

# Consolidated Financial Review for the Third Quarter Ended December 31, 2014

Company name: **Tokyo Electron Limited**  
 URL: <http://www.tel.com>  
 Telephone number: (03) 5561-7000  
 Stock exchange listing: Tokyo Stock Exchange 1st Section (Code 8035)

- Notes: 1. The accompanying financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan.  
 2. Amounts are rounded down to the nearest million yen.

## 1. Financial highlights for the nine months ended December 31, 2014

### (1) Operating results (Cumulative)

	Nine months ended	
	December 31, 2013	December 31, 2014
Net sales (Millions of yen)	392,900	431,295
Operating income (Millions of yen)	7,244	52,196
Ordinary income (Millions of yen)	9,091	56,779
Net income (Millions of yen)	(35,621)	37,468
Net income per share (Yen)	(198.79)	209.05
Fully diluted net income per share (Yen)	-	208.56
Comprehensive income:	Nine months ended December 31, 2014: 45,978 million yen Nine months ended December 31, 2013: (25,936) million yen	

### (2) Financial position

	As of	As of
	March 31, 2014	December 31, 2014
Total assets (Millions of yen)	828,591	831,586
Net assets (Millions of yen)	590,613	613,102
Equity ratio (%)	69.8	73.5
Equity:	611,392 million yen (as of December 31, 2014) 578,091 million yen (as of March 31, 2014)	

## 2. Dividends

	Year ended	Year ending
	March 31, 2014	March 31, 2015
1Q-end dividend per share (Yen)	-	10.00
2Q-end dividend per share (Yen)	25.00	30.00
3Q-end dividend per share (Yen)	-	35.00
Year-end dividend per share (Yen)	25.00	-
Annual dividend per share (Yen)	50.00	-

Note: The dividends for the fourth quarter of the fiscal year ending March 31, 2015 is still tentative, because the date when the proposed business combination with Applied Materials, Inc. will be effected has not yet been determined.

### 3. Earnings forecasts for the year ending March 31, 2015

While we have not disclosed full-year earnings forecast for the fiscal year ending March 31, 2015 since the effective date of the business combination still remains undetermined, the TEL Group is expected to achieve the same level of net sales and operating income in the second half as announced previously (October 29, 2014).

### 4. Others

- (1) Important changes in subsidiaries: None  
(Changes on specific subsidiaries with changes in scope of consolidation)
- (2) Adoption of special accounting method in preparing quarterly financial statement: Yes
- (3) Changes in accounting principles, accounting estimation and restatement
  1. Changes in accounting policies along with changes in accountins standards: Yes
  2. Other changes of accounting policies besides number 1 above: None
  3. Changes in accounting estimation: None
  4. Restatement: None
- (4) Number of shares issued and outstanding (common stock)
  1. Number of shares issued and outstanding (including treasury stock)
 

As of December 31, 2014:	180,610,911 shares
As of March 31, 2014:	180,610,911 shares
  2. Number of shares of treasury stock
 

As of December 31, 2014:	1,357,337 shares
As of March 31, 2014:	1,408,950 shares
  3. Average number of shares outstanding
 

Nine months ended December 31, 2014:	179,232,134 shares
Nine months ended December 31, 2013:	179,190,171 shares

Notification of the status of quarterly financial review procedures:

This quarterly financial report is outside the jurisdiction of auditing procedures outlined in the Financial Instruments and Exchange Act and remain incomplete at the time of announcing this report.

Explanations on the appropriate use of earnings forecast:

The performance forecast and estimate stated in this Financial Review are based on certain assumptions judged to be reasonable at the present time in light of information currently available. Consequently, actual operating results may differ substantially from the projections in this Financial Review.

The company plans to hold a financial meeting for analysts and investors on Friday Jan 30, 2015. The supplementary materials to these financial reports that will be handed out at this meeting will be posted simultaneously on our company website.

## **1. Qualitative Information on Financial Results for the Third Quarter**

### **(1) Description of Operating Results**

Global economy during the first three quarters of the current fiscal year generally remained on a gradual recovery trend, and the Japanese economy also showed signs of a moderate recovery.

In the electronics industry, the primary area of the Tokyo Electron (TEL) Group's business activities, the electronics components market remained robust, as sales of smartphones remained robust, and also due to the continued increase in the number of devices connected to networks and the corresponding increase in data traffic which lead to soaring demand for servers for data centers.

