018) released by the ASBJ. Accordingly, total assets, equity ratio and total asset turnover for fiscal 2018 have been restated.

Consolidated Balance Sheets

Tokyo Electron Limited and Subsidiaries
As of March 31, 2019 and 2018

ASSETS	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Current assets:			
Cash and cash equivalents	¥ 232,634	¥ 257,877	$ 2,095,997
Short-term investments	160,000	116,000	1,441,571
Trade notes and accounts receivable	146,971	159,570	1,324,185
Allowance for doubtful accounts	(84)	(59)	(765)
Inventories	354,219	344,071	3,191,455
Other current assets	89,156	69,137	803,281
Total current assets	982,897	946,597	8,855,726
Property, plant and equipment:			
Land	26,849	28,030	241,907
Buildings	169,682	159,474	1,528,805
Machinery and equipment	153,830	138,932	1,385,980
Construction in progress	19,643	11,060	176,988
Total property, plant and equipment	370,005	337,498	3,333,682
Less: Accumulated depreciation	219,936	211,546	1,981,587
Net property, plant and equipment	150,069	125,952	1,352,094
Investments and other assets:			
Investment securities	27,853	33,128	250,950
Deferred tax assets	63,925	62,442	575,959
Net defined benefit assets	3,065	—	27,618
Intangible assets	9,054	15,882	81,578
Other assets	22,189	20,215	199,921
Allowance for doubtful accounts	(1,426)	(1,422)	(12,850)
Total investments and other assets	124,661	130,246	1,123,178
Total assets	¥1,257,627	¥1,202,796	$11,330,999

LIABILITIES AND NET ASSETS	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Current liabilities:			
Trade notes and accounts payable	¥ 75,448	¥ 108,607	$ 679,780
Income taxes payable	57,671	66,046	519,605
Customer advances	77,247	100,208	695,990
Accrued employees' bonuses	33,139	34,467	298,584
Accrued warranty expenses	14,097	11,284	127,012
Other current liabilities	47,277	47,837	425,961
Total current liabilities	304,882	368,452	2,746,935
Non-current liabilities:			
Net defined benefit liabilities	60,975	59,684	549,382
Other liabilities	3,652	3,150	32,904
Total non-current liabilities	64,628	62,834	582,287
Total liabilities	369,510	431,287	3,329,222
Net assets:			
Shareholders' equity			
Common stock Authorized: 300,000,000 shares Issued: 165,210,911 and 165,210,911 shares as of March 31, 2019 and 2018, respectively	54,961	54,961	495,190
Capital surplus	78,011	78,011	702,865
Retained earnings	748,827	625,390	6,746,800
Treasury stock, at cost 1,252,517 and 1,097,342 shares as of March 31, 2019 and 2018, respectively	(11,821)	(7,518)	(106,513)
Accumulated other comprehensive income			
Net unrealized gains on investment securities	13,024	17,134	117,346
Net deferred gains (losses) on hedging instruments	(34)	278	(314)
Foreign currency translation adjustments	4,366	5,507	39,339
Accumulated remeasurements of defined benefit plans	(6,585)	(6,618)	(59,330)
Share subscription rights	7,368	4,363	66,391
Total net assets	888,117	771,509	8,001,777
Total liabilities and net assets	¥1,257,627	¥1,202,796	$11,330,999

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net sales	¥1,278,240	¥1,130,728	$11,516,718
Cost of sales	752,057	655,695	6,775,900
Gross profit	526,183	475,032	4,740,817
Selling, general and administrative expenses	215,612	193,860	1,942,626
Operating income	310,571	281,172	2,798,191
Other income (expenses):			
Interest and dividend income	2,573	859	23,188
Share of profit of associates accounted for using the equity method	817	571	7,361
Insurance dividend income	378	334	3,410
Foreign exchange gain (loss), net	3,623	(2,897)	32,647
Gain on sales of property, plant and equipment	101	77	916
Gain on sales of investment securities	768	—	6,927
Maintenance and operation costs of closed facilities	(57)	(71)	(513)
Loss on sales and disposal of property, plant and equipment	(967)	(487)	(8,719)
Loss on impairment of property, plant and equipment, goodwill and other assets	—	(925)	—
Loss on revision of retirement benefit plan	—	(3,154)	—
Other, net	3,698	(236)	33,324
Income before income taxes	321,508	275,242	2,896,735
Income taxes:			
Current	72,478	83,434	653,022
Deferred	801	(12,591)	7,223
Net income	248,228	204,399	2,236,489
Net income attributable to non-controlling interests	—	28	—
Net income attributable to owners of parent	¥ 248,228	¥ 204,371	$ 2,236,489

	Yen		U.S. dollars
Per share of common stock:			
Net income — basic	¥1,513.58	¥1,245.48	$13.64
Net income — diluted	1,507.22	1,241.22	13.58
Net assets	5,371.78	4,674.49	48.40
Cash dividends	758.00	624.00	6.83

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net income	¥248,228	¥204,399	$2,236,489
Other comprehensive income (loss):			
Net unrealized gains (losses) on investment securities	(4,102)	6,337	(36,962)
Net deferred gains (losses) on hedging instruments	(272)	198	(2,450)
Foreign currency translation adjustments	(1,170)	(242)	(10,548)
Remeasurements of defined benefit plans	(106)	(4,494)	(957)
Share of other comprehensive income of associates accounted for using the equity method	119	(46)	1,077
Total other comprehensive income (loss)	(5,531)	1,752	(49,841)
Comprehensive income	242,696	206,152	2,186,648
Total comprehensive income attributable to:			
Owners of parent	242,696	206,122	2,186,648
Non-controlling interests	—	29	—

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2019 and 2018

Millions of yen

	Shareholders' equity				Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on investment securities	Net deferred gains (losses) on hedging instruments	Foreign currency translation adjustments	Accumulated remeasurements of defined benefit plans	Share subscription rights	Non-controlling interests	Total net assets
Balance as of March 31, 2017	¥54,961	¥78,023	¥503,325	¥ (7,766)	¥10,788	¥ 59	¥5,789	¥(2,086)	¥2,620	¥284	¥645,999
Cash dividends	—	—	(82,203)	—	—	—	—	—	—	—	(82,203)
Net income attributable to owners of parent	—	—	204,371	—	—	—	—	—	—	—	204,371
Repurchase of treasury stock	—	—	—	(16)	—	—	—	—	—	—	(16)
Disposal of treasury stock	—	—	(102)	264	—	—	—	—	—	—	161
Change in equity of parent arising from transactions with non-controlling shareholders	—	(12)	—	—	—	—	—	—	—	—	(12)
Other, net	—	—	—	—	6,345	219	(281)	(4,531)	1,742	(284)	3,209
Balance as of March 31, 2018	¥54,961	¥78,011	¥625,390	¥ (7,518)	¥17,134	¥278	¥5,507	¥(6,618)	¥4,363	¥ —	¥771,509
Cash dividends	—	—	(124,754)	—	—	—	—	—	—	—	(124,754)
Net income attributable to owners of parent	—	—	248,228	—	—	—	—	—	—	—	248,228
Repurchase of treasury stock	—	—	—	(5,004)	—	—	—	—	—	—	(5,004)
Disposal of treasury stock	—	—	(36)	701	—	—	—	—	—	—	664
Other, net	—	—	—	—	(4,109)	(313)	(1,141)	33	3,005	—	(2,526)
Balance as of March 31, 2019	¥54,961	¥78,011	¥748,827	¥(11,821)	¥13,024	¥ (34)	¥4,366	¥(6,585)	¥7,368	¥ —	¥888,117

