TOKYO ELECTRON

ANNUAL REPORT 2017

For the Year Ended March 31, 2017

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 was established as an ideal, to which everyone in the Group can aspire, indicating how we should conduct business in order to fulfill the Corporate Philosophy.

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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 20.

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To Our Stakeholders

Aiming Even Higher

Maximizing Corporate Value at the Dawn of the IoT Era

Tetsuo Tsuneishi
Chairman of the Board

Toshiki Kawai
President & CEO

To begin, we would like to express our thanks for the continued support of our investors and all of Tokyo Electron's stakeholders.

In 2016, semiconductor manufacturers made aggressive capital investment, reflecting demand generated by the increasing use of semiconductor components in smartphones and the adoption of higher-speed servers. As a result, the wafer fab equipment market grew significantly.

In this environment, Tokyo Electron posted strong fiscal 2017 results. The gross profit margin, operating margin, and net income all reached record highs. We also paid a record high annual dividend of ¥352 per share. However, we regard these results as just another point marking Tokyo Electron's continuing growth journey.

With the full-fledged arrival of the internet of things (IoT), the semiconductor and display industries are beginning to shift to an accelerated growth trajectory. After reexamining our outlook for the industry and Tokyo Electron's business opportunities, we revised the financial model used in the medium-term management plan for the period ending March 2020. Under the new model, we assume a larger market and are targeting sales of around ¥1 trillion as well as major improvement in profitability.

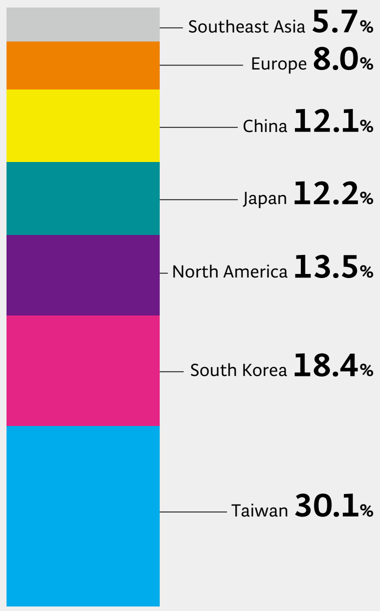
We will continue to push boldly forward, aiming to reach the goals of the medium-term plan and achieve sustainable growth of corporate value. This will be based on our vision of being a truly global company generating high added value and profits in the semiconductor and flat panel display industries through innovative technologies and groundbreaking proactive solutions that integrate diverse technologies. We look forward to your continued support as we move forward.

Business Overview and Financial Highlights

Semiconductor Production Equipment

- Coater/Developers
- Plasma Etch System
- Thermal Processing System
- Single Wafer 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 center servers that are indispensable for the processing of big data. With the arrival of the internet of things, 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 superior technical support and service. The six main categories of our product lineup are coater/developers, plasma etch systems, thermal processing systems, single wafer 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 electrochemical deposition systems and wafer bonders/debonders used in advanced packaging processes.


Coater/Developers
CLEAN TRACK™ LITHIUS Pro™ Z


Plasma Etch System
Tactras™


ALD System
NT333™


Single Wafer Deposition System
Triase+™

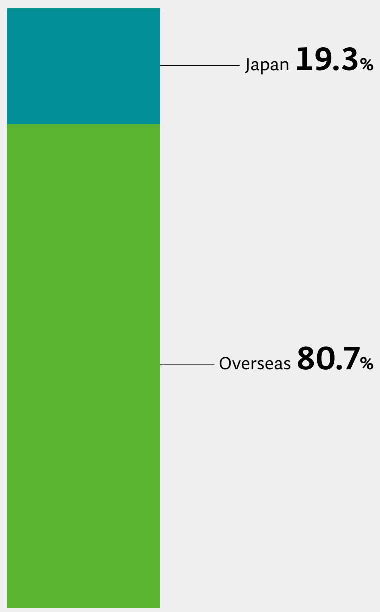

Single Wafer Cleaning System
CELLESTA™-*i*


Wafer Prober
Precio™ XL

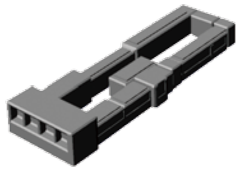
FPD Production Equipment

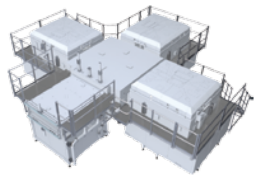
- FPD Coater/Developers
- FPD Plasma Etch/Ash System
- Inkjet Printing System for Manufacturing OLED Panels

Sales by Region



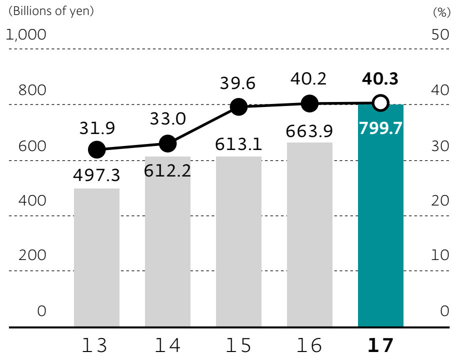
Flat panel displays (FPDs) are an essential part of everyday life, employed in such products as TVs, smartphones and tablets. Going forward, FPDs are expected to see new growth in demand for such applications as virtual reality (VR) and augmented reality (AR) head-mounted displays. Tokyo Electron supplies coater/developers and plasma etch/ash systems for manufacturing FPDs along with solid technical support and service. We also offer an inkjet printing system for manufacturing OLED panels using large-sized substrates to take advantage of the expanding OLED display market.


