

Q2 FY2019 (July – September 2018) Financial Announcement

October 31, 2018

Agenda:

- Q2 FY2019 Consolidated Financial Summary
Ken Sasagawa, Vice President, Accounting Dept.
- Business Environment and Financial Estimates Revisions
Toshiki Kawai, Representative Director, President & CEO



Forward Looking Statements

- Disclaimer regarding forward-looking statement

Forecast of TEL's performance and future prospects and other sort of information published are made based on information available at the time of publication. Actual performance and results may differ significantly from the forecast described here due to changes in various external and internal factors, including the economic situation, semiconductor/FPD market conditions, intensification of sales competition, safety and product quality management, and intellectual property-related risks.

- Processing of numbers

For the amount listed, because fractions are rounded down, there may be the cases where the total for certain account titles does not correspond to the sum of the respective figures for account titles. Percentages are calculated using full amounts, before rounding.

- Exchange risk

In principle, export sales of Tokyo Electron's mainstay semiconductor and FPD production equipment are denominated in yen. While some settlements are denominated in dollars, exchange risk is hedged as forward exchange contracts are made individually at the time of booking. Accordingly, the effect of exchange rates on profits is negligible.

FPD: Flat panel display



Q2 FY2019 Consolidated Financial Summary

October 31, 2018

Ken Sasagawa
Vice President, Accounting Dept.



FY2019 H1 (April – September 2018) Highlights

- H1 sales and profit*¹ reached record highs on half year basis
 - In SPE*², new equipment sales driven by memory sales
 - In FPD*³, strong sales for G10.5 panels, one of TEL's strengths
- Installed equipment surpassed 67,000 units
 - FS*⁴ sales rose to 139.3 billion yen (up 17% YoY), generated steady profit

*1 Gross profit, operating income, net income attributable to owners of parent *2 SPE: Semiconductor production equipment *3 FPD: Flat panel display production equipment
*4 FS: Field solutions

Financial Summary

(Billion Yen)

	FY2018		FY2019	YoY Change	(Reference) FY2019 H1 estimates announced on Apr. 25
	H1	H2	H1		
Net sales	516.9	613.7	691.0	+33.7%	690.0
SPE	487.7	567.4	638.4	+30.9%	634.0
FPD	29.0	46.0	52.4	+80.8%	56.0
Gross profit	215.4	259.6	284.1	+31.9%	288.0
Gross profit margin	41.7%	42.3%	41.1%	-0.6pts	41.7%
SG&A expenses	92.0	101.7	108.6	+18.0%	115.0
Operating income	123.3	157.8	175.4	+42.2%	173.0
Operating margin	23.9%	25.7%	25.4%	+1.5pts	25.1%
Income before income taxes	123.3	152.9	181.1	+48.1%	173.0
Net income attributable to owners of parent	90.6	113.7	135.2	+49.2%	128.0
R&D expenses	46.0	51.0	57.3	+24.5%	
Capital expenditures	19.8	25.7	22.9	+15.7%	
Depreciation and amortization	9.0	11.5	10.7	+18.8%	

1. In principle, export sales of Tokyo Electron's mainstay semiconductor and FPD production equipment are denominated in yen. While some settlements are denominated in dollars, exchange risk is hedged as forward exchange contracts are made individually at the time of booking.
2. Profit ratios are calculated using full amounts, before rounding.

Financial Summary (Quarterly)

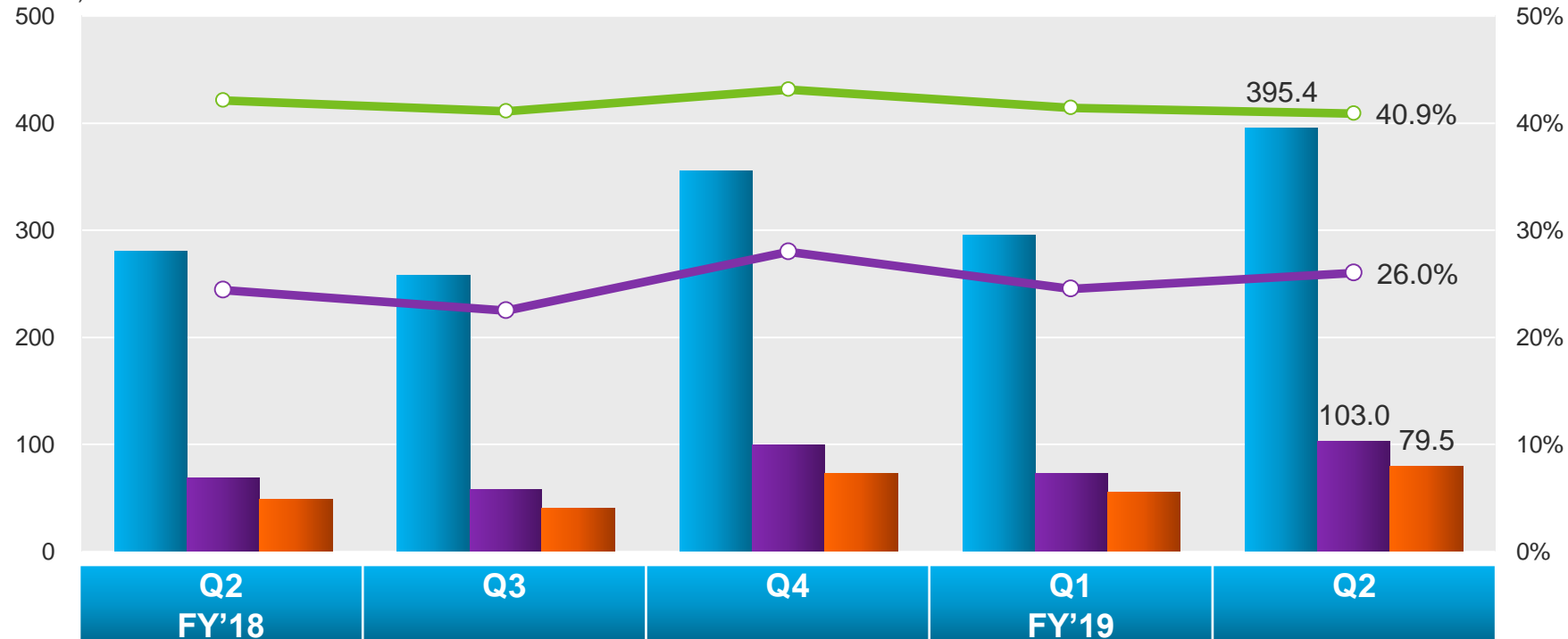
(Billion Yen)

	FY2018			FY2019		vs. Q1 FY2019
	Q2	Q3	Q4	Q1	Q2	
Net sales	280.5	257.7	355.9	295.5	395.4	+33.8%
SPE	265.7	241.4	326.0	280.4	358.0	+27.7%
FPD	14.7	16.2	29.7	15.1	37.3	+147.2%
Gross profit	118.2	106.0	153.5	122.4	161.6	+32.0%
Gross profit margin	42.1%	41.1%	43.1%	41.4%	40.9%	-0.5pts
SG&A expenses	49.7	47.9	53.7	50.0	58.6	+17.1%
Operating income	68.5	58.0	99.7	72.4	103.0	+42.2%
Operating margin	24.4%	22.5%	28.0%	24.5%	26.0%	+1.5pts
Income before income taxes	67.1	57.3	95.6	75.2	105.8	+40.8%
Net income attributable to owners of parent	49.4	40.7	72.9	55.7	79.5	+42.7%
R&D expenses	24.8	23.9	27.0	26.1	31.2	+19.4%
Capital expenditures	11.7	13.7	12.0	9.6	13.2	+36.7%
Depreciation and amortization	4.7	5.5	6.0	5.0	5.6	+11.1%

