

Financial Review

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Sales and Income

Operating Environment

The overall world economy in fiscal 2018 held firm, with the United States and Europe seeing ongoing steady economic recovery, while the economies of China and Asia were solid.

In the electronics industry, investment in data center servers was brisk, reflecting growth in high-volume data transmission driven by streaming video and other cloud-based services. Demand for semiconductors, especially memory, increased substantially. As a result, the wafer fab equipment market, in which Tokyo Electron operates, grew 37% year on year, surpassing US\$50 billion for the first time ever. At the same time, the display industry saw capital investment aimed at OLED panels for mobile devices and the start of capital investment in large generation 10.5 panels. Accordingly, the market for flat panel display (FPD) production equipment was brisk, growing 40% year on year to approach US\$20 billion.

Sales

Net sales in fiscal 2018 rose 41.4% year on year to ¥1,130.7 billion. This reflected the favorable market environment, expanding demand for cutting-edge semiconductor production equipment (SPE) and increased demand for parts and used equipment sales, modifications and maintenance services. By segment, net sales in the SPE segment grew 40.7% year on year to ¥1,055.2 billion. Net sales in the FPD production equipment segment grew 52.0% year on year to ¥75.0 billion. For details on performance by segment, please refer to Review of Operations and Business Outlook on page 8. Furthermore, net sales in the field solutions

business (encompassing sales of parts and used equipment, modifications and maintenance services) rose 20.5% year on year to ¥251.0 billion, accounting for 22.2% of consolidated net sales.

Gross Profit, SG&A Expenses and Operating Income

Gross profit in fiscal 2018 was up 47.4% year on year to ¥475.0 billion, reflecting the growth in net sales. The gross profit margin rose 1.7 percentage points to 42.0%, mainly due to increased sales of high-value-added products.

SG&A expenses rose 16.4% year on year to ¥193.8 billion, but the ratio of SG&A expenses to consolidated net sales dropped 3.7 percentage points from the previous fiscal year to 17.1% in the fiscal year under review. The Group also steadily advanced cost control measures, as targeted under the medium-term management plan. Consequently, operating income increased 80.6% year on year to ¥281.1 billion, and the operating margin rose 5.4 percentage points to 24.9%, greatly exceeding the previous record high.

R&D Expenses

R&D expenses were up 15.9% year on year to ¥97.1 billion. The main cause of this rise was 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 focused on R&D aimed at enhancing the competitiveness of future products. This included developing innovative technologies to not only enhance the performance of individual products, but 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 DRAM and 3D NAND flash memory manufactured using cutting-edge technology, making progress toward the goals of the medium-term management plan.

In FPD production equipment, Tokyo Electron released new products for generation 10.5 panels, which are expected to see rapid market growth going forward.

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

During fiscal 2018, net other expenses came to ¥5.9 billion, reflecting ¥3.1 billion in extraordinary loss due to the transition to a defined contribution pension plan and ¥0.9 billion in loss on impairment of goodwill. As a result, income before income taxes came to ¥275.2 billion, up 84.6% year on year. Net income attributable to owners of the parent totaled ¥204.3 billion in fiscal 2018, up 77.4% from fiscal 2017. Net income per share rose 77.4% year on year to ¥1,245.48.

Comprehensive Income

In fiscal 2018, Tokyo Electron recognized comprehensive income of ¥206.1 billion, up from ¥119.9 billion in fiscal 2017. This was mainly due to the ¥204.3 billion in net income, ¥6.3 billion in unrealized gains on

investment securities related to strategically held shares, and ¥4.4 billion in loss on remeasurements of defined benefit plans due to a decrease in the discount rate used to calculate retirement benefits as a result of falling interest rates.