FPD Coater/Developers
Exceliner™


FPD Plasma Etch/Ash System
Impressio™

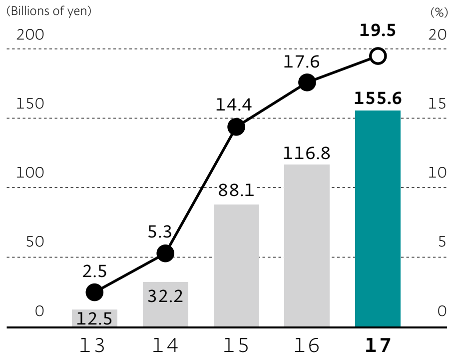

Inkjet Printing System for Manufacturing OLED Panels
Elius™ 2500

Net Sales and Gross Profit Margin



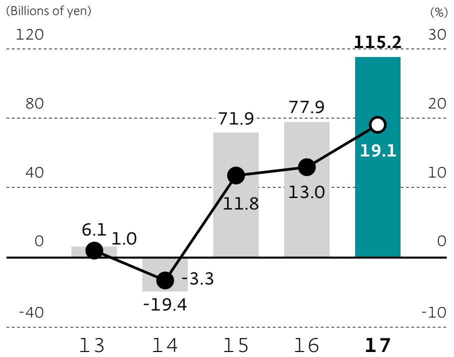
Net Sales ●-○ Gross Profit Margin

Operating Income and Operating Margin



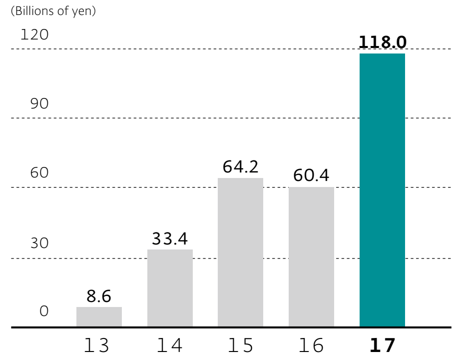
Operating Income ●-○ Operating Margin

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



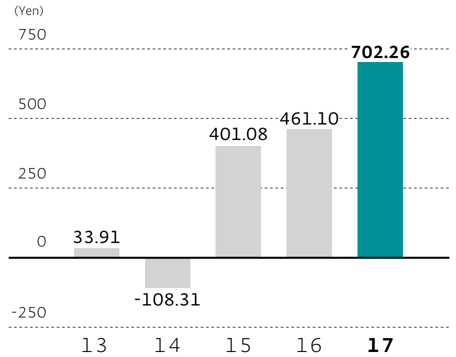
Net Income (Loss) Attributable to Owners of Parent
●-○ ROE

Free Cash Flow

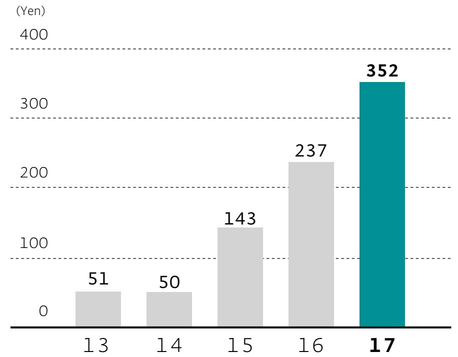


Free Cash Flow = Cash flows from operating activities + Cash flows from investing activities (excluding changes in short-term investments with original maturities of less than one year)

Net Income (Loss) per Share



Cash Dividends per Share



The amounts in this report in hundred millions (0.1 billion unit) of yen, in millions of yen and in thousands of yen, U.S. dollars and shares, as of and for the years ended March 31, 2016 and prior periods are rounded. On the other hand, such amounts including the changes from the previous fiscal year are rounded down as of and for the year ended March 31, 2017, and therefore the totals do not necessarily agree with the sum of the individual account balances for the corresponding period.

Interview with the CEO

Toshiki Kawai
President & CEO

A new growth phase in the semiconductor and display industries

Meeting customer needs with innovative technologies that integrate our products' strengths

Question 01

Tokyo Electron achieved excellent results in fiscal 2017, including record-high profit. Please tell us about the Company's achievements and initiatives during your time as CEO so far.

In Tokyo Electron's key business fields, our products have been well received by customers and won increased market share. We are steadily advancing such initiatives as making technological proposals using our robust product lineup as we pursue the goals of the medium-term management plan, which ends in fiscal 2020.

Since establishing the medium-term management plan in 2015, we have been working to achieve world-class profitability. To reach this goal, we have been focusing on reinforcing product competitiveness, responsiveness to customers and operational efficiency as we build strong business and technological platforms.

As a result of our efforts so far, especially in the key fields of etch, deposition and cleaning systems, customers have praised our products for their performance and adopted them for use in additional mass production processes. Consequently, our market share has increased in all our key fields, and I feel that our value to customers is also steadily rising.

Interview with the CEO

Looking at medium- and long-term growth efforts, we have deepened technological collaboration with our customers' R&D divisions. By doing so, we have been able to more rapidly identify hurdles in the development of cutting-edge devices and accelerate technological development aimed at creating competitive next-generation products. Furthermore, we have assigned marketing and R&D general managers for each customer to facilitate the provision of technological solutions that leverage the strength of Tokyo Electron's robust product lineup and thus improve our responsiveness to customers. As part of these efforts, we established a new process integration center, which has particularly reinforced our development framework for next-generation patterning technologies.

By both increasing our market share in our current key fields and advancing initiatives from a medium- and long-term perspective, we have been making steady progress toward the goals of the medium-term management plan.