Under such circumstances, the Group's consolidated results (cumulative) for the first three quarters of the current fiscal year were net sales of 431,295 million yen (a year-on-year growth of 9.8%), operating income of 52,196 million yen (a year-on-year growth of 620.5%), ordinary income of 56,779 million yen (a year-on-year growth of 524.5%); and in addition, the net income for the first three quarters of the current fiscal year stood at 37,468 million yen (compared to a net loss of 35,621 million yen for the same period of the previous fiscal year).

The overview of each business segment is as described below.

TEL sold part of the shares held in Tokyo Electron Device Ltd. in April and May of the 2014. This resulted in Tokyo Electron Device Ltd. being switched from a consolidated subsidiary of the group to an affiliate accounted for under the equity method, and the Electronic Components and Computer Networks segment overseen by the company and its subsidiaries being removed from segments reported from the first quarter of the current fiscal year. The 9.8% year on year increase in consolidated net sales mentioned above reflects the impact of removing Tokyo Electron Device Ltd. from consolidated range.

#### **(i) Semiconductor Production Equipment**

In smartphone-related areas, sales in emerging countries such as China remained strong, and sales of new functionally sophisticated models were robust. Demand for servers for data centers grew, and the demand for electronic components such as DRAM and NAND flash memory was solid. Consequently, net sales to external customers in this segment for the first three quarters of the current fiscal year were 404,620 million yen (a year-on-year growth of 36.2%).

#### **(ii) Flat Panel Display (FPD) Production Equipment**

The market for FPD production equipment remained strong, with ongoing capital investment in facilities for manufacturing large-sized flat panel displays in China, along with strong demand for small to medium-sized flat panel displays used primarily for smartphones. As a result, net sales to external customers in this

segment for the first three quarters of the current fiscal year were 22,781 million yen (a year-on-year growth of 25.1%).

**(iii) Photovoltaic Pane (PV) Production Equipment**

While we have ceased new sales activities for PV production equipment, sales entries for work in progress to fulfill existing orders and other factors resulted in net sales to external customers in this segment of 3,472 million yen (a year-on-year loss of 22.6%) for the first three quarters of the current fiscal year.

**(iv) Others**

Net sales to external customers in this segment were 422 million yen (a year-on-year growth of 26.1%) for the first three quarters of the current fiscal year.

(For reference)

## Consolidated Operating Results

(Millions of yen)

	FY2015			
	1Q	2Q	3Q	Total
Net Sales	151,325	142,948	137,021	431,295
Semiconductor Production Equipment	136,126	136,500	131,993	404,620
Japan	13,421	26,084	19,081	58,586
U.S.	33,790	33,906	32,041	99,738
Europe	12,530	12,189	19,054	43,775
Korea	22,451	14,695	18,103	55,250
Taiwan	38,456	38,352	28,598	105,406
China	13,911	7,069	6,322	27,303
S.E.Asia	1,565	4,202	8,791	14,559
FPD Production Equipment	13,929	5,099	3,751	22,781
PV Production Equipment	1,102	1,223	1,146	3,472
Others	167	125	130	422
Operating Income	17,069	13,045	22,081	52,196
Ordinary Income	16,913	14,860	25,005	56,779
Net Income	11,835	8,181	17,451	37,468

Note: Offset elimination has been carried out on the dealing between segments.

## Production and Order Performance

### 1. Production

(Millions of yen)

	FY2015			
	1Q	2Q	3Q	Total
Semiconductor Production Equipment	124,318	123,037	145,775	393,131
FPD Production Equipment	7,419	3,033	10,953	21,406
PV Production Equipment	1,081	1,191	1,110	3,383
Total	132,818	127,262	157,839	417,920

Note: 1. Amounts are based on sales prices.

2. The above amounts do not include consumption taxes.

### 2. Orders Received

(Millions of yen)

	FY2015			
	1Q	2Q	3Q	Total
Semiconductor Production Equipment	137,297	142,474	167,264	447,035
FPD Production Equipment	14,280	4,849	3,474	22,605
PV Production Equipment	541	8	1,429	1,979
Others	167	125	130	422
Total	152,286	147,457	172,298	472,042

Note: 1. Offset elimination has been carried out on the dealing between segments.

2. The above amounts do not include consumption taxes.

### 3. Orders Backlog

(Millions of yen)

	FY2015		
	1Q	2Q	3Q
Semiconductor Production Equipment	211,085	217,059	252,330
FPD Production Equipment	29,371	29,121	28,844
PV Production Equipment	8,433	7,219	7,501
Others	-	-	-
Total	248,889	253,399	288,675

Note: 1. Offset elimination has been carried out on the dealing between segments.