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 2018 of ¥624 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

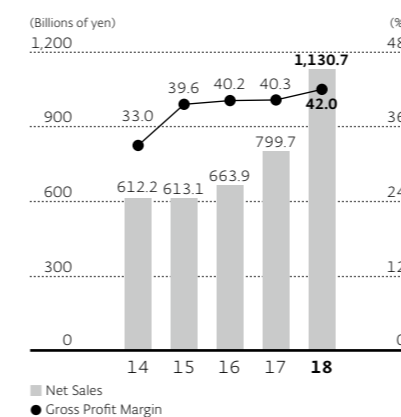
Assets, Liabilities and Net Assets

Assets

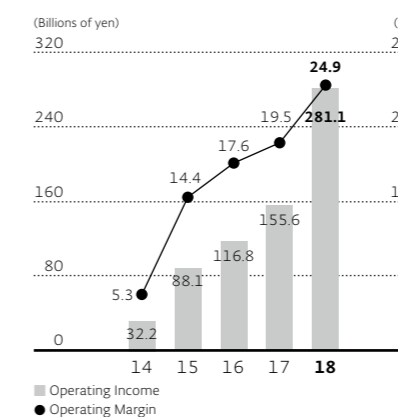
Current assets increased ¥221.1 billion from the end of the previous fiscal year to ¥997.1 billion, reflecting a ¥58.5 billion increase in cash on hand¹ due to the generation of ¥139.7 billion in free cash flow,² a ¥107.8 billion increase in inventories due to increased production to meet robust demand from semiconductor and

| | Millions of yen | | | | |
|--|-----------------|----------|----------|----------|------------|
| Sales and Income | 2014 | 2015 | 2016 | 2017 | 2018 |
| Net sales | ¥612,170 | ¥613,125 | ¥663,949 | ¥799,719 | ¥1,130,728 |
| Gross profit | 201,892 | 242,774 | 267,210 | 322,291 | 475,032 |
| Gross profit margin | 33.0% | 39.6% | 40.2% | 40.3% | 42.0% |
| Selling, general and administrative expenses | 169,687 | 154,661 | 150,421 | 166,594 | 193,860 |
| Operating income | 32,205 | 88,113 | 116,789 | 155,697 | 281,172 |
| Operating margin | 5.3% | 14.4% | 17.6% | 19.5% | 24.9% |
| Income (loss) before income taxes | (11,756) | 86,828 | 106,467 | 149,116 | 275,242 |
| Net income (loss) attributable to owners of parent | (19,409) | 71,888 | 77,892 | 115,208 | 204,371 |

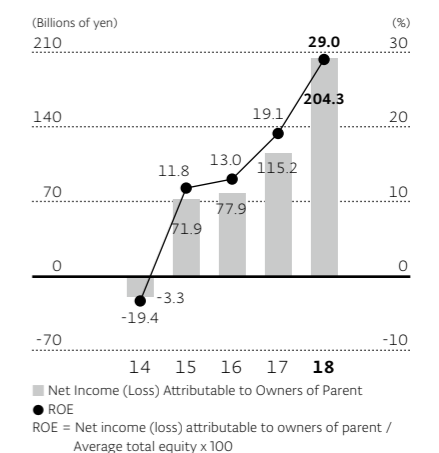
Net Sales and Gross Profit Margin



Operating Income and Operating Margin



Net Income (Loss) Attributable to Owners of Parent and ROE



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FPD manufacturers, and a ¥25.7 billion increase in trade notes and accounts receivable. The turnover period for trade notes and accounts receivable in fiscal 2018 was 52 days, compared with 61 days in fiscal 2017, and the inventory turnover period in fiscal 2018 was 111 days, compared with 108 days in fiscal 2017.

Net property, plant and equipment increased ¥25.5 billion year on year to ¥125.9 billion. This was largely due to ¥45.6 billion in new fixed asset acquisitions, including part of the construction costs for a new logistics building being constructed at the Miyagi Plant to increase productivity as well as R&D equipment acquired to bolster the development of next-generation technologies.

Investments and other assets increased ¥4.5 billion year on year to ¥85.6 billion.