Thousands of U.S. dollars

	Shareholders' equity				Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on investment securities	Net deferred gains (losses) on hedging instruments	Foreign currency translation adjustments	Accumulated remeasurements of defined benefit plans	Share subscription rights	Non-controlling interests	Total net assets
Balance as of March 31, 2018	$495,190	$702,865	$5,634,655	$ (67,742)	$154,375	$2,510	$49,625	$(59,627)	$39,310	$ —	$ 6,951,163
Cash dividends	—	—	(1,124,013)	—	—	—	—	—	—	—	(1,124,013)
Net income attributable to owners of parent	—	—	2,236,489	—	—	—	—	—	—	—	2,236,489
Repurchase of treasury stock	—	—	—	(45,087)	—	—	—	—	—	—	(45,087)
Disposal of treasury stock	—	—	(330)	6,316	—	—	—	—	—	—	5,986
Other, net	—	—	—	—	(37,029)	(2,825)	(10,285)	297	27,080	—	(22,761)
Balance as of March 31, 2019	$495,190	$702,865	$6,746,800	$(106,513)	$117,346	$ (314)	$39,339	$(59,330)	$66,391	$ —	$ 8,001,777

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash flows from operating activities:			
Income before income taxes	¥321,508	¥275,242	$2,896,735
Depreciation and amortization	24,323	20,619	219,151
Loss on impairment of property, plant and equipment, goodwill and other assets	—	925	—
Amortization of goodwill	354	600	3,197
Increase (decrease) in accrued employees' bonuses	(1,165)	12,710	(10,501)
Increase in accrued directors' bonuses	492	2,573	4,435
Increase in accrued warranty expenses	2,968	2,769	26,748
Interest and dividend income	(2,573)	(859)	(23,188)
Decrease (increase) in trade notes and accounts receivable	10,541	(25,971)	94,979
Increase in inventories	(14,765)	(109,846)	(133,036)
Increase (decrease) in trade notes and accounts payable	(31,752)	28,535	(286,085)
Decrease (increase) in prepaid consumption tax	6,818	(13,896)	61,431
Increase (decrease) in accrued consumption tax	(2,845)	1,297	(25,636)
Increase (decrease) in customer advances	(22,077)	31,684	(198,911)
Other, net	(2,062)	8,851	(18,579)
Subtotal	289,766	235,238	2,610,740
Receipts from interest and dividends	2,738	1,115	24,675
Income taxes paid	(102,932)	(49,771)	(927,402)
Net cash provided by operating activities	189,572	186,582	1,708,013
Cash flows from investing activities:			
Payment for purchases of short-term investments	(209,500)	(131,000)	(1,887,557)
Proceeds from maturities of short-term investments	165,500	166,000	1,491,125
Payment for purchases of property, plant and equipment	(46,517)	(41,750)	(419,110)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	10,754	—	96,896
Other, net	(4,270)	(5,082)	(38,479)
Net cash used in investing activities	(84,033)	(11,833)	(757,125)
Cash flows from financing activities:			
Payment for purchases of treasury stock	(5,004)	(16)	(45,087)
Dividends paid	(124,754)	(82,203)	(1,124,013)
Other, net	(3)	(329)	(28)
Net cash used in financing activities	(129,761)	(82,549)	(1,169,129)
Effect of exchange rate changes on cash and cash equivalents	(1,020)	1,312	(9,194)
Net increase (decrease) in cash and cash equivalents	(25,243)	93,511	(227,435)
Cash and cash equivalents at beginning of year	257,877	164,366	2,323,433
Cash and cash equivalents at end of year	¥232,634	¥257,877	$2,095,997

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2019 and 2018

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 Act 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.

The amounts in the consolidated financial statements and associated notes shown in millions and thousands of yen; thousands of U.S. dollars; and thousands of shares as of and for the years ended March 31, 2019 and 2018 are truncated at the nearest unit. Accordingly, totals do not necessarily agree with the sum of the corresponding individual amounts.

U.S. dollar amounts included herein are solely for the convenience of readers and are presented at the rate of ¥110.99 to $1.00, the approximate rate as of March 31, 2019. 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 33 subsidiaries as of March 31, 2019 and 2018. All significant inter-company accounts, transactions and unrealized profits or losses have been eliminated through consolidation procedures.

There are 9 affiliates accounted for using the equity method as of March 31, 2019 and 2018.

The fiscal year-end of all entities is March 31, except for 3 consolidated foreign subsidiaries. Financial statements provisionally closed for the period ending March 31 are used for those subsidiaries.

(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 in the consolidated balance sheets.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash, short term deposits and low-risk financial instruments with original maturities of three months or less.

(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 as of March 31, 2019 and 2018. Held-to-maturity debt securities are stated mainly at amortized cost. Other securities with market prices are valued at fair value at the balance sheet date. The differences between the book value and fair value 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 prices are valued at cost using the weighted-average method.

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

(f) Inventories

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

(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 since April 1, 1998 and facilities attached to buildings and structures acquired since April 1, 2016 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 (excluding goodwill)

Intangible assets are amortized by the straight-line method over their estimated useful lives.

(i) Goodwill

Goodwill is evaluated on an individual basis and amortized by the straight-line method over a period not exceeding 20 years.

(j) Impairment of fixed assets

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

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.

(k) 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.

(l) Employee benefits

The Company and its domestic subsidiaries provide defined benefit plans for their employees. Expected benefits are attributed to accounting periods by the benefit formula basis. 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 (4 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 incurred, over a fixed number of years (4 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 audit & supervisory board members 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 audit & supervisory board members after April 1, 2005, and at the general shareholders' meeting in June 2005, it was resolved that the severance pay for directors and audit & supervisory board members until March 31, 2005 would be paid at the termination of their service and the decision regarding the payment amount for each director and audit & supervisory board member was delegated to the board of directors and audit & supervisory board members. The accruals for severance costs for directors and audit & supervisory board members are included in Net defined benefit liabilities in the consolidated balance sheets.

(m) Accrued warranty expenses

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

(n) Derivatives and hedge accounting

The Company and certain subsidiaries 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 Tokyo Electron does 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 instruments, net of taxes, are reported in net assets as a component of accumulated other comprehensive income (loss). 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 and net operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates and laws which are expected to be in effect when net operating loss carryforwards and temporary differences are expected to be realized.

(p) Revenue recognition

Revenue from Semiconductor and FPD (Flat Panel Display) production equipment is principally recognized at the time of the customer confirmation of set-up and testing of products. Revenue from equipment not requiring substantial installation is recognized at the time of shipment. Service revenue maintenance is recognized ratably over the term of the maintenance contract.