2. The above amounts do not include consumption taxes.

### (2) Description of Financial Conditions

#### (i) Financial Conditions

Current assets at the end of the third quarter of the current fiscal year were 618,468 million yen, down 3,024 million yen compared to the end of the previous fiscal year. The major factors influencing this result were a 22,455 million yen decrease in trade notes and accounts receivable, a 9,024 million yen increase in cash and deposit, and a 8,188 million yen increase in short-term investments included in securities.

Tangible fixed assets decreased by 590 million yen from the end of the previous fiscal year, to 111,754 million yen.

Intangible fixed assets decreased by 388 million yen from the end of the previous fiscal year, to 29,167 million yen.

Investment and other assets increased by 6,997 million yen from the end of the previous fiscal year, to 72,197 million yen.

As a result, total assets increased by 2,995 million yen from the end of the previous fiscal year, to 831,586 million yen.

Current liabilities were down 12,798 million yen compared to the end of the previous fiscal year, to 157,711 million yen. The major factors causing the decrease were an 11,531 million yen decrease in short-term borrowings associated with the removal of Tokyo Electron Device Ltd. from consolidated accounting, a 7,906 million yen decrease in trade notes and accounts payable, and a 4,289 million yen increase in customer advances.

Long-term liabilities were down 6,695 million yen compared to the end of the previous fiscal year, to 60,772 million yen.

Net assets were up 22,488 million yen compared to the end of the previous fiscal year, to 61,312 million yen. The main factors were an increase due to reported quarterly net income of 37,468 million yen, a decrease as a result of the payment of 11,649 million yen in year-end dividends for the previous fiscal year, quarterly

dividends for the first quarter of the current fiscal year as well as quarterly dividends for the second quarter of the current fiscal year, and a decrease of 10,629 million yen in minority interests from the removal of Tokyo Electron Device Ltd. from consolidated accounting and other facts.

The equity ratio was 73.5%.

## **(ii) Cash Flow**

Cash and cash equivalents at the end of the third quarter of the current consolidated fiscal year increased by 150,505 million yen compared to the end of the previous fiscal year, to 255,303 million yen.

The combined balance including a 30,056 million yen in time deposits and short-term investments with periods to maturity or redemption of at least three months that are not included in cash and cash equivalents was 285,359 million yen, up 17,213 million yen from the end of the previous fiscal year. The overall situation regarding cash flow during the third quarter of the current fiscal year was as described below.

Cash flow from operating activities was positive 40,070 million yen, up 52,180 million yen compared to the same period of the previous fiscal year. The main positive factors were 53,852 million yen in net income before income taxes, 15,189 million yen in depreciation and amortization, a 6,927 million yen increase in customer advances. The main negative factors were the payment of income taxes of 21,845 million yen and a 15,903 million yen increase in inventories.

Cash flow from investing activities was positive 126,701 million yen, compared to positive 16,776 million yen in the same period of the previous fiscal year. The primary positive factor was 133,300 million yen associated with a decrease in short-term investments. The primary negative factor was 9,109 million yen in payments for purchase of tangible fixed assets.

Cash flow from financing activities was negative 11,922 million yen, compared to positive 251 million yen in the same period of the previous fiscal year. This was primarily the result of the payment of 11,649 million yen in dividends.

**Consolidated Cash Flow (Summary)**

(Millions of yen)

	Nine months ended December 31, 2013	Nine months ended December 31, 2014
Cash flow from operating activities	(12,110)	40,070
Income before income taxes (loss)	(37,542)	53,852
Depreciation and amortization	18,643	15,189
Loss on impairment	46,583	-
Decrease in trade notes and accounts receivable (increase)	(34,764)	3,503
Decrease in inventories (increase)	(53,371)	(15,903)
Increase in accounts payable (decrease)	12,504	(2,277)
Others	35,836	(14,294)
Cash flow from investing activities	16,776	126,701
Decrease in time deposits (increase)	25,435	133,300
Others (purchase of fixed assets)	(8,659)	(6,598)
Cash flow from financing activities	251	(11,922)
Effect of exchange rate changes on cash and cash equivalents	(5,899)	(4,342)
Net increase in cash and cash equivalents (decrease)	(982)	150,505
Cash and cash equivalents at beginning of period	85,313	104,797
Increase in cash and cash equivalents from changes in accounting periods at consolidated subsidiaries (decrease)	(1,206)	-
Cash and cash equivalents at end of period	83,125	255,303
Cash and cash equivalents and time deposits and short-term investments with periods to maturity or redemption of at least three months that are not included in cash and cash equivalents	212,504	285,359



### **(3) Description of Financial Estimates Information such as Consolidated Performance Forecasts**

While we have not disclosed full-year earnings forecast for the fiscal year ending March 31, 2015 since the effective date of the business combination still remains undetermined, the TEL Group is expected to achieve the same level of net sales and operating income in the second half as announced previously (October 29, 2014).