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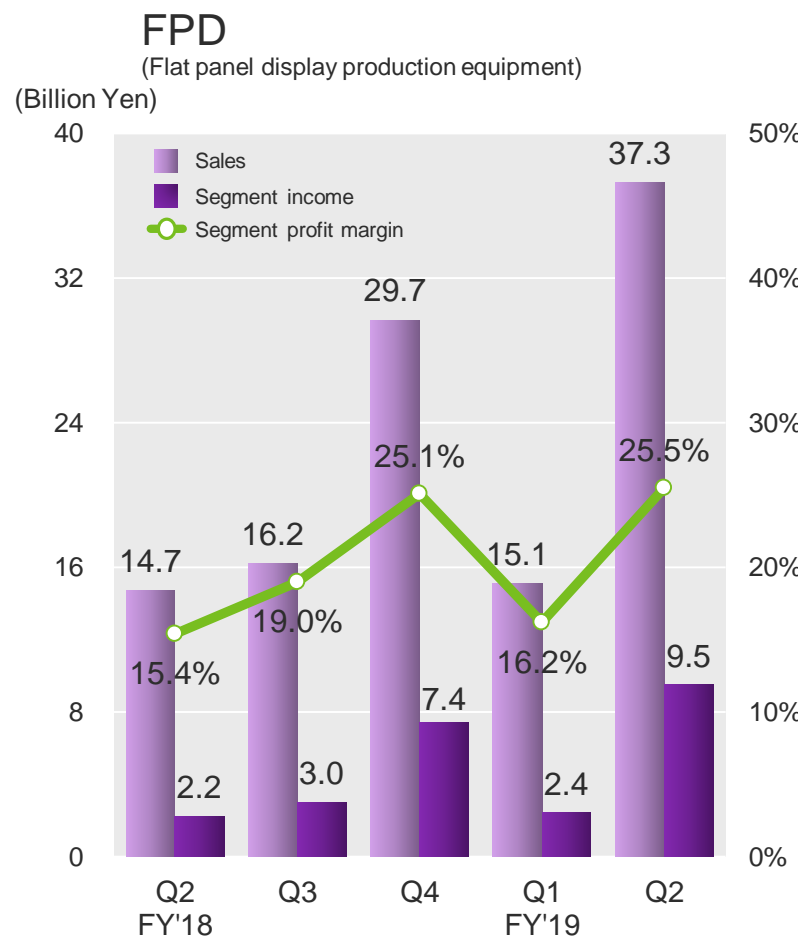
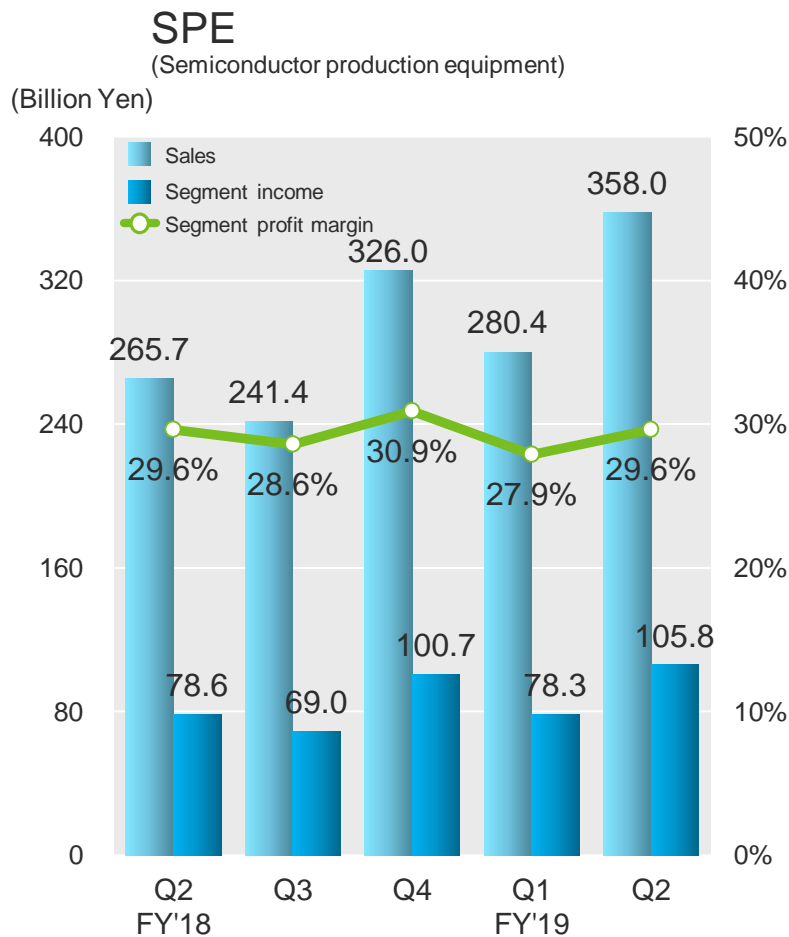
Financial Performance (Quarterly)

(Billion Yen)



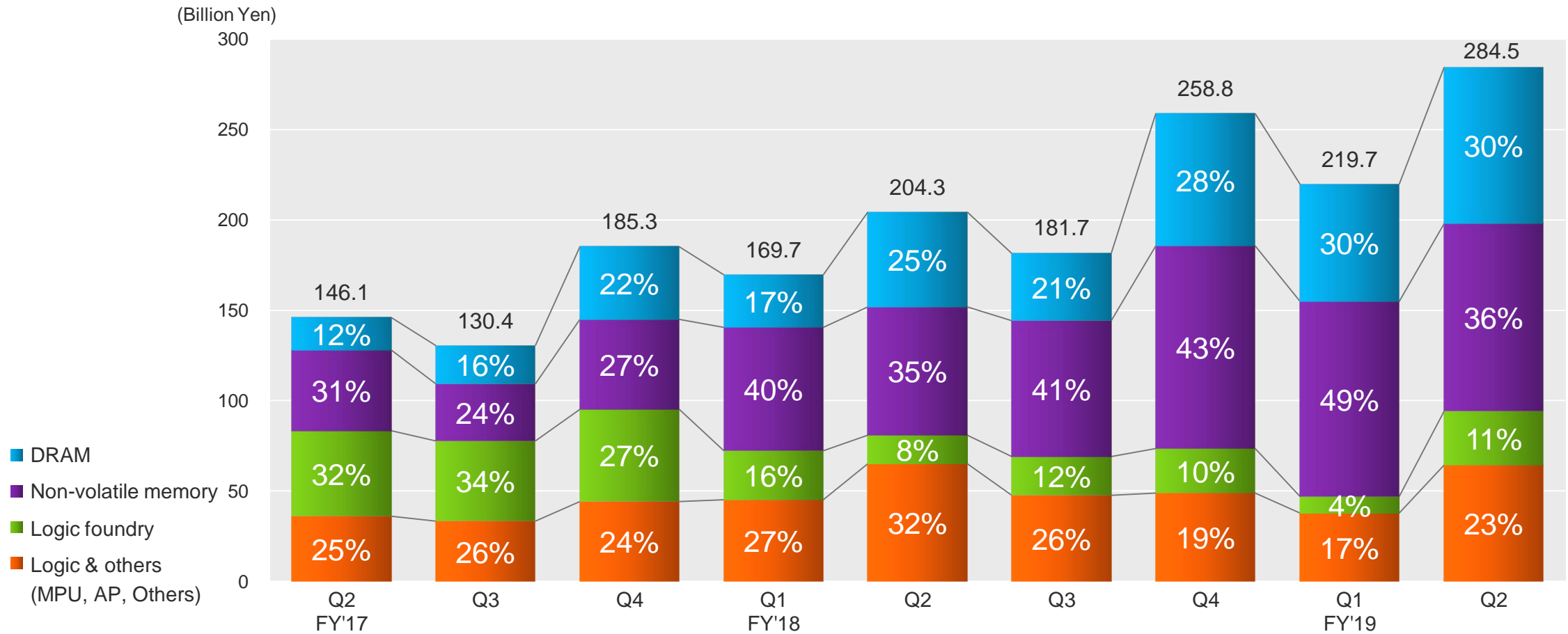
Net sales	280.5	257.7	355.9	295.5	395.4
Operating income	68.5	58.0	99.7	72.4	103.0
Net income attributable to owners of parent	49.4	40.7	72.9	55.7	79.5
Gross profit margin	42.1%	41.1%	43.1%	41.4%	40.9%
Operating margin	24.4%	22.5%	28.0%	24.5%	26.0%