(q) Research and development expenses

Research and development expenses are charged to earnings as incurred and amounted to ¥113,980 million ($1,026,946 thousand) and ¥97,103 million for the years ended March 31, 2019 and 2018, respectively.

(r) 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, 2019.

Tokyo Electron adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the fiscal year ended March 31, 2019, and deferred tax assets are classified as "Investments and other assets" and deferred tax liabilities are classified as "Non-current liabilities", respectively.

As a result, out of "Deferred tax assets" of ¥50,505 million presented under "Current assets" as of March 31, 2018, ¥44,596 million was reclassified to "Deferred tax assets" under "Investments and other assets", and ¥5,908 million was offset by deferred tax liabilities, which are included in "Other liabilities" under "Non-current liabilities". Accordingly, total assets as of March 31, 2018 decreased by ¥5,908 million.

3. Additional Information

Stock delivering schemes linked to medium-term performance

Tokyo Electron introduced stock delivering schemes (hereinafter "the Schemes") as a common global incentive plan linked to medium-term performance from the fiscal year ended March 31, 2019. The purpose of the Schemes is to encourage directors and employees to contribute to the Group's medium-term performance and enterprise value.

Tokyo Electron adopted the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc. through Trusts" (PITF No. 30, March 26, 2015) for the accounting treatment of the Schemes.

1. Executive compensation BIP (Board Incentive Plan) Trust

(1) Overview of the transactions

The Executive compensation BIP Trust which the Company established acquires the Company's shares, and delivers and provides shares of the Company and monetary compensation corresponding to the cash conversion value of the Company's shares to the directors of the Company and its subsidiaries (excluding outside directors) based on their position and attainment of performance targets in accordance with the share delivery rules.

(2) The Company's shares held by the trust

Tokyo Electron recorded the Company's shares held by the trust in "Treasury stock, at cost" under "Net assets" at the book value in the trust (excluding ancillary expenses). The book value and the number of such treasury shares as of March 31, 2019 were ¥674 million ($6,074 thousand) and 34,038 shares, respectively.

2. Share-delivering ESOP (Employee Stock Ownership Plan) Trust

(1) Overview of the transactions

The Share-delivering ESOP Trust which the Company established acquires the Company's shares, and delivers and provides shares of the Company and monetary compensation corresponding to the cash conversion value of the Company's shares to the general managers, senior employees and mid-class employees of the Company and its subsidiaries based on their position and attainment of performance targets in accordance with the share delivery rules.

(2) The Company's shares held by the trust

Tokyo Electron recorded the Company's shares held by the trust in "Treasury stock, at cost" under "Net assets" at the book value in the trust (excluding ancillary expenses). The book value and the number of such treasury shares as of March 31, 2019 were ¥4,274 million ($38,508 thousand) and 215,663 shares, respectively.

4. Accounting Standards Issued but Not yet Adopted

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018 (hereinafter, "Statement No.29"))

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018 (hereinafter, "Guidance No.30"))

(1) Overview

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) collaborated on a project to develop a single, comprehensive revenue recognition model and jointly issued new revenue recognition standards "Revenue from Contracts with Customers" (IFRS 15 published by IASB, Topic 606 published by FASB) in May 2014. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 and Topic 606 is effective for annual reporting periods beginning after December 15, 2017.

Considering the above circumstances, the Accounting Standard Board of Japan (ASBJ) also developed a new revenue recognition standard and issued Statement No.29 together with Guidance No.30.

ASBJ's basic policy in developing the new revenue recognition standards is to first incorporate the core principle of IFRS 15 in the light of improving the international comparability of financial statements and then add additional alternative treatments to the extent that international comparability would not be significantly impaired where any business practices operated in Japan need to be considered.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

5. Securities

Other securities as of March 31, 2019 and 2018 are as follows:

	Millions of yen	
2019:	Cost	Carrying value
Non-current		
Securities with carrying value exceeding acquisition cost		
Equity securities	¥8,063	¥26,834
Securities with carrying value not exceeding acquisition cost		
Equity securities	1,011	1,002
Other	15	15
Total	¥9,090	¥27,853

	Millions of yen	
2018:	Cost	Carrying value
Non-current		
Securities with carrying value exceeding acquisition cost		
Equity securities	¥7,620	¥32,293
Securities with carrying value not exceeding acquisition cost		
Equity securities	819	819
Other	15	15
Total	¥8,455	¥33,128

	Thousands of U.S. dollars	
2019:	Cost	Carrying value
Non-current		
Securities with carrying value exceeding acquisition cost		
Equity securities	$72,647	$241,777
Securities with carrying value not exceeding acquisition cost		
Equity securities	9,116	9,031
Other	141	141
Total	$81,904	$250,950

Held-to-maturity securities classified as current assets are ¥215,000 million ($1,937,111 thousand) and ¥286,500 million as of March 31, 2019 and 2018, respectively.

Reconciliation of held-to-maturity securities as of March 31, 2019 and 2018 to the amounts of short-term investments in the consolidated balance sheets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Held-to-maturity (current)	¥215,000	¥286,500	$1,937,111
Deposits and low-risk financial instruments with original maturities of three months or less	(55,000)	(170,500)	(495,540)
Deposits with original maturities of more than three months	—	—	—
Short-term investments	¥160,000	¥116,000	$1,441,571

Net loss on devaluation of investment securities was ¥55 million ($496 thousand) and ¥536 million for the years ended March 31, 2019 and 2018, respectively.

For the year ended March 31, 2019, the Company sold available-for-sale securities and recognized the following gain and loss on sale:

	Millions of yen		
	Amount of sale	Gain on sale	Loss on sale
Equity securities	¥1,087	¥768	¥—
Total	¥1,087	¥768	¥—

	Thousands of U.S. dollars		
	Amount of sale	Gain on sale	Loss on sale
Equity securities	$9,795	$6,927	$—
Total	$9,795	$6,927	$—

For the year ended March 31, 2018, the amounts of gain and loss on sale of available-for-sale securities was immaterial.

6. Inventories

Inventories as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Finished products	¥234,102	¥220,497	$2,109,221
Work in process, raw materials and supplies	120,117	123,573	1,082,233
Total	¥354,219	¥344,071	$3,191,455

The amounts of change in inventory provision included in cost of sales in the consolidated statements of income for the years ended March 31, 2019 and 2018 were an increase of ¥4,031 million ($36,325 thousand) and an increase of ¥173 million, respectively.

7. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2019 and 2018.

8. Short-term Borrowings

There are no short-term borrowings classified as current liabilities as of March 31, 2019 and 2018.

As of March 31, 2019 and 2018, Tokyo Electron had unused lines of credit amounting to ¥126,947 million ($1,143,770 thousand) and ¥126,953 million, respectively.

9. Employee Benefits

The Company and its domestic subsidiaries provide a cash balance plan and a non-contributory retirement and severance benefit plan as defined benefit plans, and provide a defined contribution plan as defined contribution plans for their employees. Further, certain consolidated overseas subsidiaries provide defined benefit plans and defined contribution plans for their employees.