Note: The financial forecasts and estimates stated in this announcement are based on certain assumptions judged to be reasonable by the Company in light of information currently available concerning economic conditions in Japan and overseas, fluctuations in foreign exchange rates, and other factors that may have an impact on performance. The company does not promise that the forecasts or estimates will be accurate.

They are therefore susceptible to the impact of many uncertainties, including market conditions, competition, the launching of new products (and their success or failure), and global conditions in the semiconductor related industry. Consequently, actual sales and profits may differ substantially from the projections stated in this announcement.

# Consolidated Balance Sheet

TOKYO ELECTRON

	(Millions of yen)	
	As of March 31, 2014	As of December 31, 2014
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and deposit	56,345	65,370
Trade notes and accounts receivable	129,032	106,576
Securities	211,800	219,989
Merchandise and finished goods	114,289	101,214
Work in process	38,074	48,877
Raw materials and supplies	15,912	16,843
Others	57,538	60,462
Allowance for doubtful accounts	(1,502)	(865)
<b>Total current assets</b>	<b>621,492</b>	<b>618,468</b>
<b>Long-term assets</b>		
Tangible fixed assets	112,344	111,754
Intangible fixed assets		
Goodwill	9,400	9,534
Others	20,155	19,633
<b>Total intangible fixed assets</b>	<b>29,556</b>	<b>29,167</b>
Investments and other assets		
Others	67,065	74,103
Allowance for doubtful accounts	(1,866)	(1,906)
<b>Total investments and other assets</b>	<b>65,199</b>	<b>72,197</b>
<b>Total long-term assets</b>	<b>207,099</b>	<b>213,118</b>
<b>Total assets</b>	<b>828,591</b>	<b>831,586</b>

	(Millions of yen)	
	As of March 31, 2014	As of December 31, 2014
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade notes and accounts payable	53,667	45,760
Short-term borrowings	11,531	-
Income taxes payable	14,014	11,434
Accrued warranty expenses	10,072	10,527
Other allowance	8,642	4,630
Others	72,581	85,358
<b>Total current liabilities</b>	<b>170,509</b>	<b>157,711</b>
<b>Long-term liabilities</b>		
Other allowance	582	374
Net defined benefit liability	53,448	49,520
Others	13,436	10,877
<b>Total long-term liabilities</b>	<b>67,468</b>	<b>60,772</b>
<b>Total liabilities</b>	<b>237,978</b>	<b>218,484</b>
<b>NET ASSETS</b>		
<b>Shareholders' equity</b>		
Common stock	54,961	54,961
Capital surplus	78,023	78,023
Retained earnings	436,174	460,692
Treasury stock	(9,478)	(9,144)
<b>Total shareholders' equity</b>	<b>559,679</b>	<b>584,532</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	5,592	7,965
Deferred gains or losses on hedges	60	147
Translation adjustments	5,777	13,117
Remeasurements of defined benefit plans	6,981	5,629
<b>Total accumulated other comprehensive income</b>	<b>18,411</b>	<b>26,859</b>
<b>Subscription rights to shares</b>	<b>1,643</b>	<b>1,461</b>
<b>Minority interests</b>	<b>10,878</b>	<b>248</b>
<b>Total net assets</b>	<b>590,613</b>	<b>613,102</b>
<b>Total liabilities and net assets</b>	<b>828,591</b>	<b>831,586</b>