Segment Information (Quarterly)



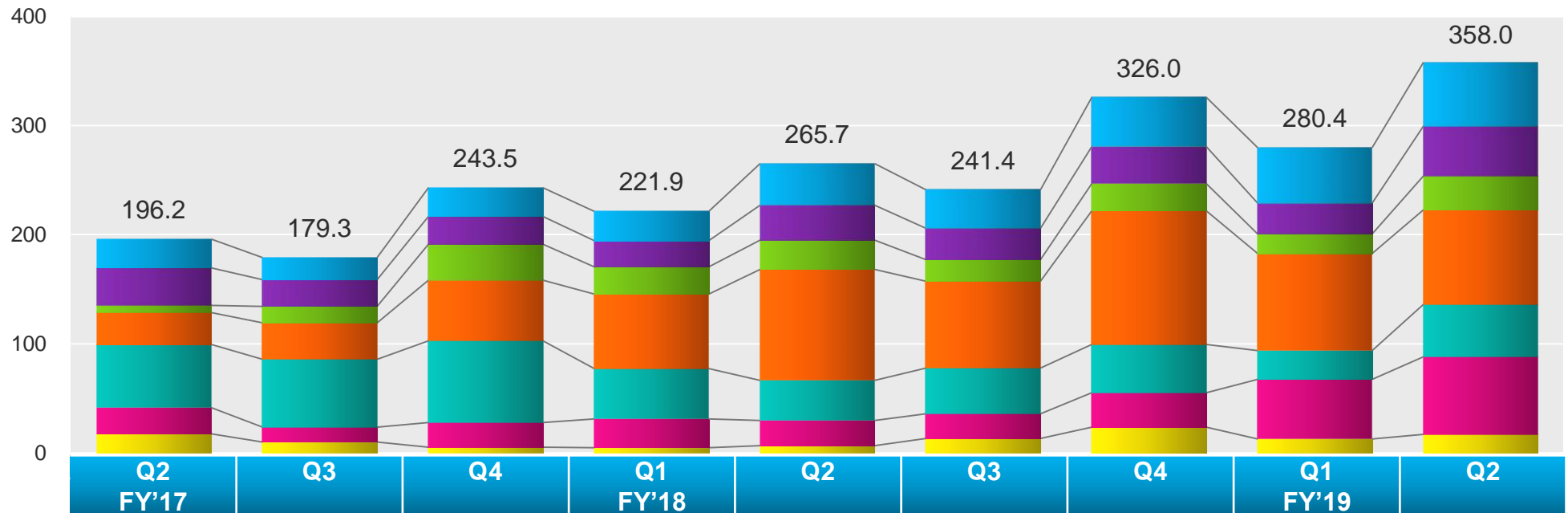
1. Segment income is based on income before income taxes.
2. R&D expenses such as fundamental research and element research, etc. and other general and administrative expenses are not included in the above reportable segments.
3. Composition of net sales figures is based on the sales to customers.

SPE Division: New Equipment Sales by Application (Quarterly)



SPE Division: Sales by Region (Quarterly)

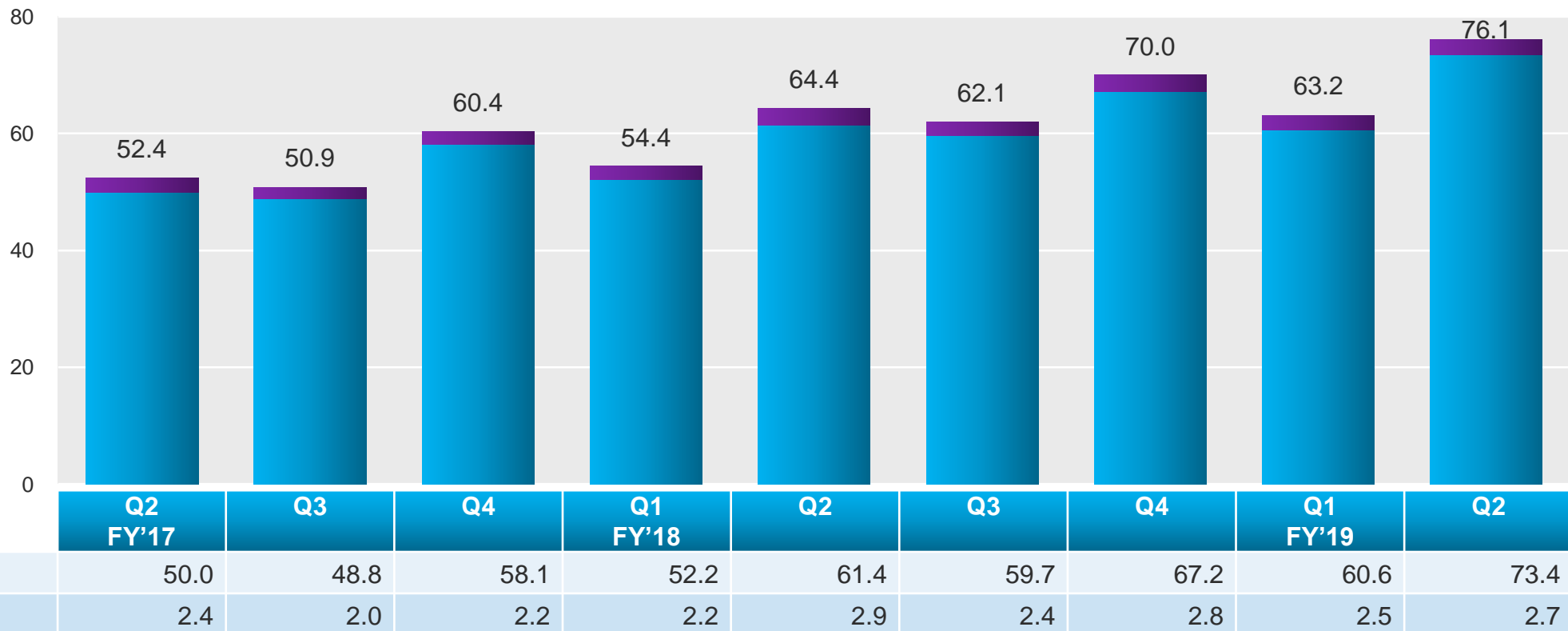
(Billion Yen)



	Q2 FY'17	Q3	Q4	Q1 FY'18	Q2	Q3	Q4	Q1 FY'19	Q2
Japan	26.4	20.3	26.6	26.7	38.4	35.1	45.1	51.1	58.0
North America	34.4	24.6	25.4	24.0	32.0	29.1	33.9	28.4	45.9
Europe	6.6	15.0	32.9	25.3	26.9	19.6	25.0	17.7	31.3
South Korea	29.0	33.3	55.5	68.3	101.7	79.4	122.3	88.9	86.5
Taiwan	58.2	62.3	74.7	45.8	36.6	42.1	44.3	26.3	48.0
China	24.0	13.7	22.7	26.7	23.0	22.6	31.8	54.9	71.3
S. E. Asia, Others	17.3	9.8	5.3	4.6	6.7	13.2	23.4	12.7	16.8

Field Solutions Sales (Quarterly)