Effective April 1, 2018, Tokyo Electron and its domestic subsidiaries converted a part of their defined benefit plans to a defined contribution plan. The loss on revision of retirement benefit plan of ¥3,154 million resulting from this change was recognized and presented in other income (expenses) for the year ended March 31, 2018 in accordance with the "Accounting Procedures for Conversion between Different Retirement Benefit Schemes" (Corporate Accounting Standards Implementation Guidelines No. 1) and the "Practical Treatment of Accounting Procedures for Conversion between Different Retirement Benefit Schemes" (Practical Issues Task Force No. 2).

Defined benefit plans

(1) Movement of defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at April 1, 2018 and 2017	¥112,992	¥118,660	$1,018,040
Service cost	5,853	6,052	52,738
Interest cost	701	963	6,320
Actuarial gain	2,986	4,632	26,905
Benefits paid	(3,936)	(3,029)	(35,467)
Prior service cost	—	1,690	—
Decrease by conversion of a part of defined benefit plans to a defined contribution plan	—	(15,946)	—
Foreign currency exchange rate changes	(135)	(30)	(1,220)
Balance at March 31, 2019 and 2018	¥118,461	¥112,992	$1,067,316

(2) Movement of plan assets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at April 1, 2018 and 2017	¥53,683	¥67,653	$483,676
Expected return on plan assets	1,152	1,400	10,380
Actuarial gain (loss)	(6)	526	(61)
Employer contributions	7,403	3,577	66,701
Benefits paid	(1,164)	(915)	(10,493)
Decrease by conversion of a part of defined benefit plans to a defined contribution plan	—	(18,523)	—
Foreign currency exchange rate changes	(124)	(24)	(1,125)
Other	(16)	(12)	(147)
Balance at March 31, 2019 and 2018	¥60,925	¥53,683	$548,930

(3) Reconciliation from defined benefit obligations and plan assets to net defined benefit liabilities (assets)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded defined benefit obligations	¥58,453	¥54,677	$526,653
Plan assets	(60,925)	(53,683)	(548,930)
Funded status	(2,472)	993	(22,277)
Unfunded defined benefit obligations	60,008	58,315	540,662
Net defined benefit liabilities at March 31, 2019 and 2018	¥57,535	¥59,309	$518,385
Net defined benefit liabilities	60,600	59,309	546,004
Net defined benefit assets	(3,065)	—	(27,618)
Net defined benefit liabilities at March 31, 2019 and 2018	¥57,535	¥59,309	$518,385

Note: The provision for accrued pension and severance costs for directors and audit & supervisory board members of ¥374 million ($3,378 thousand) and ¥374 million as of March 31, 2019 and 2018 is not included.

(4) Defined benefit costs

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥5,853	¥6,052	$52,738
Interest cost	701	963	6,320
Expected return on plan assets	(1,152)	(1,400)	(10,380)
Net actuarial gain (loss) amortization	2,537	(1,237)	22,858
Prior service cost amortization	338	—	3,050
Other	287	388	2,592
Total defined benefit costs for the years ended March 31, 2019 and 2018	¥8,566	¥4,765	$77,179
Loss on transfer to defined contribution plan (Note)	—	3,154	—

Note: Loss on revision of retirement benefit plan was recognized in other income (expenses) for the year ended March 31, 2018.

(5) Remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Prior service cost	¥338	¥(1,354)	$3,050
Actuarial gain (loss)	(396)	(5,093)	(3,575)
Total	¥ (58)	¥(6,448)	$ (525)

Note: Prior service cost and actuarial loss for the year ended March 31, 2018 include the reclassification adjustments of ¥336 million and ¥240 million, respectively, associated with the conversion of a part of defined benefit plans to a defined contribution plan.

(6) Accumulated remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Prior service cost that is yet to be recognized (before tax)	¥(1,015)	¥(1,354)	$ (9,151)
Net actuarial loss that is yet to be recognized (before tax)	(8,204)	(7,806)	(73,922)
Total	¥(9,220)	¥(9,161)	$(83,073)

(7) Plan assets

1. Plan assets comprise:

	2019	2018
Bonds	31%	38%
Life insurance company general account	30	25
Equity securities	14	20
Alternative investments (Note)	13	9
Cash and cash equivalents	1	1
Other	11	7
Total	100%	100%

Note: Alternative investments mainly consist of hedge funds, real estate and insurance-linked securities

2. Long-term expected rate of return

Current and target asset allocations, and historical and expected returns on the various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions as of and for the years ended March 31, 2019 and 2018 are as follows:

	2019	2018
Discount rate	0.36%	0.46%
Long-term expected rate of return	2.00%	2.00%

The expected rates of salary increase for the years ended March 31, 2019 and 2018 are also considered as one of the actuarial assumptions, and are set based on the salary increase index by age group as of January 1, 2019 and January 1, 2018, respectively.

Defined contribution plans

The contributions of the Company and its subsidiaries to the defined contribution plans are ¥2,498 million ($22,514 thousand) and ¥1,124 million for the years ended March 31, 2019 and 2018, respectively.

10. Income Taxes

Significant components of the deferred tax assets and liabilities as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets			
Elimination of unrealized profit in inventories	¥25,145	¥27,718	$226,558
Net defined benefit liabilities	18,751	18,129	168,950
Net operating loss carryforwards	11,132	10,969	100,299
Accrued employees' bonuses	7,766	8,185	69,974
Devaluation of inventories	7,038	4,148	63,412
Accrued warranty expenses	3,846	2,675	34,653
Depreciation	2,710	1,903	24,417
Other	12,664	14,819	114,103
Total gross deferred tax assets	89,054	88,550	802,368
Less valuation allowance	(8,535)	(8,043)	(76,903)
Total deferred tax assets	80,519	80,506	725,464
Deferred tax liabilities			
Undistributed earnings of subsidiaries	(7,559)	(6,143)	(68,112)
Net unrealized gains on investment securities	(5,747)	(7,554)	(51,785)
Other	(3,474)	(4,384)	(31,304)
Total deferred tax liabilities	(16,781)	(18,082)	(151,201)
Net deferred tax assets	¥63,737	¥62,424	$574,263

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 and net operating loss carryforwards are available to be utilized. 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 temporary differences are deductible and net operating loss-carryforwards are available to be utilized, management believes Tokyo Electron will realize the benefits of deferred tax assets, net of valuation allowance, as of March 31, 2019 and 2018.

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

Significant components of the difference between the statutory and effective tax rates for the years ended March 31, 2019 and 2018 are as follows:

	2019	2018
Statutory tax rate in Japan	30.62%	30.86%
Adjustments:		
Tax credits	(6.52)	(6.23)
Difference in statutory tax rates of subsidiaries	(1.11)	(1.33)
Effect of enacted changes in tax rates on net deferred tax assets	—	1.55
Others, net	(0.20)	0.89
Effective tax rate	22.79%	25.74%

Year ended March 31, 2019

The Company received notification from the National Tax Agency, Japan (NTA) dated January 24, 2019, that agreement had been reached through the Mutual Agreement Procedure (MAP) between the NTA and Korean income tax authorities concerning the transfer pricing adjustments assessed during prior historical periods relating to the transactions between the Company and its Korean subsidiary. As a result, ¥862 million ($7,770 thousand) of tax benefit is included in current income tax expense as the difference between the actual tax refunds and the estimated amount recorded in prior fiscal year.