As a result, total assets as of March 31, 2018 stood at ¥1,208.7 billion, up ¥251.2 billion year on year.

1 Cash on hand: Cash and cash equivalents + Short-term investments with original maturities of less than one year
2 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)

Liabilities and Net Assets

Current liabilities increased ¥120.6 billion from the end of fiscal 2017 to ¥368.4 billion at the end of fiscal 2018. This was mainly due to a ¥32.2 billion increase in customer advances, a ¥29.3 billion increase in trade notes and accounts payable, a ¥12.6 billion increase in accrued employees' bonuses and a ¥34.9 billion increase in income taxes payable.

Non-current liabilities increased ¥5.0 billion year on year to ¥68.7 billion.

Net assets came to ¥771.5 billion at the end of fiscal 2018, up ¥125.5 billion from the end of fiscal 2017. This was mainly due to a ¥122.0 billion increase in retained earnings, reflecting the recording of ¥204.3 billion in net income attributable to owners of the parent and ¥82.2 billion paid in cash dividends (¥36.7 billion for the fiscal 2017 year-end dividend and ¥45.4 billion for the fiscal 2018 interim dividend).

As a result, the equity ratio fell 3.7 percentage points year on year to 63.5% at the end of March 2018. ROE climbed to 29.0% from 19.1% in fiscal 2017.

Capital Expenditures¹ and Depreciation and Amortization²

Capital expenditures totaled ¥45.6 billion in fiscal 2018, a 120.3% year-on-year increase. Major expenditures included the acquisition of R&D machinery and equipment in order to strengthen key areas in the SPE business.

Depreciation and amortization increased 15.4% to ¥20.6 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 2018 stood at ¥257.8 billion, an increase of ¥93.5 billion from the end of fiscal 2017. 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 ¥58.5 billion year on year to ¥373.8 billion at the end of March 2018. Cash flows during the fiscal year under review were as follows.

Net cash provided by operating activities came to ¥186.5 billion, up ¥49.6 billion from fiscal 2017. Major contributors were ¥275.2 billion in income before income taxes, a ¥31.6 billion increase in customer advances, a ¥28.5 billion increase in trade notes and accounts payable, and ¥20.6 billion in depreciation and amortization. Major outflows included a ¥109.8 billion increase in inventories, ¥49.7 billion in income taxes paid, and a ¥25.9 billion increase in trade notes and accounts receivable.

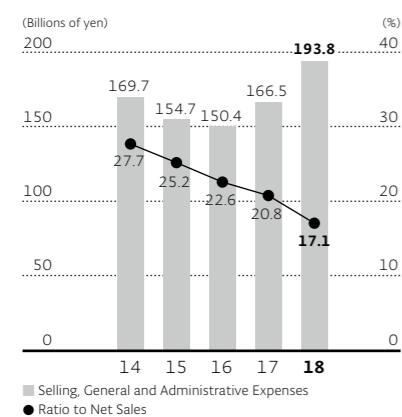
Net cash used in investing activities was ¥11.8 billion, compared with ¥28.8 billion used in the previous fiscal year. This was mainly due to ¥41.7 billion used as payment for purchases of property, plant and equipment and an inflow of ¥35.0 billion due to a net decrease in short-term investments.

Net cash used in financing activities came to ¥82.5 billion, compared with ¥39.3 billion in fiscal 2017. This was mainly attributable to ¥82.2 billion in dividends paid.