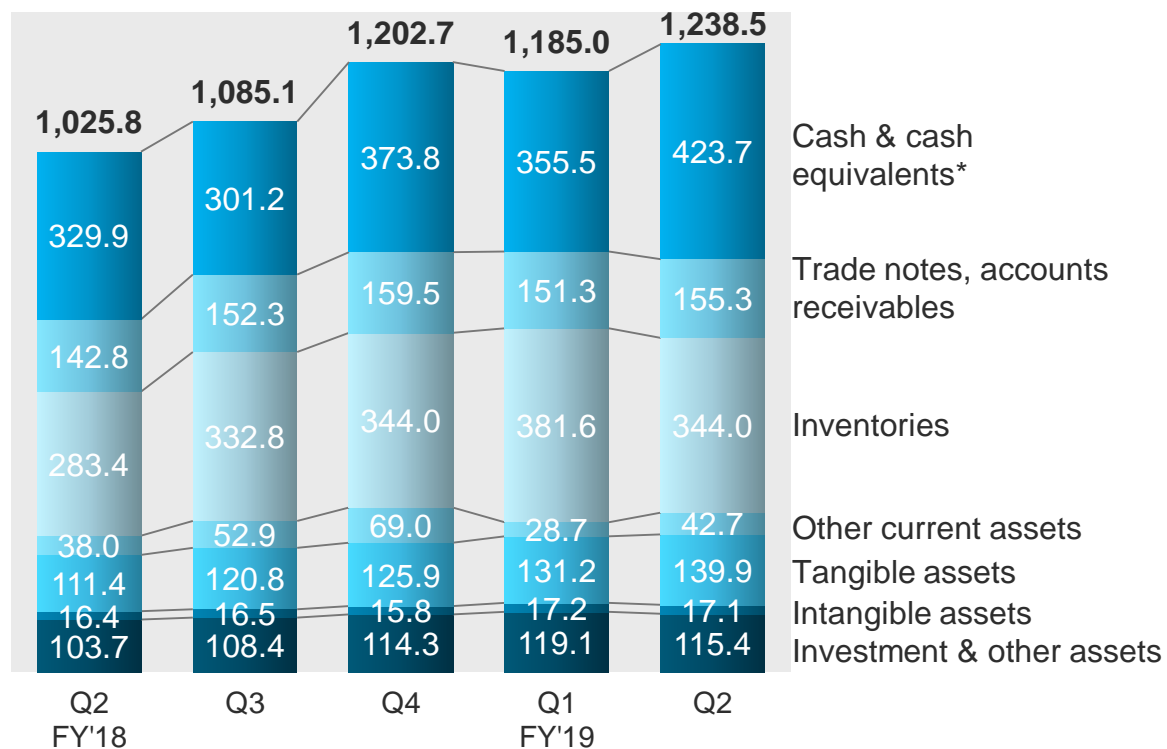
(Billion Yen)



Balance Sheet (Quarterly)

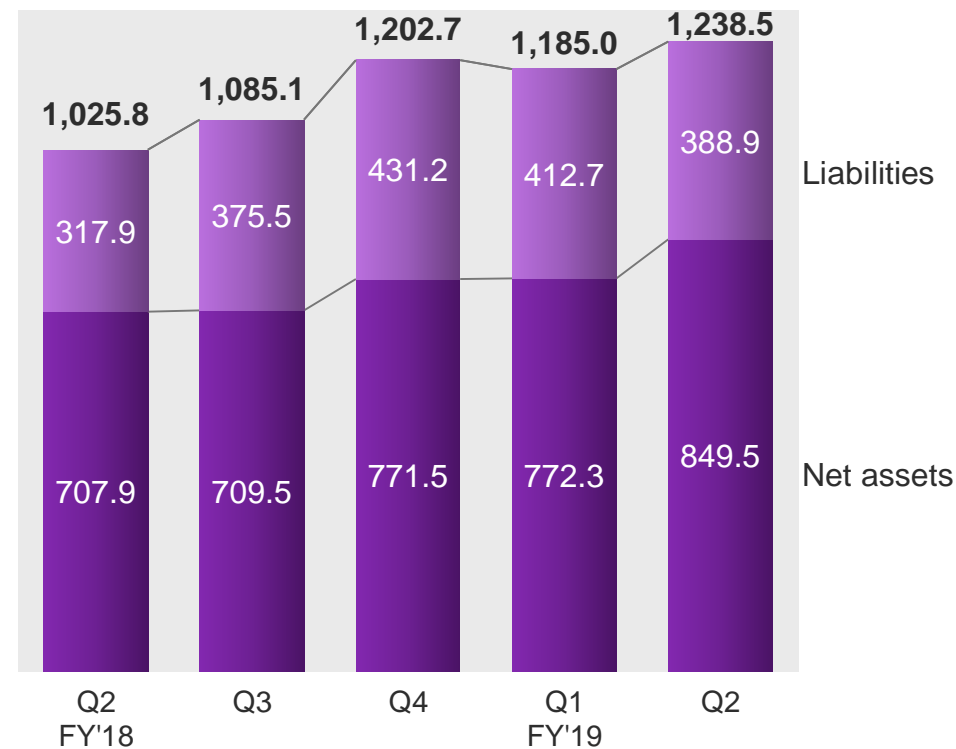
Assets

(Billion Yen)



Liabilities & Net Assets

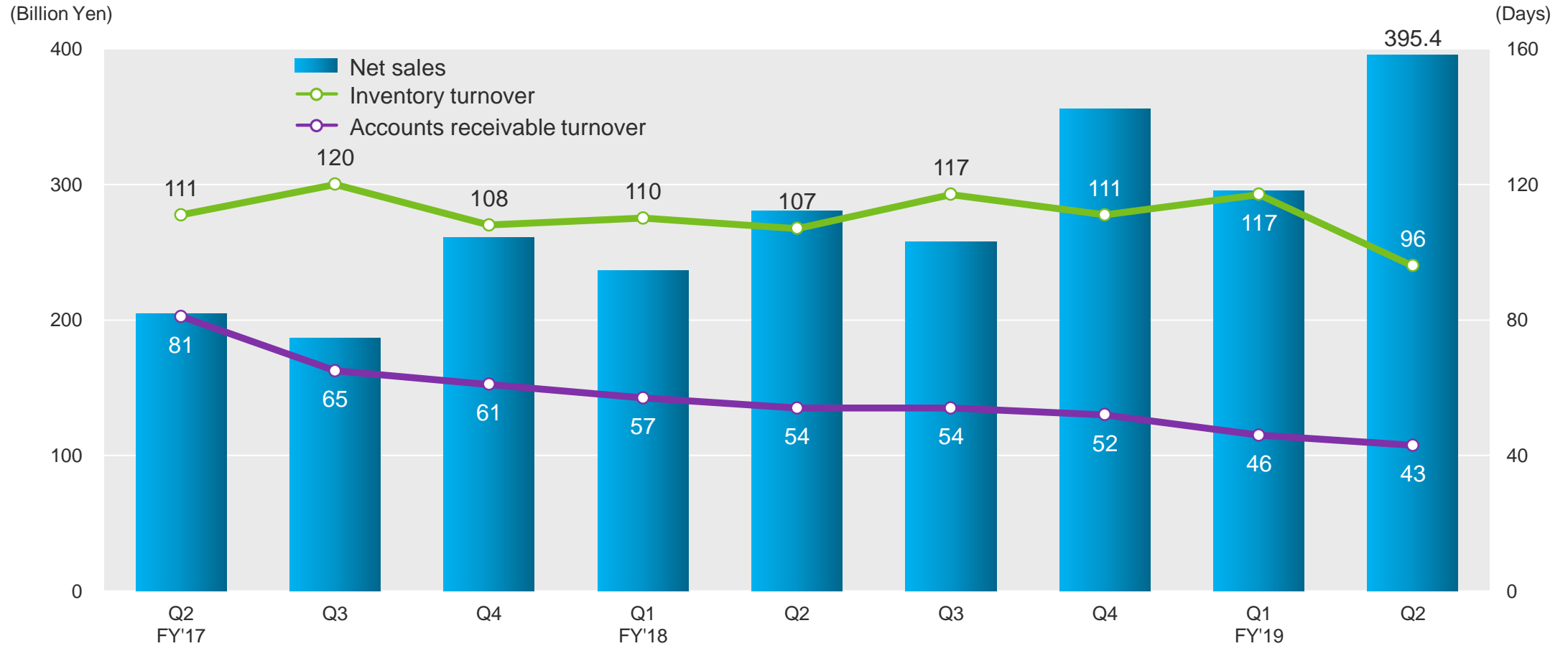
(Billion Yen)



* Cash and cash equivalents: Cash and deposits + Short-term investments, etc. (Securities in B/S).