Question 02

What kind of growth do you expect in the semiconductor and display industries going forward?

With the dawn of the internet of things (IoT), the applications of semiconductors and displays are expanding dramatically. Accordingly, the SPE* and FPD production equipment markets are on the cusp of a new growth phase.**

In the past, semiconductor demand, driven largely by PCs alone, repeatedly rose and fell every three to four years, in what was known as the silicon cycle. The arrival of the IoT, however, marks a fundamental shift, as all kinds of devices and objects connect to networks, rapidly expanding applications for semiconductors.

In the near future we will see the adoption of next-generation 5G telecommunications standards, which will serve as the infrastructure for the full-scale IoT. With this, even greater volumes of data will be sent to the cloud for instant processing at data centers. As such new technologies and services as artificial intelligence (AI), autonomous vehicles, telemedicine and fintech mature, the role of semiconductors as their underlying foundation will only grow.

As a result of this massive increase in data transmission volumes and diversification of semiconductor applications, the SPE market is now on the verge of a new growth phase.

The display industry is also changing, with the creation of large-sized OLED TVs and the growing range of display applications, such as display panels used in vehicles, head-mounted displays for augmented/virtual reality, and digital signage. These changes are driving demand for technological innovation to realize displays that are, for example, flexible, higher resolution, larger sized or less power consuming. As a result, the market is beginning to expand.

* SPE: Semiconductor production equipment
** FPD: Flat panel display

Zoom

Question 03

You mentioned that the market is headed for a new growth phase. How will you turn market changes into business expansion?

In light of the sophisticated technological hurdles our customers face, we will further hone our product development capabilities and customer responsiveness in order to provide greater added value.

To meet demand for semiconductor devices that are more powerful and faster while consuming less power, semiconductor production equipment manufacturers face growing expectations to deliver technological innovation in such areas as cutting-edge patterning, new device structures and new materials. Few companies can meet these expectations. For us, however, these expectations represent tremendous business opportunities because Tokyo Electron offers wide-ranging solutions to sophisticated technological challenges. Leveraging the Company's cutting-edge core technologies and robust product lineup, we are offering optimal integrated process solutions. We will continue to use our excellent product development capabilities and customer responsiveness to achieve business expansion.

Interview with the CEO

We have raised the targets of the medium-term management plan, and are taking bold action to target sales and profit expansion that greatly outpaces market growth.

Reflecting ongoing market growth, when we presented our progress under the medium-term management plan in May 2017, we also revised the assumed size of the wafer fab equipment (WFE)*** market used in the plan's financial model from US$37 billion to US$45 billion, and significantly increased the plan's corresponding net sales target from ¥900 billion to ¥1,200 billion.

Etch systems are one of our key businesses, and are expected to see particularly great market expansion going forward. For this business, we are building a dedicated logistics facilities to improve productivity and production capacity. By doing so, we are laying the groundwork for sales expansion that includes raising our market share. Furthermore, we are building new R&D facilities, where we will develop high-value-added etch technologies.

Deposition systems also offer a large market, and our business in this area has room to grow. Aiming to reinforce this business, we merged the subsidiaries for the Yamanashi and Tohoku plants to promote technological integration and increase efficiency. We continue to strengthen process integration functions and are accelerating the development of products for next-generation devices with increasingly complex structures.

Going forward, we expect to see major value creation through technological innovation in the production equipment business. By further differentiating our products and services in this business, we aim to realize world-class profitability.

Market Assumptions and Financial Targets

WFE market size	US$ 42 billion	US$ 45 billion
Net sales	¥1,050 billion	¥1,200 billion
Operating margin	24%	26%
ROE	20–25%	

*** 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. Wafer fab equipment refers to the production equipment used in front-end production and in wafer-level packaging production.

Question 04

Tokyo Electron has a strong balance sheet and tremendous capacity to generate cash. How are you planning to use the Company's cash on hand?

We will maintain a healthy balance of investment in growth and shareholder returns as we work to ensure continued profit growth and maximize corporate value.

The pursuit of profit is indispensable to sustainable corporate growth. Profit generated will first be reinvested to create innovative technologies in order to power the Company's continued growth.

As the industries in which we operate enter a new growth phase, the range of technologies in which Tokyo Electron must advance R&D is growing wider than ever. The resources we can dedicate to R&D, however, are finite. We will select projects to pursue based on careful examination of their potential return in order to concentrate our resources effectively.

As for shareholder returns, under the medium-term management plan unveiled in fiscal 2016, we raised the target payout ratio to 50% and set a lower limit on the annual dividend per share of ¥150. In fiscal 2017, we paid our highest ever annual dividend per share. We will continue to flexibly consider stock repurchases, taking a comprehensive view of such factors as investment needed for growth, cash on hand and the macroeconomic environment.

By achieving the goals of the medium-term management plan and further improving corporate value going forward, we will do our utmost to meet shareholder expectations.

Message from the CFO

New Financial Model in Line with Equipment Market Expansion

Targeting World-Class Profitability and Capital Efficiency While Maintaining Downward Cost Flexibility

Tetsuro Hori
CFO, Executive Vice President

1. A New Phase of Growth in the Semiconductor and Display Industries

Tokyo Electron finished fiscal 2017, the year ended March 31, 2017, with very strong results. The gross profit margin, operating margin and net income all reached new highs. Net sales in the semiconductor production equipment (SPE) segment also set a new record high.