Year ended March 31, 2018

The U.S. federal income tax rate applied to the consolidated subsidiaries in the U.S. was reduced from 35% to 21% associated with the U.S. tax reform legislation signed into law on December 22, 2017.

Net deferred tax assets were reduced by ¥3,029 million and income taxes were increased by ¥3,211 million as of and for the year ended March 31, 2018 resulting from this tax rate reduction.

11. Other Income (Expenses)

Loss on impairment of property, plant and equipment, goodwill and other assets

For the year ended March 31, 2018, the following loss on impairment was recognized:

Goodwill of TEL NEXX, Inc.

Location	Purpose of use	Asset Type	Loss on impairment Millions of yen
Billerica, Massachusetts, U.S.A.	Business assets	Goodwill	¥925

Tokyo Electron performed an impairment test and recognized loss on impairment of goodwill of TEL NEXX, Inc., a subsidiary manufacturing semiconductor production equipment, due to TEL NEXX, Inc.'s reconsideration of its business plan. Tokyo Electron recognized the difference between the book value and the recoverable amount of goodwill as loss on impairment. The recoverable amount was measured as value in use, and was calculated by discounting future cash flows at a discount rate of 14.0%.

Loss on revision of retirement benefit plan

Effective April 1, 2018, Tokyo Electron and its domestic subsidiaries converted a part of their defined benefit plans to a defined contribution plan. The loss on revision of retirement benefit plan of ¥3,154 million resulting from this change was recognized and presented in other income (expenses) for the year ended March 31, 2018 in accordance with the "Accounting Procedures for Conversion between Different Retirement Benefit Schemes" (Corporate Accounting Standards Implementation Guidelines No. 1) and the "Practical Treatment of Accounting Procedures for Conversion between Different Retirement Benefit Schemes" (Practical Issues Task Force No. 2).

12. Net Assets

Net assets comprises four subsections, which are shareholders' equity, accumulated other comprehensive income, share subscription rights and non-controlling 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 Company is subject to restriction of dividends based on the Japanese Corporate Act, which restricts the amount of dividends to retained earnings on a consolidated basis.

The Company's articles 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 in accordance with Japanese laws and regulations.

At the board of directors' meeting held on May 10, 2019, the distribution of cash dividends amounting to ¥56,651 million ($510,422 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2019 since they are recognized in the period in which they are resolved at the board of directors' meeting. The dividends of ¥56,651 million include ¥86 million ($776 thousand) related to treasury stock held by the BIP/ESOP Trusts.

Notes to Consolidated Financial Statements

13. Other Comprehensive Income

Other comprehensive income for the years ended March 31, 2019 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net unrealized gains (losses) on investment securities			
Net unrealized gains (losses) arising during the year	¥(5,910)	¥9,134	$(53,255)
Reclassification adjustments	—	—	—
Sub-total, before tax	(5,910)	9,134	(53,255)
Tax expense	1,808	(2,796)	16,293
Sub-total, net of tax	(4,102)	6,337	(36,962)
Net deferred gains (losses) on hedging instruments			
Net deferred gains (losses) arising during the year	(392)	286	(3,532)
Reclassification adjustments	—	—	—
Sub-total, before tax	(392)	286	(3,532)
Tax expense	120	(87)	1,081
Sub-total, net of tax	(272)	198	(2,450)
Foreign currency translation adjustments			
Adjustments during the year	(1,170)	(297)	(10,548)
Reclassification adjustments	—	54	—
Sub-total, before tax	(1,170)	(242)	(10,548)
Tax expense	—	—	—
Sub-total, net of tax	(1,170)	(242)	(10,548)
Remeasurements of defined benefit plans			
Adjustments during the year	(2,933)	(5,787)	(26,434)
Reclassification adjustments	2,875	(660)	25,908
Sub-total, before tax	(58)	(6,448)	(525)
Tax expense	(48)	1,953	(432)
Sub-total, net of tax	(106)	(4,494)	(957)
Share of other comprehensive income of associates accounted for using the equity method			
Adjustments during the year	119	(46)	1,077
Total other comprehensive income	¥(5,531)	¥1,752	$(49,841)

14. 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 or over three-year period with restriction on exercise up to three years after the date of grant, and have an exercise period of seventeen years from the date on which the options become exercisable.

Options to purchase 219,900 shares of the Company were authorized and granted at an exercise price of ¥1 ($0.01) for the year ended March 31, 2019.

A summary of stock options outstanding and exercisable as of March 31, 2019 and 2018 is as follows:

	2019			2018	
	Number of shares	Weighted-average exercise price		Number of shares	Weighted-average exercise price
		Yen	U.S. dollars		Yen
Outstanding at the beginning of year	563,600	¥1	$0.01	457,500	¥1
Granted	219,900	1	0.01	144,700	1
Exercised	94,800	1	0.01	38,600	1
Expired (forfeited)	—	—	—	—	—
Outstanding at the end of year	688,700	1	0.01	563,600	1
Exercisable at the end of year	129,700	1	0.01	88,800	1

Amounts expensed related to stock options

The amounts expensed related to stock options for the years ended March 31, 2019 and 2018, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Selling, general and administrative expenses	¥3,618	¥1,903	$32,601

Valuation method of fair value per unit of stock options

Fair value as of the grant date for stock options granted for the year ended March 31, 2019 was ¥16,455 ($148.26) per unit, which was evaluated as follows:

(1) Valuation method used: Black-Scholes model
(2) Major underlying assumptions and estimates:

	14th Stock Acquisition Rights
Volatility (Note 1)	35.31%
Expected residual period (Note 2)	5.55 years
Expected dividends (Note 3)	¥488 ($4.40) per share
Risk-free interest rate (Note 4)	(0.09)%

Notes: 1. Calculated based on the stock price performance for the period corresponding to the expected residual period (from November 2012 to June 2018).
2. Calculated based on past actual results and forecast of the exercise of stock options.
3. Based on the dividends paid for the years ended March 31, 2018 and 2017.
4. Based on Japanese government bond yield corresponding to the expected residual period.

(3) Method of estimating the number of vested stock options

It is not necessary to estimate the number of vested stock options as the rights to exercise stock options are vested immediately when granted.

15. Leases

Future minimum lease payments on non-cancelable operating leases are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Due within one year	¥ 3,694	¥ 3,772	$ 33,284
Due over one year	8,577	7,039	77,284
Total	¥12,272	¥10,811	$110,568

16. 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.

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 short term deposits and low-risk financial instruments and Tokyo Electron trade with highly-rated financial institutions to mitigate credit risks.

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

Trade payables, which consist of notes and accounts payable, 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 17 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, 2019 and 2018 are set out below. Fair value of financial instruments which is practically difficult to estimate are excluded.