From the beginning of the FY2019 Q1 accounting period the Accounting Standards Board of Japan's "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (ASBJ Statement No. 28, revision on February 16, 2018) has been applied. FY2018 results have been restated in the graphs in accordance with the revised accounting standards.

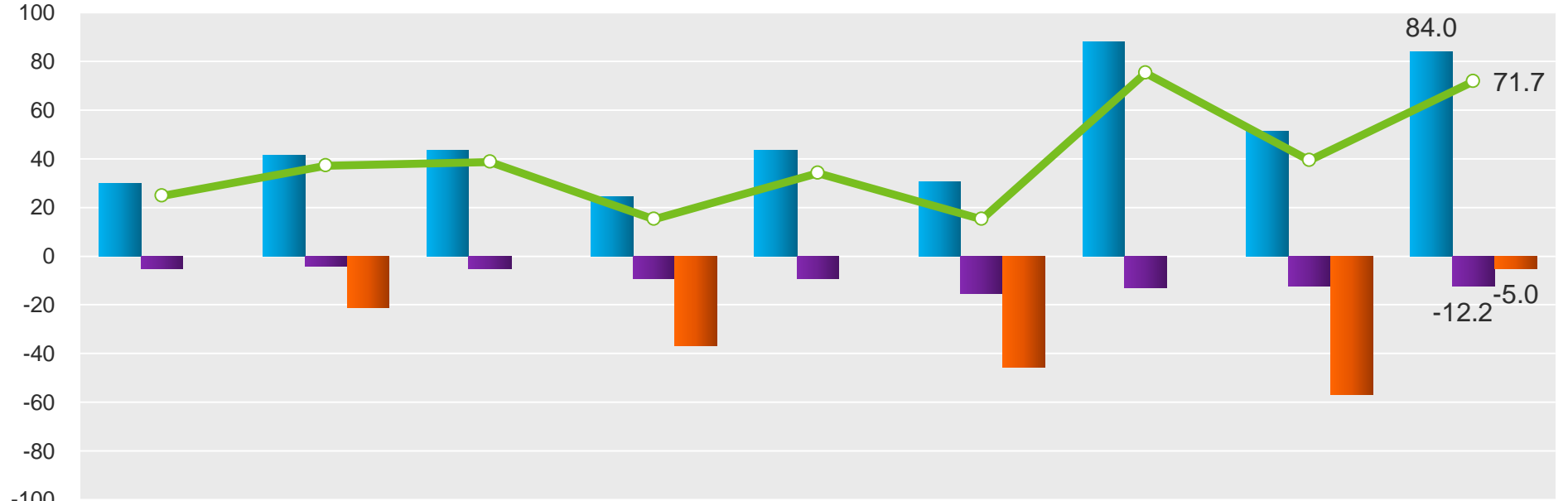
Inventory Turnover and Accounts Receivable Turnover (Quarterly)



Turnover days = inventory or accounts receivable at the end of each quarter / last 12 months sales x 365

Cash Flow (Quarterly)

(Billion Yen)



	Q2 FY'17	Q3	Q4	Q1 FY'18	Q2	Q3	Q4	Q1 FY'19	Q2
■ Cash flow from operating activities	29.8	41.3	43.6	24.4	43.4	30.4	88.1	51.4	84.0
■ Cash flow from investing activities*1	-4.9	-4.1	-4.9	-9.3	-9.4	-15.2	-12.8	-12.1	-12.2
■ Cash flow from financing activities	0.0	-21.0	-0.0	-36.8	-0.0	-45.7	-0.0	-56.9	-5.0
○ Free cash flow*2	24.8	37.1	38.7	15.1	34.0	15.1	75.3	39.3	71.7
○ Cash on hand*3	255.6	277.2	315.3	294.6	329.9	301.2	373.8	355.5	423.7

*1 Cash flow from investing activities excludes changes in deposits with periods to maturity of over 3 months.

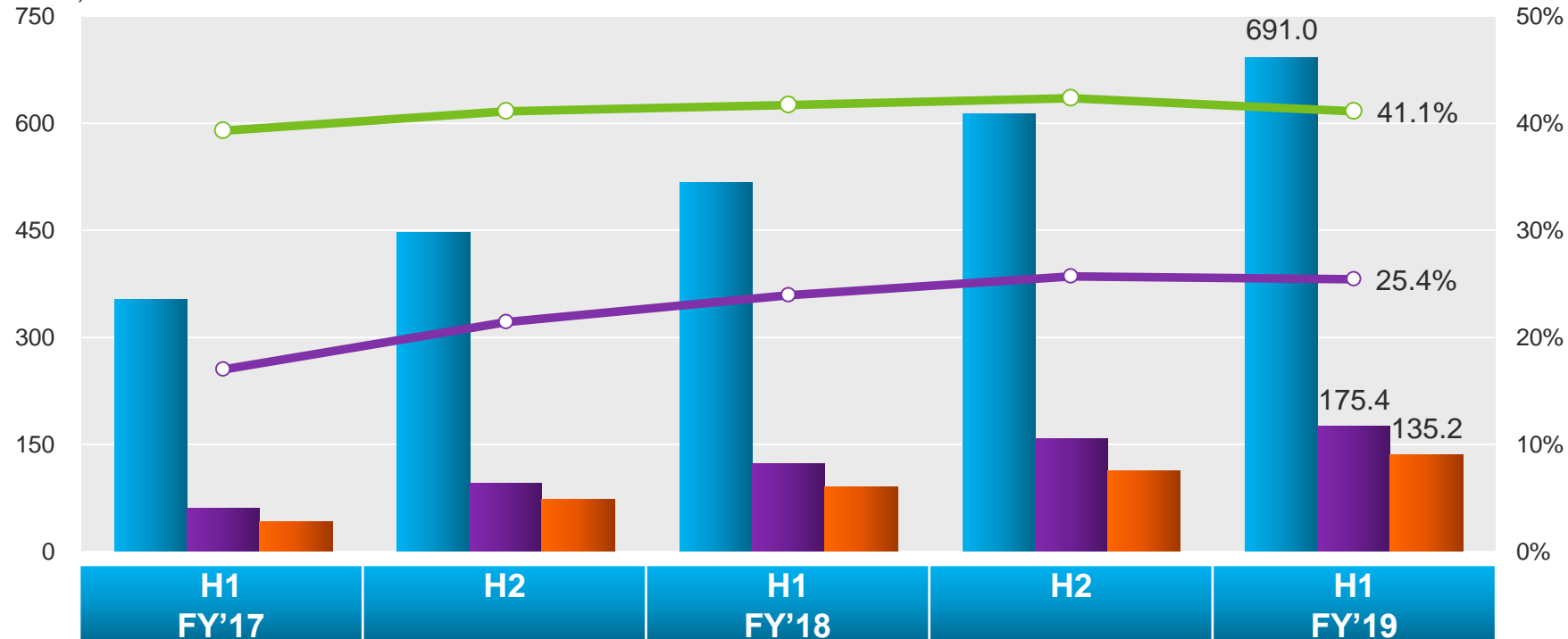
*2 Free cash flow = cash flow from operating activities + cash flow from investing activities excluding changes in deposits with periods to maturity of over 3 months.

*3 Cash on hand includes the total of cash + deposits with periods to maturity of over 3 months.