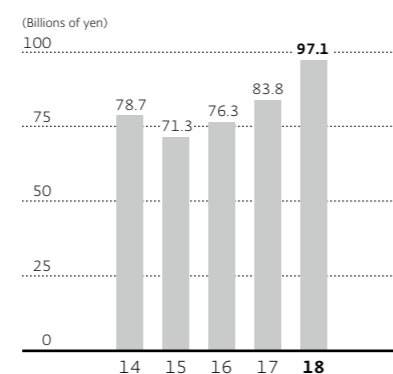
| Financial Position | Millions of yen | | | | |
|---|-----------------|----------|----------|----------|-----------|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Total current assets | ¥621,492 | ¥670,883 | ¥617,416 | ¥775,938 | ¥ 997,102 |
| Net property, plant and equipment | 112,344 | 106,896 | 96,317 | 100,441 | 125,952 |
| Total investments and other assets | 94,756 | 98,375 | 79,635 | 81,067 | 85,650 |
| Total assets | 828,592 | 876,154 | 793,368 | 957,447 | 1,208,705 |
| Total current liabilities | 170,510 | 172,812 | 166,061 | 247,770 | 368,452 |
| Total liabilities | 237,978 | 234,991 | 229,129 | 311,447 | 437,195 |
| Total net assets (Total shareholders' equity) | 590,614 | 641,163 | 564,239 | 645,999 | 771,509 |

| Cash Flows | Millions of yen | | | | |
|--|-----------------|----------|-----------|----------|----------|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Cash flows from operating activities | ¥ 44,449 | ¥ 71,806 | ¥ 69,398 | ¥136,948 | ¥186,582 |
| Cash flows from investing activities | (19,599) | 155,738 | (150,014) | (28,893) | (11,833) |
| Cash flows from financing activities | (187) | (18,214) | (138,601) | (39,380) | (82,549) |
| Cash and cash equivalents at end of year | 104,797 | 317,632 | 95,638 | 164,366 | 257,877 |

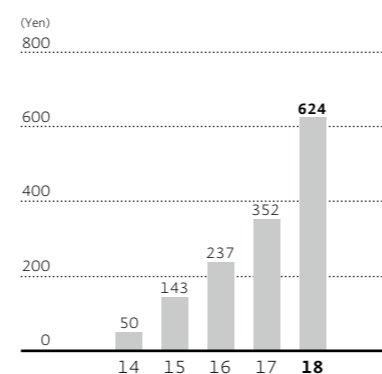
Selling, General and Administrative Expenses and Ratio to Net Sales



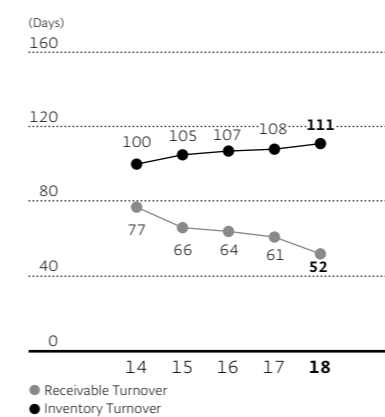
R&D Expenses



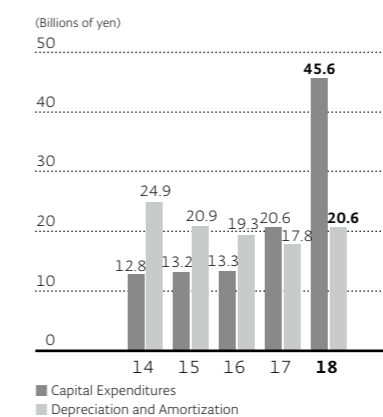
Cash Dividends per Share



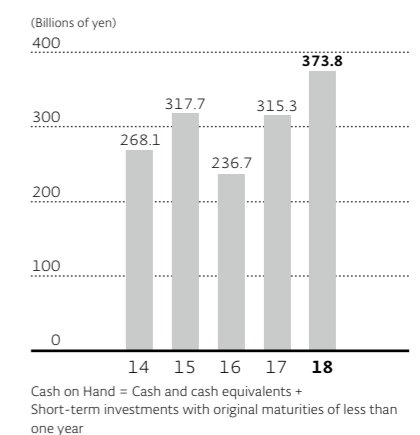
Receivable Turnover and Inventory Turnover



Capital Expenditures and Depreciation and Amortization



Cash on Hand



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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.