Previously, the growth potential of the semiconductor market had been called into question, but today both the semiconductor and display industries are booming. Using the 2008 financial crisis as an approximate milestone, we can perceive a clear change in worldwide trends and our very lifestyles. An example of this in everyday life is the increasing prevalence of video content on social media. Enormous numbers of users take and simultaneously upload videos. All that data is stored in the cloud; these users typically do not keep it on their own PCs. A different example is Uber, Lyft and other ride sharing services, which have been attracting a great deal of attention. These services use apps to display the current locations of their drivers, data that must be gathered, processed and distributed in real time. This requires real-time data transmission systems all throughout society. A decade ago, people mainly thought about things like vehicles in terms of personal ownership. In recent years, however, we have begun to see the emergence of the sharing economy and other new approaches. As networks increasingly connect all aspects of society, forming one, enormous interconnected system, the uses of semiconductors are expanding in every field. These changes have been propelling the semiconductor and display industries into a new phase unlike anything we have yet seen.

2. Medium-Term Management Plan Initiatives

(1) Financial Goals

Tokyo Electron announced its medium-term management plan in 2015. The plan's targets for net sales, operating margin and ROE were based on two scenarios regarding the future size of the wafer fab equipment (WFE) market.

Message from the CFO

In light of changes in the semiconductor industry, however, we have now increased the WFE market size assumed in the plan's financial model and raised the plan's targets. We now aim to grow the Company even more than we set out to under the 2015 plan. From a financial standpoint, however, even as the Company expands, we intend to restrain fixed costs. The SPE market has long been regarded as particularly volatile. We are therefore taking care to maintain downward flexibility in order to remain profitable even if economic conditions deteriorate.

Success in the SPE business requires the consistent release of innovative products to accommodate the latest next-generation technologies. For an SPE company, generating profit while continually developing new equipment is the key to sustainability. It is therefore essential to develop products and services that offer greater customer value and then make sure that customers fully appreciate that value. Our development divisions as well as sales and service divisions must all keep this in mind. Specific measures we are taking are as follows.

- Develop products and services with high profit margins
- Avoid discounting to gain market share
- Advance R&D and capital investment on scale with targeted future returns
- Optimize logistics and improve operational productivity
- Make more efficient use of trade notes and accounts receivable, inventories and other assets

Through these initiatives, under the new financial model we are targeting an operating margin of 26% (assuming a WFE market of US$45 billion) and ROE of 20–25%.

(2) Non-Financial Goals

a. Human Resources System

In July 2017, Tokyo Electron launched a globally unified job rank system based on job responsibilities. This system clarifies the position of every Group employee, better empowering the Group to find the right people for the right job on a worldwide basis. In Silicon Valley, diverse human resources are constantly interacting and influencing one another, leading to the creation of new ideas. Similarly, by promoting global exchange within the Tokyo Electron Group, we are working to foster cross-pollination of ideas and spark innovation.

In addition, when we launched the current medium-term management plan, we raised the share purchasing subsidy offered through the employee shareholding association to 15%. This was intended to align the interests of employees with those of other shareholders. The number of employee shareholders has increased as a result, but participation in the employee shareholder association is still limited to employees in Japan. To address this, we are considering a stock-based compensation system utilizing a trust that would allow executive-level employees to receive capital gains on Tokyo Electron shares even if they reside outside Japan. These measures are aimed at securing talented human resources globally.

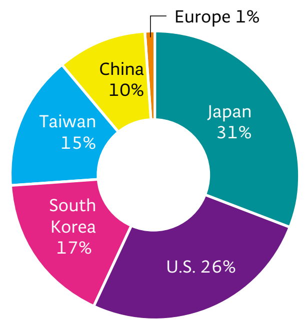
Furthermore, the Company conducts training for current and future top-level managers, and has instituted a special selection and training program for future management candidates. This program includes training camps held several times annually and lectures from outside instructors, and ends with participants making proposals to current top management. The systematic development of successors is essential to sustainable growth.

b. Intellectual Property Strategy

Since its establishment, Tokyo Electron has made securing its intellectual property rights a priority. We file 600 to 800 patent applications in Japan each year. A major feature of our intellectual property strategy is our relatively high global application rate.* The average global application rate among Japanese patent applicants is about 30%. In contrast, the Company's rate is closer to 70%. By acquiring numerous patents in the countries where our customers' manufacturing sites are located, we are building a framework to both maintain the competitiveness of our products and ensure that our customers can use our products with confidence.

* Global application rate: The percentage of patent applications filed in Japan that are also filed in other countries

Patent Holdings by Country/Region



c. IT Strategy

We are also focusing on reinforcing the Group IT system. By doing so, we are working to enable the analysis of previously unavailable information and data in order to accelerate decision making. The Tokyo Electron Group is composed of six companies in Japan and 28 companies overseas. By strengthening the Group's IT systems, we aim to make information from across the Group available and comprehensible in a fast, unified way in order to more quickly identify and address problems at each company.

3. Capital Policy and Shareholder Returns

Since fiscal 2016, the Company has maintained the shareholder return policy of targeting a payout ratio of 50% and flexibly considering share buybacks. In step with recent profit growth, we have paid a record high annual dividend per share (DPS) for three consecutive years. At the end of fiscal 2017, Tokyo Electron had cash on hand of ¥315.3 billion. Our first priority for this cash is investment in Tokyo Electron's future growth. We will keep an eye on the macro economy as we determine the specific uses for it. The equity ratio as of March 31, 2017 was 67%, and the Company has no interest-bearing debt. Although we have not ruled out capital procurement from external sources if necessary, I believe we can generally meet our own capital needs internally.