2019:	Millions of yen: Carrying amount	Millions of yen: Estimated fair value[1]
Assets		
Cash and cash equivalents	¥232,634	¥232,634
Short-term investments	160,000	159,921
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥84 million)	146,886	146,886
Investment securities	26,866	26,866
Liabilities		
Trade notes and accounts payable	75,448	75,448
Derivatives (see note 17)		
Hedge accounting not applied	74	74
Hedge accounting applied	(56)	(56)

2018:	Millions of yen: Carrying amount	Millions of yen: Estimated fair value[1]
Assets		
Cash and cash equivalents	¥257,877	¥257,877
Short-term investments	116,000	115,966
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥59 million)	159,510	159,510
Investment securities	32,230	32,230
Liabilities		
Trade notes and accounts payable	108,607	108,607
Derivatives (see note 17)		
Hedge accounting not applied	(7)	(7)
Hedge accounting applied	335	335

2019:	Thousands of U.S. dollars: Carrying amount	Thousands of U.S. dollars: Estimated fair value[1]
Assets		
Cash and cash equivalents	$2,095,997	$2,095,997
Short-term investments	1,441,571	1,440,864
Trade notes and accounts receivable, net of allowance for doubtful accounts ($765 thousand)	1,323,420	1,323,420
Investment securities	242,060	242,060
Liabilities		
Trade notes and accounts payable	679,780	679,780
Derivatives (see note 17)		
Hedge accounting not applied	670	670
Hedge accounting applied	(513)	(513)

Notes: 1. Fair value calculation of financial instruments
Cash and cash equivalents, short-term investments, trade notes and accounts receivable 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 5 for further information by classification of investment securities.
Derivatives
See note 17 for detailed discussion on derivative financial instruments.

2. The following financial instruments are not included in the above as they do not have quoted market prices and therefore it is considered extremely difficult to measure their fair value.

	Millions of yen: 2019	Millions of yen: 2018	Thousands of U.S. dollars: 2019
	Reported amount in balance sheet		
Unlisted stocks	¥971	¥882	$8,749
Other	15	15	141
Total	¥986	¥897	$8,890

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

2019:	Millions of yen: Within 1 year	Millions of yen: After 1 through 5 years
Cash and cash equivalents	¥232,634	¥—
Short-term investments	160,000	—
Trade notes and accounts receivable	146,971	—

2018:	Millions of yen: Within 1 year	Millions of yen: After 1 through 5 years
Cash and cash equivalents	¥257,877	¥—
Short-term investments	116,000	—
Trade notes and accounts receivable	159,570	—

2019:	Thousands of U.S. dollars: Within 1 year	Thousands of U.S. dollars: After 1 through 5 years
Cash and cash equivalents	$2,095,997	$—
Short-term investments	1,441,571	—
Trade notes and accounts receivable	1,324,185	—

17. 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 certain subsidiaries enter into forward foreign exchange contracts in order to hedge such risks, but do not enter into such transactions for speculative purposes. The Company implements a ratio analysis of the total cumulative cash flow fluctuations to assess effectiveness of hedging for all derivative transactions, except for transactions where the critical terms of the hedging instrument and hedged item match and the Company could conclude that changes in fair value or cash flows are expected to completely offset. Execution and management of all derivative transactions are conducted pursuant to the internal management rule.

The estimated fair values of the derivative financial instruments as of March 31, 2019 and 2018 are as follows:

1. Derivative financial instruments not designated as hedging instruments

2019:	Millions of yen: Contract amount	Millions of yen: Fair value	Millions of yen: Gains (losses)
Sell U.S. dollars	¥ 1,201	¥14	¥14
Buy U.S. dollars	11,967	53	53
Buy Chinese yuan	2,720	9	9
Buy Taiwan dollars	1,213	(3)	(3)
Buy GBP	593	0	0
Buy EURO	360	0	0
Buy Singapore dollars	326	(0)	(0)
Total	¥18,383	¥74	¥74

2018:	Millions of yen: Contract amount	Millions of yen: Fair value	Millions of yen: Gains (losses)
Sell U.S. dollars	¥ 703	¥18	¥18
Buy U.S. dollars	3,639	(19)	(19)
Buy Chinese yuan	1,515	(0)	(0)
Buy Taiwan dollars	912	0	0
Buy GBP	820	(2)	(2)
Buy EURO	785	(1)	(1)
Buy Singapore dollars	706	(2)	(2)
Total	¥9,084	¥ (7)	¥ (7)

2019:	Thousands of U.S. dollars: Contract amount	Thousands of U.S. dollars: Fair value	Thousands of U.S. dollars: Gains (losses)
Sell U.S. dollars	$ 10,823	$127	$127
Buy U.S. dollars	107,828	484	484
Buy Chinese yuan	24,508	85	85
Buy Taiwan dollars	10,932	(27)	(27)
Buy GBP	5,344	1	1
Buy EURO	3,250	0	0
Buy Singapore dollars	2,944	(0)	(0)
Total	$165,632	$670	$670

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

2. Derivative financial instruments designated as hedging instruments

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

	Millions of yen			Thousands of U.S. dollars		
2019:	Contract amount	Contract amount due after 1 year	Fair value	Contract amount	Contract amount due after 1 year	Fair value
Future transactions denominated in a foreign currency						
Sell U.S. dollars	¥5,951	¥—	¥(56)	$53,624	$—	$(513)
Monetary assets and liabilities in foreign currency (Note)						
Sell U.S. dollars	898	—	—	8,097	—	—
Buy U.S. dollars	61	—	—	550	—	—
Total	¥6,911	¥—	¥(56)	$62,272	$—	$(513)

2018:	Millions of yen: Contract amount	Millions of yen: Contract amount due after 1 year	Millions of yen: Fair value
Future transactions denominated in a foreign currency			
Sell U.S. dollars	¥11,853	¥71	¥335
Buy U.S. dollars	156	—	(0)
Monetary assets and liabilities in foreign currency (Note)			
Sell U.S. dollars	555	—	—
Total	¥12,566	¥71	¥335

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.

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 the 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)" and "flat panel display (FPD) production equipment".

Products of the SPE segment consist of coater/developers, etch systems, 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, sells such products and provide services on them.

Products of the FPD production equipment segment consist of coater/developers and etch/ash systems used in the manufacture of flat panel displays. The FPD production equipment segment principally develops, manufactures, sells such products and provide services on them.

Basis of measurement of reportable segment net sales, segment profit (loss), 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 by negotiation between the Tokyo Electron group companies considering 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.

Information about reportable segment net sales, segment profit (loss), segment assets and other items

Reportable segment information as of and for the years ended March 31, 2019 and 2018 is as follows:

Millions of yen

	Reportable Segment					
2019:	Semiconductor production equipment	FPD production equipment	Other	Total	Adjustments	Consolidated
Net sales						
Sales to external customers	¥1,166,781	¥111,261	¥ 197	¥1,278,240	¥ —	¥1,278,240
Intersegment sales or transfers	—	—	18,914	18,914	(18,914)	—
Total	1,166,781	111,261	19,112	1,297,155	(18,914)	1,278,240
Segment profit	326,716	24,241	1,035	351,993	(30,484)	321,508
Segment assets	506,929	35,722	2,474	545,126	712,501	1,257,627
Depreciation and amortization	14,003	873	126	15,002	9,321	24,323
Amortization of goodwill	354	—	—	354	—	354
Capital expenditures, including intangible assets	22,633	1,507	198	24,340	29,082	53,422