## Consolidated Statement of Income

	(Millions of yen)	
	Nine months ended December 31, 2013	Nine months ended December 31, 2014
Net sales	392,900	431,295
Cost of sales	262,520	266,204
<b>Gross profit</b>	<b>130,380</b>	<b>165,090</b>
Selling, general & administrative expenses		
Research and development expenses	57,394	51,794
Others	65,741	61,099
Total selling, general & administrative expenses	123,135	112,894
<b>Operating income (loss)</b>	<b>7,244</b>	<b>52,196</b>
Non-operating income		
Foreign currency translation income	-	1,796
Others	4,770	2,879
Total non-operating income	4,770	4,675
Non-operating expenses		
Foreign currency translation loss	2,619	-
Maintenance and operation cost of closed business bases	35	34
Others	268	58
Total non-operating expenses	2,923	92
<b>Ordinary income (loss)</b>	<b>9,091</b>	<b>56,779</b>
Unusual or infrequent profit		
Gain on sale of fixed assets	88	183
Gain on sale of investment securities	-	54
Others	18	-
Total unusual or infrequent profit	107	238
Unusual or infrequent loss		
Loss on impairment	46,583	-
Loss on sales of subsidiaries' stocks	-	1,609
Expenses for restructuring of business bases	-	951
Others	158	604
Total unusual or infrequent loss	46,741	3,165
<b>Income (loss) before income taxes</b>	<b>(37,542)</b>	<b>53,852</b>
Income taxes	(2,032)	16,350
Income (loss) before minority interests	(35,510)	37,501
Minority interests	111	33
<b>Net income (loss)</b>	<b>(35,621)</b>	<b>37,468</b>

## Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2013	Nine months ended December 31, 2014
<b>Income (loss) before minority interests</b>	(35,510)	37,501
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	608	2,370
Deferred gains or losses on hedges	197	143
Translation adjustments	8,768	7,277
Remeasurements of defined benefit plans	-	(1,321)
Share of other comprehensive income of associates accounted for using equity method	-	5
Total other comprehensive income	9,573	8,476
<b>Comprehensive income</b>	(25,936)	45,978
<b>(Breakdown)</b>		
Comprehensive income attributable to owners	(26,116)	45,916
Comprehensive income attributable to minority interests	180	61

## Segment Information

### (i) Overview of reportable segments

The reportable segments by the company provide separate financial information pertaining to the various segments of the company, which is reviewed periodically by the management to evaluate corporate performance as well as make decisions about the allocation of management resources.

The corporate structure consists of product and service segments based on business units (BUs), and the reportable segments are as follows: Semiconductor Production Equipment, Flat Panel Display (FPD) Production Equipment, and Photovoltaic Panel (PV) Production Equipment.

The Semiconductor Production Equipment segment consists of coaters/developers, plasma etch systems, thermal processing systems, single wafer deposition systems, cleaning systems used in wafer processing, wafer probers used in the wafer testing process and other semiconductor production equipment, and we are engaged in the development, manufacturing, sales and provision of maintenance services, etc. for such products.

The FPD Production Equipment segment consists of coaters/developers, plasma etch/ash systems used in the manufacturing of flat panel displays, and we are engaged in the development, manufacturing, sales and provision of maintenance services, etc. for such products.

The PV Production Equipment segment consisted of photovoltaic panel production equipment used in the manufacturing of thin film silicon photovoltaic panels, and we were engaged in the development, manufacturing, sales and provision of maintenance services, etc. for such products. However, we have scaled down our business structure of the PV production equipment, by halting development, production, and sales activities for this business and limit operations to support for equipment already delivered as of the end of March, 2014.

### (ii) Net sales and income (loss) in reportable segments

Nine months ended December 31, 2014

(Millions of yen)

	Reportable Segments			Others	Total
	Semiconductor Production Equipment	FPD Production Equipment	PV Production Equipment		
Net sales	404,620	22,781	3,472	8,648	439,522
Segment income (loss)	94,447	(603)	(10,486)	929	84,287

	Eliminations	Consolidated Total
Net sales	(8,226)	431,295
Segment income (loss)	(30,435)	53,852

#### Notes:

- The "Others" is all other businesses segment which are not included in the reported business segments, such as the transportation of products, equipment leasing and insurance, etc. of the Tokyo Electron Group companies.
- The eliminations of segment income or loss amounting to 30,435 million yen includes corporate expenses pertaining to the corporate account which are not allocated to any specific reportable segments. The corporate account expenses are mainly R&D expenses of 12,078 million yen, pertaining to fundamental research and element research conducted by the company, and business combination expenses of 7,200 million yen, not related to any of the reportable segments.
- Segment income (loss) is adjusted against income before income taxes in consolidated statement of income.

## Segment Information

(iii) Items Related to Changes in Reportable Segments

In conjunction with the change of Tokyo Electron Device Limited (TED) from a consolidated subsidiary to an equity-method affiliate, from the first quarter of the current fiscal year, the "Electronic Components and Computer Networks" handled by TED and its subsidiaries has been eliminated from the reportable segment, and investment profit or loss on equity method relating to TED has been included in segment income or loss adjustment amounts.

(iv) Impairment losses on fixed assets and goodwill, etc. in reportable segments

Significant impairment losses related to fixed assets: None

Significant changes in goodwill amount: None

Significant income related to negative goodwill: None