Policy for Shareholder Returns

Dividend payout ratio: 50%
Annual DPS of not less than ¥150

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

4. In Closing

Technological innovation moves extremely quickly in the semiconductor and display industries. I truly feel that the motto of Intel's Andrew Grove gets to the heart of what it means to operate in these industries: "Only the paranoid survive."

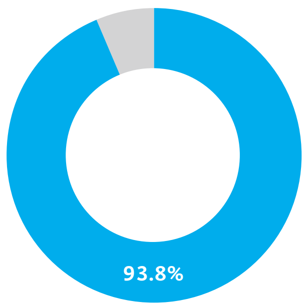
For fiscal 2018, Tokyo Electron targets net sales of ¥980 billion, operating income of ¥216 billion (for an operating margin of 22.0%), net income attributable to owners of the parent of ¥163 billion and net income per share of ¥993.44.* The Company is growing, but we will stay vigilant and alert to market changes as we work toward the goals of the medium-term management plan.

* Results forecasts announced April 28, 2017

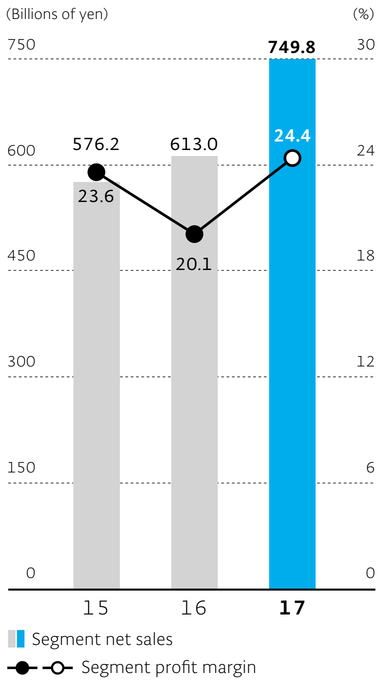
Review of Operations and Business Outlook

Semiconductor Production Equipment (SPE)

Share of Net Sales



Net Sales and Profit Margin by Segment



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

2016 Business Environment

Driven by the arrival of the internet of things (IoT), the growing sophistication of smartphones and data center servers continued unabated, while demand ramped up for higher-capacity memory and faster logic chips. Given this backdrop, investment growth in memory was particularly robust in the area of 3D NAND. In logic chips, capital expenditure was implemented primarily by foundries, which invested aggressively in cutting-edge 10 nm generation products. As a result, 2016 global capital expenditure for wafer fab equipment (WFE)* grew more than 10% year on year to approximately US$37 billion.

* 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. Wafer fab equipment refers to the production equipment used in front-end production and in wafer-level packaging production.

Fiscal 2017 Business Overview

› Segment net sales grew 22.3% year on year to ¥749.8 billion.

- **By region, sales mainly grew in Taiwan, China and South Korea, reflecting booming investment in NAND flash memory and by foundries.**
- **By product, rising demand and market share increases drove sales growth in the key field of etch systems. In deposition systems, sales of semi-batch ALD** systems for cutting-edge miniaturization were double their fiscal 2016 level.**
- **Sales in the field solutions business (encompassing sales of parts and used equipment, modifications and maintenance services) rose 12% year on year to approximately ¥208.0 billion.**

› The segment profit margin rose from 20.1% in the previous fiscal year to 24.4%, due in part to the increase in net sales and a high rate of factory utilization.

** ALD (Atomic layer deposition): An atomic level film deposition technique

Business Outlook

With the arrival of IoT, semiconductors are beginning to be used in all kind of everyday objects. At the same time, research into autonomous driving and AI is advancing toward commercialization. As a result, demand for cutting-edge semiconductors that can instantly process and analyze cloud data is growing rapidly. Backed by this expansion in demand, the WFE market is beginning to enter an accelerated growth trajectory toward the US$40 billion mark and beyond. Tokyo Electron has positioned etch, deposition and cleaning systems, which are expected to see especially strong market growth, as key fields. By achieving technological differentiation in these fields, the Company aims to increase its profitability and market share.

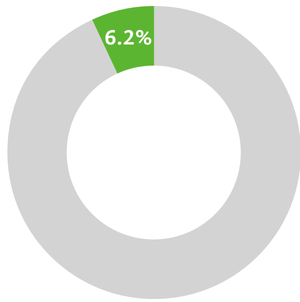
In particular, 3D NAND requires advanced deposition technologies to increase the number of vertically stacked layers as well as etch technologies that can simultaneously etch said layers with high precision. Tokyo Electron will continue to hone its long-held strengths in deep hole etch technologies and expand its market share of etch systems used in the NAND field.

In logic chips, miniaturization using multiple patterning continues to advance. This multiple patterning uses etch and deposition technologies to realize microfabrication. Tokyo Electron aims to increase revenue and profit by expanding sales of etch systems, for which it boasts a high market share, as well as high-productivity semi-batch ALD systems and cleaning systems that reduce pattern collapse.

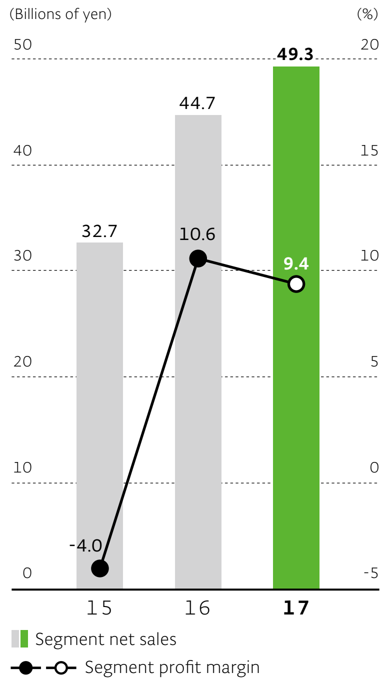
Furthermore, over the long term, the expected adoption of new materials and changes in transistor structure will lead to considerably more formidable and complex technological challenges. To address these challenges, Tokyo Electron will leverage its robust product lineup to both improve the performance of individual products and to support the rapid development and release of solutions that optimize entire processes. By taking part in our customers' technological plans for next-generation and future generation products from an early stage, the Company will accelerate its growth over the medium and long term.