Millions of yen

	Reportable Segment					
2018:	Semiconductor production equipment	FPD production equipment	Other	Total	Adjustments	Consolidated
Net sales						
Sales to external customers	¥1,055,234	¥75,068	¥ 425	¥1,130,728	¥ —	¥1,130,728
Intersegment sales or transfers	—	—	19,469	19,469	(19,469)	—
Total	1,055,234	75,068	19,894	1,150,197	(19,469)	1,130,728
Segment profit (loss)	314,602	13,299	(57)	327,844	(52,601)	275,242
Segment assets	494,964	43,963	3,014	541,943	660,853	1,202,796
Depreciation and amortization	11,402	701	81	12,185	8,434	20,619
Amortization of goodwill	600	—	—	600	—	600
Loss on impairment	925	—	—	925	—	925
Capital expenditures, including intangible assets	16,392	935	247	17,575	33,722	51,297

Thousands of U.S. dollars

	Reportable Segment					
2019:	Semiconductor production equipment	FPD production equipment	Other	Total	Adjustments	Consolidated
Net sales						
Sales to external customers	$10,512,487	$1,002,449	$ 1,780	$11,516,718	$ —	$11,516,718
Intersegment sales or transfers	—	—	170,420	170,420	(170,420)	—
Total	10,512,487	1,002,449	172,200	11,687,138	(170,420)	11,516,718
Segment profit	2,943,661	218,408	9,327	3,171,397	(274,661)	2,896,735
Segment assets	4,567,342	321,852	22,293	4,911,488	6,419,510	11,330,999
Depreciation and amortization	126,166	7,867	1,136	135,169	83,981	219,151
Amortization of goodwill	3,197	—	—	3,197	—	3,197
Capital expenditures, including intangible assets	203,925	13,586	1,788	219,300	262,029	481,330

Notes: 1. "Other" includes all other operating segments which are not included in the reportable segments, including group-wide logistic services, facility maintenance and insurance.
2. (1) "Adjustments" for segment profit (loss) totaling ¥(30,484) million ($(274,661) thousand) and ¥(52,601) million for the years ended March 31, 2019 and 2018, respectively, mainly consists of research and development costs of ¥(15,999) million ($(144,148) thousand) and ¥(22,263) million for the years ended March 31, 2019 and 2018, respectively, pertaining to the Company's fundamental research and element research, the loss on revision of retirement benefit plan of ¥(3,154) million for the year ended March 31, 2018 and other general and administrative costs that do not belong to the reportable segments.
(2) "Adjustments" for segment assets totaling ¥712,501 million ($6,419,510 thousand) and ¥660,853 million as of March 31, 2019 and 2018, respectively, mainly consist of cash and cash equivalents, short-term investments and buildings not allocated to any of the reportable segments.
(3) "Adjustments" for capital expenditures totaling ¥29,082 million ($262,029 thousand) and ¥33,722 million for the years ended March 31, 2019 and 2018, respectively, mainly consist of capital expenditures for buildings not allocated to any of the reportable segments.

Other information

(1) Domestic and overseas net sales by destination for the years ended March 31, 2019 and 2018 are as follows:

Millions of yen

2019:	Japan	North America	Europe	South Korea	Taiwan	China	Other	Total
Net sales	¥208,796	¥131,954	¥93,113	¥311,081	¥164,912	¥307,879	¥60,502	¥1,278,240

Notes: 1. Sales are classified in countries or regions based on location of customers.
2. Net sales of North America include sales in the U.S.A. of ¥131,914 million.

Millions of yen

2018:	Japan	North America	Europe	South Korea	Taiwan	China	Other	Total
Net sales	¥148,760	¥119,257	¥96,948	¥378,496	¥174,636	¥164,344	¥48,283	¥1,130,728

Notes: 1. Sales are classified in countries or regions based on location of customers.
2. Net sales of North America include sales in the U.S.A. of ¥119,047 million.

Thousands of U.S. dollars

2019:	Japan	North America	Europe	South Korea	Taiwan	China	Other	Total
Net sales	$1,881,220	$1,188,887	$838,939	$2,802,784	$1,485,830	$2,773,941	$545,113	$11,516,718

Note: Net sales of North America include sales in the U.S.A. of $1,188,526 thousand.

(2) Net property, plant and equipment by location as of March 31, 2019 and 2018 are as follows:

2019:	Japan	Other	Total
	Millions of yen		
Property, plant and equipment	¥120,177	¥29,891	¥150,069

2018:	Japan	Other	Total
	Millions of yen		
Property, plant and equipment	¥97,610	¥28,342	¥125,952

2019:	Japan	Other	Total
	Thousands of U.S. dollars		
Property, plant and equipment	$1,082,779	$269,315	$1,352,094

(3) Major customer information

Net sales to external customers that represent 10 percent or more of net sales are as follows:

Name of customer	Related reportable segment	Millions of yen 2019	Thousands of U.S. dollars 2019
Intel Corporation	Semiconductor production equipment	¥199,594	$1,798,306
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD production equipment	175,315	1,579,563
SK hynix Inc.	Semiconductor production equipment	174,468	1,571,930
Micron Technology, Inc.	Semiconductor production equipment	131,821	1,187,687

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

Name of customer	Related reportable segment	Millions of yen 2018
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD production equipment	¥261,544
Intel Corporation	Semiconductor production equipment	181,053
SK hynix Inc.	Semiconductor production equipment	132,146

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

Information about reportable segment goodwill

Reportable segment information about amortization of goodwill for the years ended March 31, 2019 and 2018, and unamortized balances as of March 31, 2019 and 2018 are as follows:

2019:	Semiconductor production equipment	FPD production equipment	Total
	Millions of yen		
Amortization of goodwill	¥ 354	¥—	¥ 354
Goodwill	1,124	—	1,124

2018:	Semiconductor production equipment	FPD production equipment	Total
	Millions of yen		
Amortization of goodwill	¥ 600	¥—	¥ 600
Goodwill	1,699	—	1,699

2019:	Semiconductor production equipment	FPD production equipment	Total
	Thousands of U.S. dollars		
Amortization of goodwill	$ 3,197	$—	$ 3,197
Goodwill	10,135	—	10,135

19. 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. Net income-diluted per share is computed based on the weighted-average number of shares of common stock outstanding during each year after incorporating the dilutive potential effect of shares of common stock to be issued upon the exercise of stock options.

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.

The basis for the calculation of net income per share for the fiscal years ended March 31, 2019 and 2018 is as follows:

	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Net income per share of common stock — Basic			
Net income attributable to owners of parent	¥248,228	¥204,371	$2,236,489
Less components not pertaining to holders of common stock	—	—	—
Net income pertaining to holders of common stock	¥248,228	¥204,371	$2,236,489
Weighted-average number of shares of common stock outstanding (thousands)	164,000	164,090	
Net income per share of common stock — Diluted			
Adjustment of net income attributable to owners of parent	—	—	—
Increase in number of common stock (Thousands of share)	692	562	
Increase in number of share subscription rights (Thousands of share)	692	562	

Notes: The shares of the Company held by "Executive compensation BIP Trust" and "Share-delivering ESOP Trust", which are recorded in "Treasury stock, at cost" under shareholders' equity, are included in the treasury stock which is deducted in calculating the per-share information.