Appendix

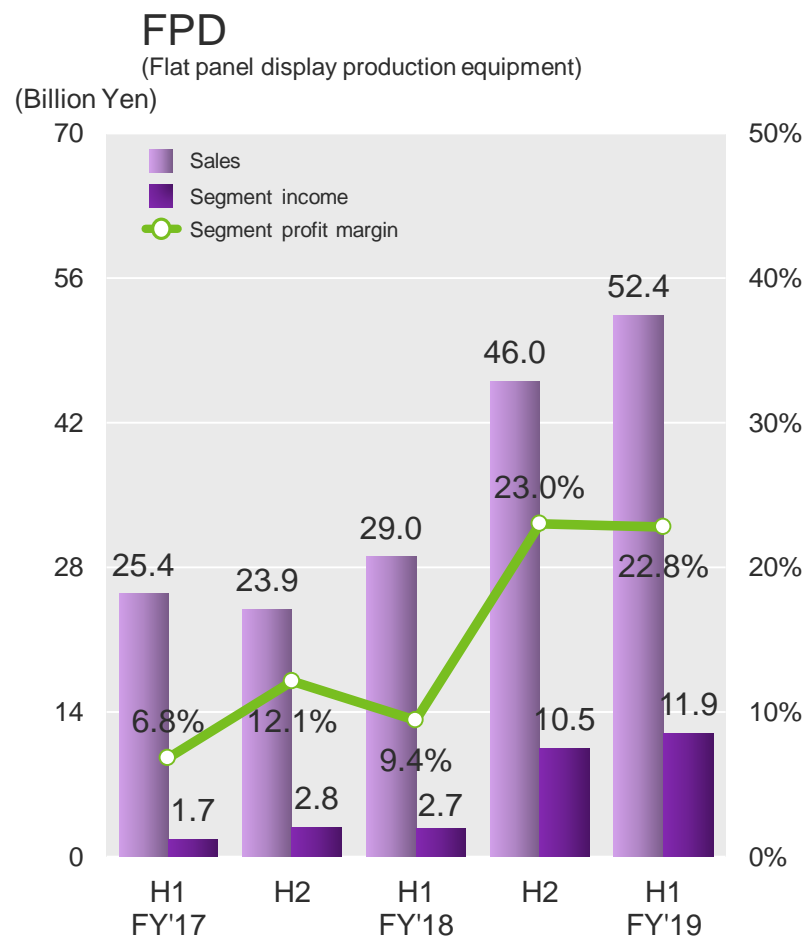
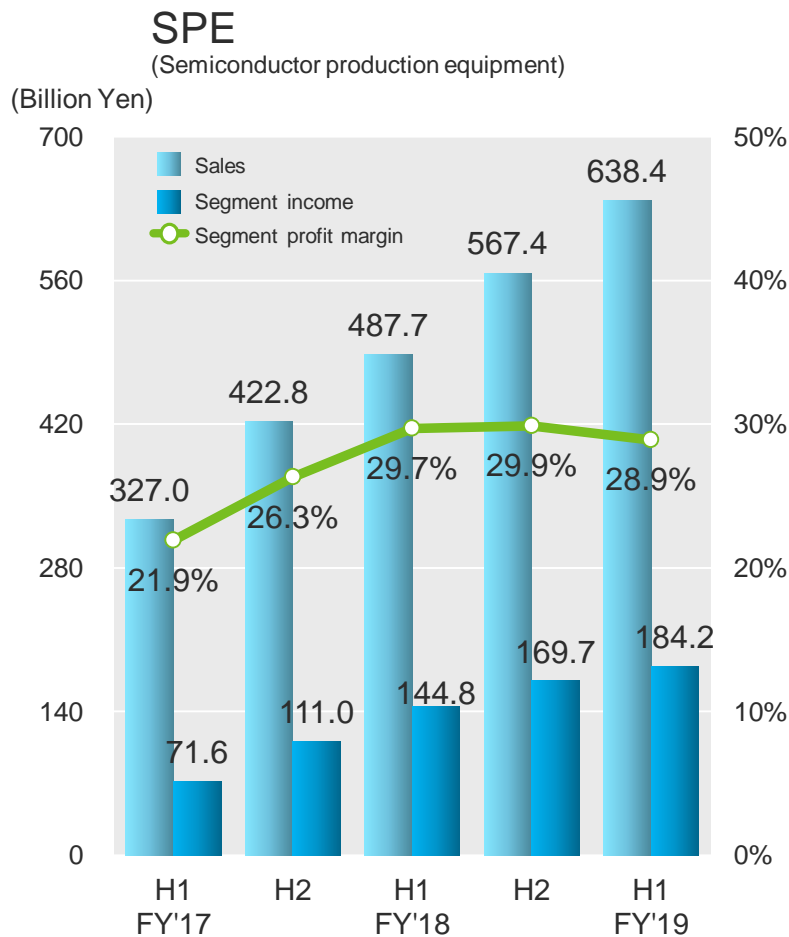
Financial Performance

(Billion Yen)



	H1 FY'17	H2	H1 FY'18	H2	H1 FY'19
Net sales	352.7	446.9	516.9	613.7	691.0
Operating income	60.0	95.6	123.3	157.8	175.4
Net income attributable to owners of parent	41.9	73.2	90.6	113.7	135.2
Gross profit margin	39.3%	41.1%	41.7%	42.3%	41.1%
Operating margin	17.0%	21.4%	23.9%	25.7%	25.4%

Segment Information



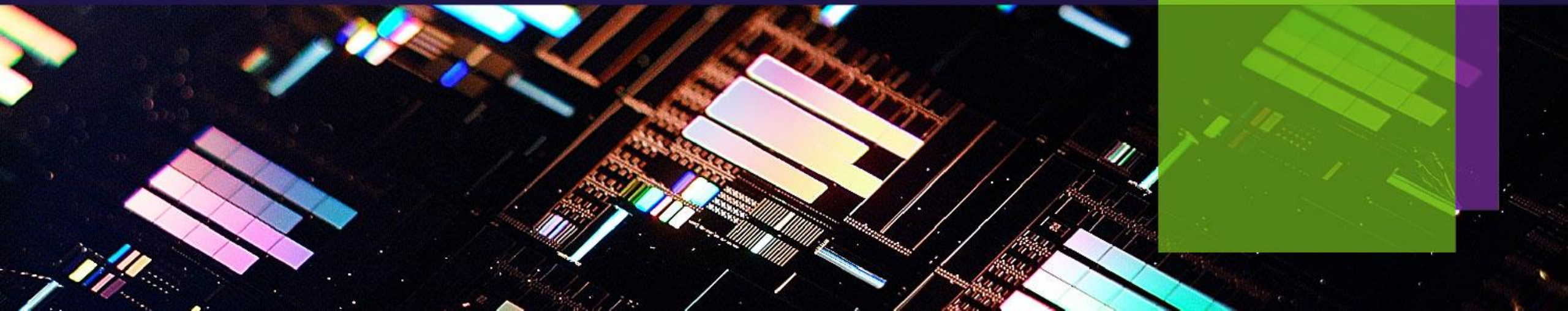
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Business Environment and Financial Estimates Revisions

October 31, 2018

Toshiki Kawai
Representative Director, President & CEO



Business Environment (Outlook as of October 2018)

▶ WFE*¹ capex

CY2018 investment driven by buoyant demand for memory, expect YoY growth of approx. 5-10%

▶ FPD production equipment capex for TFT array process*²

We expect CY2018 demand for investment in production equipment to continue at a high level comparable with CY2017 despite adjustment in investment in small/medium panels for mobile, and significantly expanded investment in G10.5

Continuous growth in the equipment market on active investment in IoT and next generation technologies

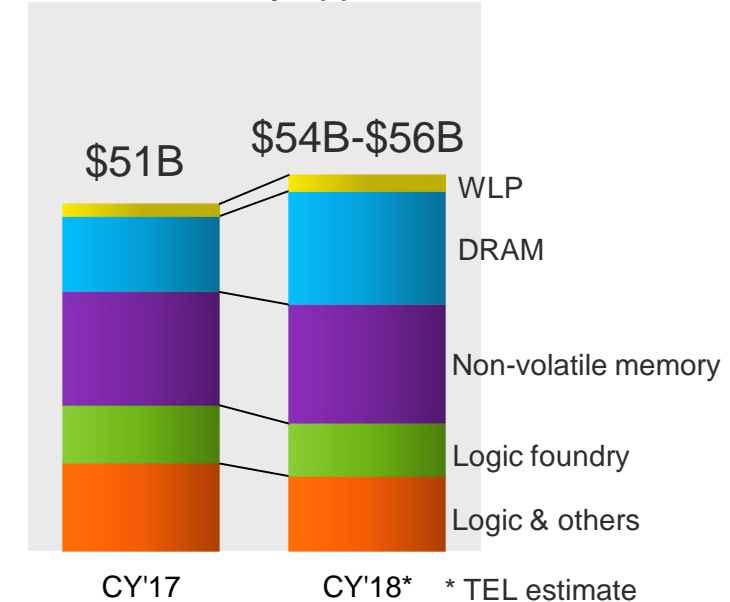
*1 WFE (Wafer fab equipment): The semiconductor production process is divided into front-end production, in which circuits are formed on wafers and inspected, and back-end production, in which wafers are cut into chips, assembled and inspected again. Wafer fab equipment refers to the production equipment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