FPD Production Equipment

Share of Net Sales



Net Sales and Profit Margin by Segment



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

2016 Business Environment

In small- and medium-sized panels for smartphones and other mobile devices, on top of investment in conventional LCDs, capital investment targeting new OLED displays began in earnest, anticipating their widespread adoption. Driven mainly by this investment in small- and medium-sized panels, display panel capital investment in 2016 grew considerably year on year, surpassing US$10 billion. Within this overall market, the equipment market for thin-film transistor (TFT) array processes,* in which Tokyo Electron operates, grew about 30% from the previous year.

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

Fiscal 2017 Business Overview

› Segment net sales rose 10.5% to ¥49.3 billion.

- **PICP™** etch systems for small- and medium-sized panels, which are especially competitive for use with high-resolution displays, were adopted by multiple customers, causing sales to expand substantially.**
- **Tokyo Electron introduced and recorded sales of new PICP etch systems for large-sized panels.**

› The segment profit margin decreased 1.2 percentage points to 9.4%, as growth in sales of highly profitable PICP etch systems was offset by aggressive investment in R&D related to equipment for generation 10.5 panels.

› Tokyo Electron captured business related to generation 10.5 panels through technological differentiation.

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

Business Outlook

In the display market, demand is expected to grow both for displays used in mobile devices and those used in televisions. As the market begins to grow again, Tokyo Electron aims to increase both its market share and profitability.

In small- and medium-size panels for mobile devices, displays continue to get larger amid growing demand for enhanced performance, including higher resolution and lower power consumption, as well as for flexible displays. In the field of OLED displays, which can meet these demands, needs are emerging for more advanced etching, and the manufacture of flexible displays is expected to lead to the development of new etch processes. Tokyo Electron's PICP etch systems, which offer excellent processing uniformity, are seeing firm sales growth. Going forward, the Company will adopt new platforms and introduce systems for new processes to leverage these expanding business opportunities and steadily realize growth.

Looking at large-sized panels for televisions, panels larger than 65 inches are expected to become popular going forward. Accordingly, multiple manufacturers, mainly in China, are planning to invest in equipment for generation 10.5 and 11 panels. Tokyo Electron will leverage its track record of providing coater/developers and etch systems used for mass production of generation 10 panels to build on the business it secured in fiscal 2017 and capture a large share of manufacturers' planned investment. Furthermore, to meet demand created by investment in high-resolution panels, including 4K and 8K, the Company is beginning to expand its PICP etch systems from small- and medium-sized panels, for which it has built a solid track record, to large-sized panels.

With an eye toward the establishment of a market for OLED televisions, Tokyo Electron has introduced an inkjet printing system for manufacturing large-sized OLED panels and delivered units to customers' development lines. Compared with existing evaporation systems, this system offers drastically improved material efficiency. Leveraging this strength, Tokyo Electron aims to build a strong position in this market.

Message from the Chairman of the Board

Effective Governance to Win Among Global Competition

Creating and maintaining an appropriate system of governance is key to sustaining and maximizing the growth of shareholder value over the short, medium and long term. I believe that optimal corporate governance entails the creation of an environment in which all discussions and decision-making processes related to management policy and business strategy are designed to contribute to shareholder value. Moreover, the implementation of such policy and strategy should be monitored to provide feedback and feed-forward. Of course, it goes without saying that governance systems must also ensure compliance with the laws of relevant countries as well as globally acceptable standards of fairness and transparency.

In line with this basic approach, Tokyo Electron's Board of Directors is composed of three types of directors, namely outside directors, non-executive directors and executive directors. In addition, Tokyo Electron has an Audit & Supervisory Board, which audits the appropriateness and fairness of the executive directors' decision-making processes and business execution, as well as the auditing methods and results of the independent auditors. The Audit & Supervisory Board currently has five members, three of whom are outside members. The composition of the Board of Directors enables aggressive management—allowing appropriate risk taking in order to increase corporate value—as well as effective defensive governance by monitoring the risks being taken.

Tokyo Electron has also voluntarily established a Nomination Committee and Compensation Committee within the Board of Directors. The guidelines and policies that guide the activities of these committees are thoroughly discussed by the Board of Directors. Furthermore, in fiscal 2017, we further enhanced our existing succession program to groom candidates for the CEO and other top management positions.

Over the past few years, many Japanese companies have adopted measures to comply with the Corporate Governance Code. This has propelled governance in the country as a whole to a new level of thoroughness. Globally, however, we are seeing continued efforts to make governance even stronger, such as stepping up board diversity or bolstering the number of outside directors and effective use of their perspectives. For Tokyo Electron to sustainably grow in the semiconductor and electronics industries, it is extremely important to pursue diversity among both internal and external directors while also ensuring the selection of directors who are best equipped to contribute to corporate growth and shareholder value. As chairman of the board, I will continue working to ensure that Tokyo Electron's governance system helps increase shareholder value and that the Board of Directors operates effectively.

Tetsuo Tsuneishi
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

1. 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.