The number of treasury shares deducted in the calculation of net assets per share was 249 thousand shares as of March 31, 2019, and the average number of treasury shares deducted in the calculation of net income per share and fully diluted net income per share was 167 thousand shares in the fiscal year ended March 31, 2019.

20. Subsequent Events

Share repurchase

At the Board of Directors meeting held on May 27, 2019, the Company resolved to acquire its own shares under the provisions of its Articles of Incorporation pursuant to paragraph 1, Article 459 of the Companies Act, as follows:

1. Reason for acquisition of own shares

The Company intends to acquire its own shares in accordance with its capital policy while taking into account its current cash position, its base for medium- to long-term revenue growth and growth investment capital.

2. Details of acquisition

(1) Type of shares to be acquired: Shares of common stock
(2) Total number of shares to be acquired: Up to 14 million shares (Equivalent to 8.5% of outstanding shares excluding treasury stock)
(3) Total cost of acquisition: Up to ¥150 billion
(4) Period of acquisition: From May 28, 2019 to December 31, 2019
(5) Method of acquisition: Acquisition through market transactions on the Tokyo Stock Exchange

Independent Auditor's Report

KPMG

Independent Auditor's 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, 2019 and 2018, and the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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 misstatement, 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, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 20. Subsequent events to the consolidated financial statements, Tokyo Electron Limited passed a resolution at the Board of Directors meeting held on May 27, 2019 to acquire the company's treasury stock through market transactions. Our opinion is not modified in respect of this matter.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 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.

KPMG AZSA LLC

June 18, 2019
Tokyo, Japan

Consolidated Subsidiaries (As of March 31, 2019)

JAPAN
- Tokyo Electron Technology Solutions Limited
- Tokyo Electron Kyushu Limited
- Tokyo Electron Miyagi Limited
- Tokyo Electron FE Limited
- Tokyo Electron BP Limited
- Tokyo Electron Agency Limited

U.S.
- Tokyo Electron U.S. Holdings, Inc.
- Tokyo Electron America, Inc.
- TEL Technology Center, America, LLC
- TEL Venture Capital, Inc.
- TEL Epion Inc.
- TEL FSI, Inc.

EUROPE
- Tokyo Electron Europe Limited
- Tokyo Electron Israel Limited
- TEL Magnetic Solutions Limited

ASIA
- Tokyo Electron Korea Limited
- Tokyo Electron Taiwan Limited
- Tokyo Electron (Shanghai) Limited
- Tokyo Electron (Kunshan) Limited
- Tokyo Electron Singapore Pte. Limited

33 consolidated subsidiaries in total, including the above 20 companies

Investor Information (As of March 31, 2019)

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	165,210,911 shares
Number of shareholders	50,843

Common Stock Listed on:
Tokyo Stock Exchange 1st Section
(Stock code: 8035)

Independent Auditor:
KPMG AZSA LLC

Administrator of Shareholders' Register:
Sumitomo Mitsui Trust Bank, Limited
4-1 Marunouchi 1-chome, Chiyoda-ku,
Tokyo, Japan

Direct mail and inquiries to:
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

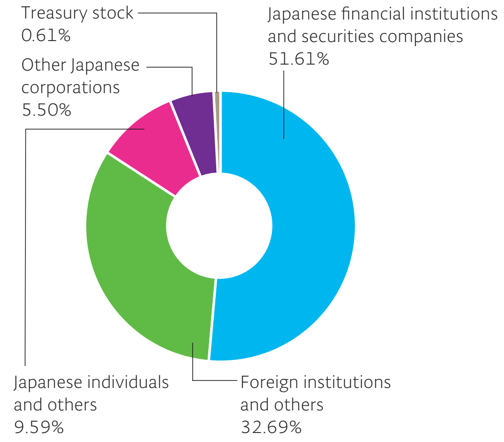
Website:
www.tel.com

Major Shareholders:

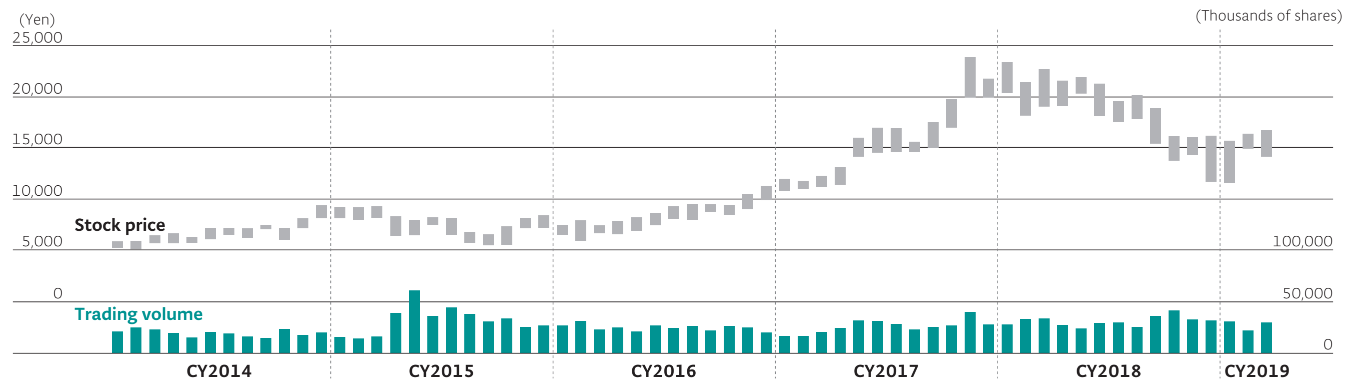
	Number of shares held (thousands)	Voting share ratio (%)
The Master Trust Bank of Japan Limited (trust account)	30,791	18.75
Japan Trustee Services Bank Limited (trust account)	17,573	10.70
JP Morgan Chase Bank 380055	9,627	5.86
Tokyo Broadcasting System Holdings, Inc.	7,077	4.31
Trust & Custody Services Bank, Limited (securities investment trust account)	3,672	2.23
JP Morgan Chase Bank 385151	3,108	1.89
Japan Trustee Services Bank Limited (trust account 4)	2,801	1.70
Japan Trustee Services Bank Limited (trust account 5)	2,616	1.59
State Street Bank West Client Treaty 505234	2,538	1.54
Japan Trustee Services Bank Limited (trust account 7)	2,442	1.48

Notes: 1. Shares of less than one thousand have been rounded down in the "Number of shares held."
2. Voting share ratios are calculated excluding treasury stock (1,002,816 shares). Figures are truncated after the second decimal place. Treasury stock excludes the 249,701 Company shares owned by the executive compensation Board Incentive Plan (BIP) trust account and the share-delivering Employee Stock Ownership Plan (ESOP).

Distribution of Ownership among Shareholders:



Stock Price and Trading Volume



Years ended March 31	2015	2016	2017	2018	2019
High (yen)	9,451	8,450	12,285	23,875	21,935
Low (yen)	5,751	5,519	6,603	11,455	11,595
Total shareholder return (%)	134.8	122.0	203.7	337.9	286.4
(TOPIX, dividends reinvested)	(130.7)	(116.5)	(133.7)	(154.9)	(147.1)