*2 TFT array process: The processes of manufacturing the substrates with the electric circuit functions that drive displays

CY'18 WFE Market Growth and Business Opportunities by Application

- **DRAM: Market growth of 50-55% YoY forecast**
 - Capex: 70% of investment amount to be for new factories, and 1X/1Ynm generation to comprise 80%
 - Driving force: Average server capacity up 35%
 - Opportunities: Differentiation through combined patterning and our strength in interconnects
- **Non-volatile memory: Unchanged to 5% increase YoY**
 - Capex: 9X generations to comprise 50%
 - Driving force: Growth in SSD demand for data centers and PCs
 - Opportunities: Differentiation through high value-added etch and clean
- **Logic/Foundry: 10-15% decrease YoY**
 - Capex: 10nm and beyond generation to comprise 50%
 - Driving force: Demand for higher performance, lower power consumption
 - Opportunities: Business expansion in more complex patterning processes

WFE market by application



FY2019 SPE Business Progress

- Growing sales of strategic products. Advancing capture of next generation POR* in key fields (etch, deposition, cleaning systems)
- Process integration proposals contributed to POR increase
 - Improved device performance and yield in critical modules via etch, cleaning, and deposition process co-optimization
- FS business doing well too due to expansion of IoT applications and increase in installed equipment base
- Miyagi Plant (etch system) expansion
 - Completed new development building in October
 - Plan to begin operation of new production line in November

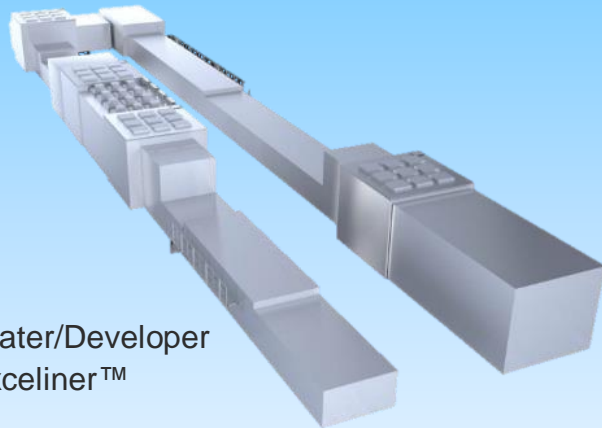


Tokyo Electron Miyagi

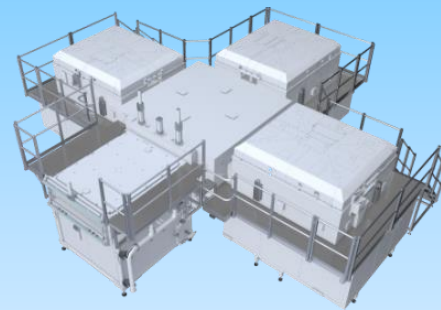
Progress for business strategy continues as planned,
grew profit on technology for next generation

FY2019 FPD Business Progress

- Growing sales of equipment for G10.5. Contributed to higher sales and profit margin
- Launched new products
 - Impressio™ 3300 PICP*™ G10.5 plasma etch system for high definition FPD
 - Elius™ 1000 G4.5 inkjet printing system for manufacturing OLED panels



FPD Coater/Developer
Exceliner™



FPD Plasma Etch/Ash System
Impressio™



Inkjet Printing System for
Manufacturing OLED Panels
Elius™

Expect record-high sales and profit margin growth in-line with plan

FY2019 Financial Estimates Revisions

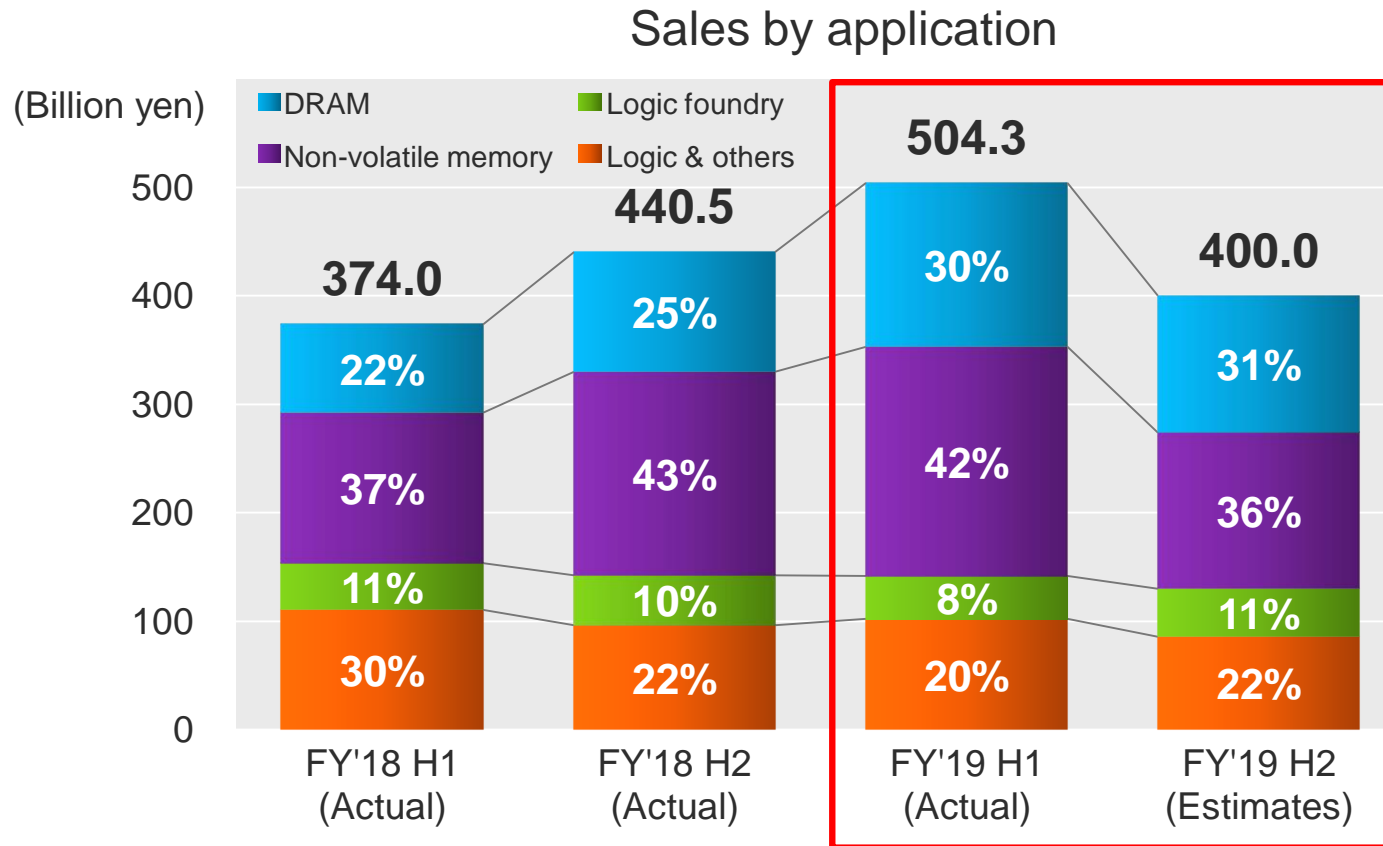
Revision of FY2019 Financial Estimates

(Billion yen)