2. 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 and the diversity expected of both executive directors and independent directors. The current Board of Directors consists of 12 directors, 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, five out of the 17 participants in the Board of Directors meetings, including the Audit & Supervisory Board Members, are outside members, consisting of two 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 due to the combined presence of executive directors, essential for making operational decisions, and outside members, who provide objectivity.

3. Nominations for Director and CEO

Tokyo Electron has established a Nomination Committee to ensure fairness and efficiency 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 CEO is not part of the Nomination Committee, and the authority to propose the election or dismissal of the CEO or directors is entrusted to the Nomination Committee.

4. Director and CEO compensation

Aiming to strengthen its global competitiveness and increase management transparency, Tokyo Electron has adopted a director and executive officer compensation system that is closely linked to performance and shareholder value. The compensation of directors and executive officers comprises a fixed monthly wage and an annual performance-linked bonus.

The Compensation Committee, which comprises three or more directors and includes at least one outside director, conducts an analysis of industry wage levels in and outside Japan, accounting for both monetary and non-monetary aspects of the total compensation package. Based on this comprehensive analysis, the committee proposes a policy and system for the compensation of the Board of Directors and executive officers as well as individual compensation amounts, including bonuses, for the CEO and the representative directors.

In order to better link factors that increase corporate value and shareholder value to compensation, Tokyo Electron has designated the net income attributable to owners of the parent and return on equity (ROE) for the current period as the main calculation benchmarks in the performance-linked compensation system for the CEO and other directors. These are adjusted, as necessary, for extraordinary income/losses and other special factors.

In principle, performance-linked compensation consists of monetary compensation and share-based compensation; the ratio of these two components is roughly 1:1 for directors, and single year performance is appropriately reflected in the performance-linked compensation of the CEO and other directors. Share-based compensation is awarded in the form of stock options 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.

5. Evaluation of the effectiveness of the Board of Directors

Each year, based on an evaluation survey filled out by the Board of Directors and Audit & Supervisory Board Members, the Board of the Directors analyzes and evaluates its own effectiveness through discussions, mainly involving the outside directors and outside Audit & Supervisory Board Members, as well as separate discussions involving the entire Board of Directors. The board then discloses a summary of the results.

Tokyo Electron's Board of Directors receives regular reports from the CEO and other executive directors and designates issues for discussion at each board meeting. The directors and Audit & Supervisory Board Members actively discuss these reports and issues based on their diverse viewpoints and experiences. Meeting participants exchange opinions in an open, unrestrained manner and engage in real debate. As a benefit of this thorough discussion, proposals made by executive members may subsequently be amended to reflect the opinions of outside directors and Audit & Supervisory Board Members prior to passage. Tokyo Electron thus believes that its Board of Directors is able to carry out its role appropriately and function effectively.

Based on the insights gleaned from the most recent evaluation, Tokyo Electron is working to make the Board of Directors even more effective. Priorities include expanding time allotted for the discussion of issues related to Group policy and strategy, including major management issues and medium- to long-term management and growth strategies, as well as enhancing opportunities for dialog with the outside directors and outside Audit & Supervisory Board Members. Furthermore, the Board of Directors will continue to discuss and examine its own operation and composition, including questions of diversity.

Does Tokyo Electron have these major components of corporate governance?

Compensation Committee	Yes	Composed of directors, including outside directors and excluding representative directors, or Audit & Supervisory Board Members
Nomination Committee	Yes	Composed of directors, excluding the CEO, or Audit & Supervisory Board Members
Outside directors	Yes	Two of the 12 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
Performance-linked compensation system	Yes	
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	

Messages from the Outside Directors

Outside Director

Hiroshi Inoue

Currently serving as honorary chairman and director and previously as chairman of Tokyo Broadcasting System Holdings, Inc., Mr. Inoue possesses a wealth of experience and insight in corporate management.

Tokyo Electron should be very proud of its excellent performance in fiscal 2017.

The semiconductor production equipment industry is subject to major market ups and downs. I greatly admire the work of President Kawai, the rest of Company's executives and its employees, which has successfully secured a solid foothold for Tokyo Electron in this volatile environment.

These achievements are, I think, the fruit of the united efforts of the entire Company since the merger with Applied Materials was called off two years ago. At the same time, it is clear to me that the foundation for these results is the outstanding technological prowess and relationships of trust with customers that Tokyo Electron has built up since its founding.

As the internet of things (IoT) expands, the semiconductor industry is undergoing major structural change, making it very difficult to predict demand. To continue to thrive in this market, I believe Tokyo Electron will have to achieve qualitative change in how it interacts with customers. The foundation underpinning this, however, is still the ongoing reinforcement of Tokyo Electron's technological superiority and excellent reputation. I am confident that, through the steady application of such efforts, Tokyo Electron will ultimately increase its corporate value and remain a leader in the semiconductor industry as the industry continues to expand.

I look forward to seeing where Tokyo Electron is going next, and I will do my utmost to help it get there.

Outside Director

Charles Ditmars Lake II

Serving as chairman and representative in Japan of American Family Life Assurance Company of Columbus, and also as president of Aflac International, Incorporated, Mr. Lake has a great deal of experience and knowledge in corporate management bridging Japan and the United States.

Heightened economic uncertainty has led to an increasingly challenging global business environment amid factors including geopolitical turmoil, critical elections in Europe, and the anti-globalist challenge to the Bretton Woods system. Against this backdrop, and as stakeholder expectations continue to evolve, this is an era in which robust corporate governance is more critical than ever for global businesses to continue to achieve sustainable growth.

Tokyo Electron was an early adopter of corporate governance systems consistent with global best practices. Indeed, as Japan moves toward a major turning point in its corporate governance environment, Tokyo Electron has continued to set an example, earning it a strong reputation among market participants.