	FY2018 (Actual)	FY2019 (Estimates)					
		1st half	2nd half		Full year		Full year YoY change
		Actual	New estimates	Adjustments*1	New estimates	Adjustments*1	
Net sales	1,130.7	691.0	588.9	-121.0	1,280.0	-120.0	+13.2%
SPE	1,055.2	638.4	531.3	-122.6	1,169.8	-118.2	+10.9%
FPD	75.0	52.4	57.5	+1.5	110.0	-2.0	+46.5%
Gross profit	475.0	284.1	243.8	-66.1	528.0	-70.0	+52.9
Gross profit margin	42.0%	41.1%	41.4%	-2.3pts	41.3%	-1.4pts	-0.7pts
SG&A expenses	193.8	108.6	110.3	-6.6	219.0	-13.0	+25.1
Operating income	281.1	175.4	133.5	-59.4	309.0	-57.0	+27.8
Operating margin	24.9%	25.4%	22.7%	-4.5pts	24.1%	-2.0pts	-0.8pts
Income before income taxes	275.2	181.1	133.8	-59.1	315.0	-51.0	+39.7
Net income attributable to owners of parent	204.3	135.2	101.7	-40.2	237.0	-33.0	+32.6
Net income per share (Yen)	1,245.48	824.70	-	-	1,445.20	-200.00	+199.72

Expect record profit*2 for third consecutive year on market growth and higher market share

FY2019 SPE Division New Equipment Sales Forecast



Memory sales to account for 70% of sales in H2

FY2019 R&D Expenses, Capex Plan

- R&D Expenses ¥116.0B
 - Continue investing based on focus areas and sustainable growth
- Capex ¥51.0B
 - Actively invest in advanced technologies R&D and to meet increasing production
- Depreciation ¥26.0B

New production buildings

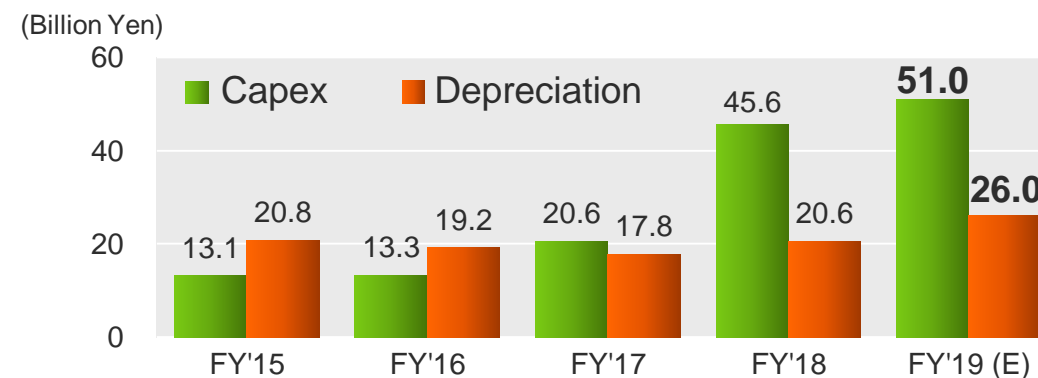
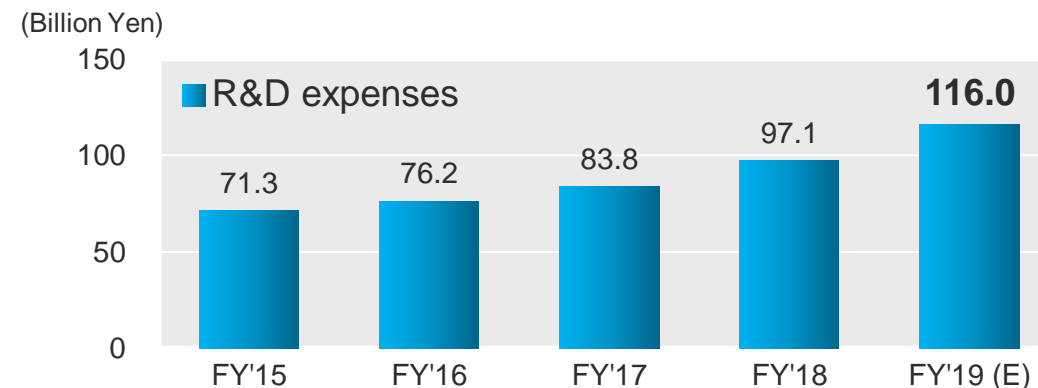
(deposition systems, gas chemical etch systems, test systems)



Nirasaki City, Yamanashi Prefecture:
approx. ¥13.0B construction cost
(Begin construction in January 2019,
completion scheduled for April 2020)

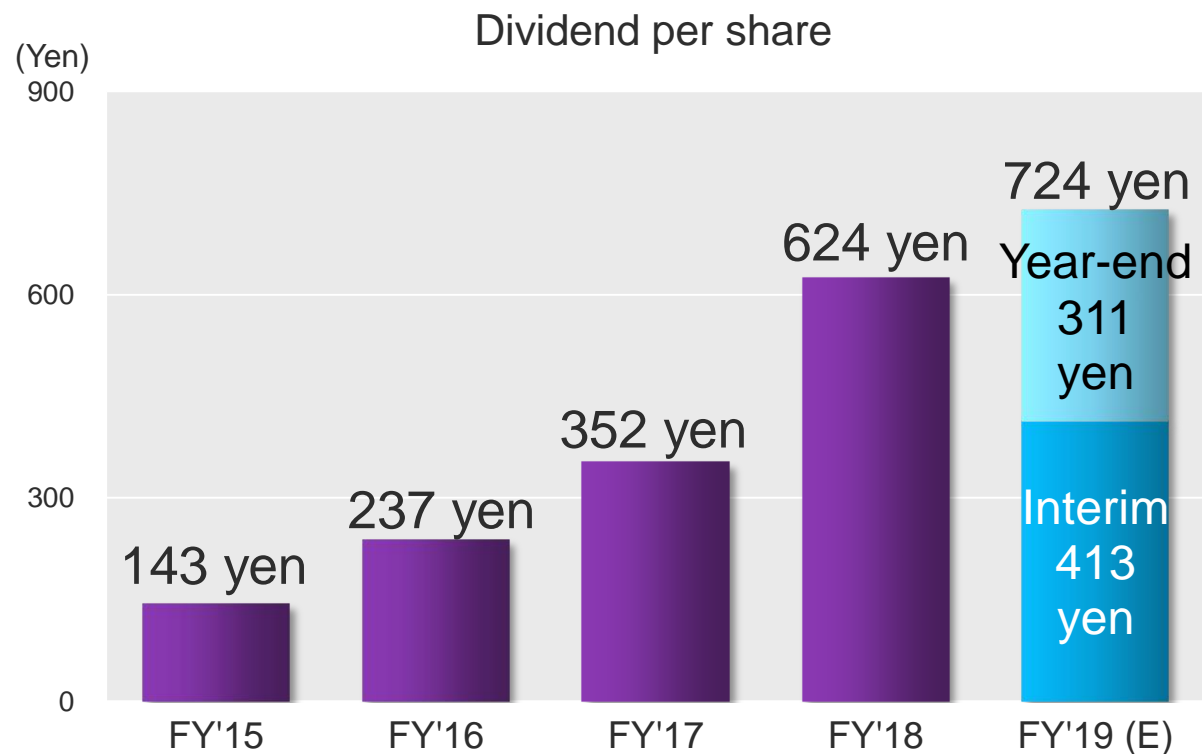


Oshu City, Iwate Prefecture:
approx. ¥13.0B construction cost
(Begin construction in October 2018,
completion scheduled for September 2019)



Continue upfront investment with achievement of medium-term plan
and further growth in view

FY2019 Dividend Forecast



TEL shareholder return policy

Dividend payout ratio: 50%

Annual DPS of not less than 150 yen

We will review our dividend policy if the company does not generate net income for two consecutive fiscal years

We will flexibly consider share buybacks

Expect to raise DPS 16% YoY to 724 yen

TEL™

TOKYO ELECTRON