Last year, I began my role as an independent outside director, wanting to play a part, however small, in further enhancing Tokyo Electron's corporate value. Since then, both in and out of Board meetings, I have been engaged in active and meaningful discussions with internal directors, Audit & Supervisory Board Members, and outside directors on important business matters related to medium- to long-term human capital development and exploring initiatives to take corporate governance systems to the next level. In order to fulfill my duties as an independent outside director, based on Tokyo Electron's basic policy, I will strive to proactively raise issues from an objective and professional standpoint. Looking back on the activities of the past year, I am convinced that Tokyo Electron's corporate governance system is substantially effective in both form and function.

In fulfilling my duties as an independent outside director, I will continue working to contribute to the development of an even stronger corporate governance system, underpinning a new start for Tokyo Electron to become a truly global company.

Messages from the Outside Audit & Supervisory Board Members

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.

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.

Internal Control System and Risk Management

Basic Stance

In order to enhance the Tokyo Electron Group's corporate value and remain accountable for our actions to our stakeholders, we are making efforts to strengthen effective internal control. This involves implementing practical measures that are in line with the Fundamental Policies concerning Internal Controls within the Tokyo Electron Group, set out by Tokyo Electron's Board of Directors. We are also annually evaluating our internal control over financial reporting based on the Financial Instruments and Exchange Act of Japan.

Risk Management System

To more effectively strengthen the internal control and risk management systems of the entire Group, Tokyo Electron has established a dedicated risk management and internal control function within the General Affairs Department of the corporate headquarters. This function analyzes the risks faced by the Group and identifies material risks. It then monitors the management of such risks while supporting and implementing risk management activities. The function also regularly reports the status of risk management activities to the Audit & Supervisory Board Members and the Board of Directors.

In fiscal 2017, the Group reassessed the material risks in its operating environment. For each risk determined to be material, the status of risk management at the responsible divisions was reconfirmed. Going forward, the Group will continue these initiatives to enhance the efficacy of its risk management framework.

Auditing by the Internal Audit Department

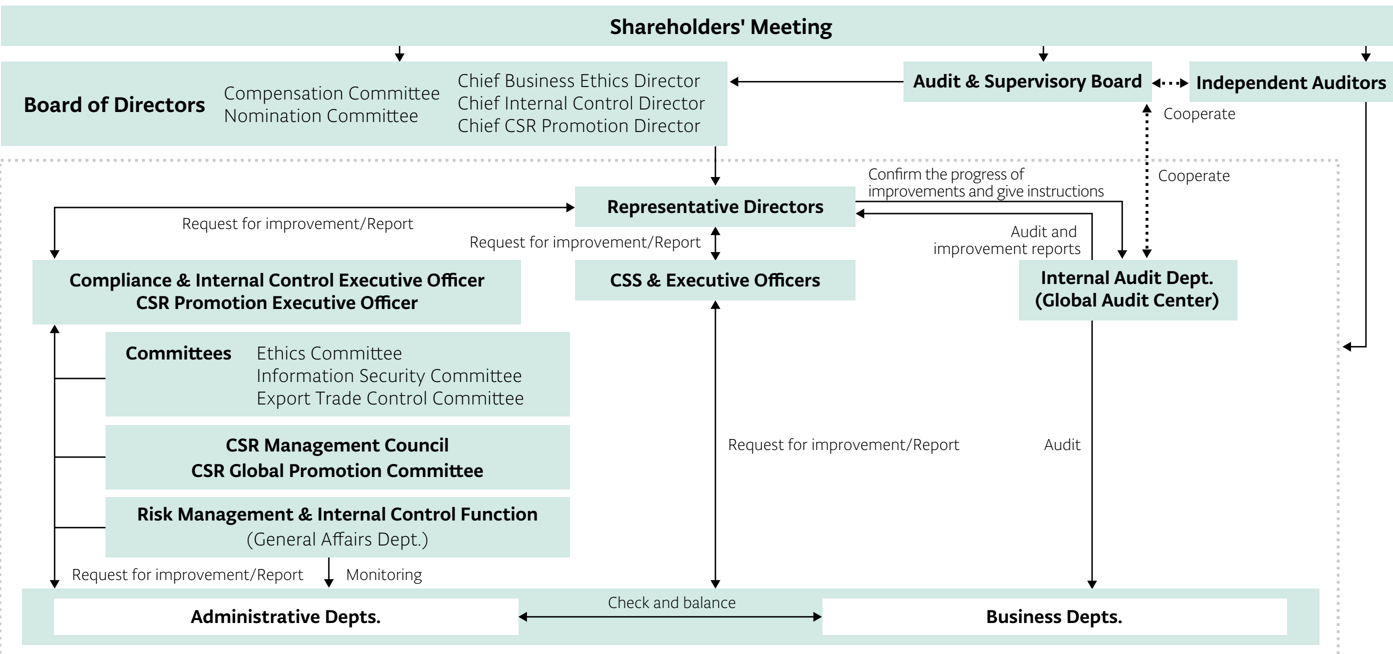
The Global Audit Center of the corporate headquarters is the Group's internal audit department. This Center is responsible for auditing business activities, compliance and systems at domestic and overseas Group companies and business units (BUs) in accordance with each fiscal year's auditing plan. The Center also annually evaluates the effectiveness of the Group's internal control over financial reporting based on the Financial Instruments and Exchange Act of Japan.

At operating divisions where issues have been identified through audits and assessments, the Center monitors progress and provides necessary guidance for improvement.

Business Continuity Plans (BCPs)

The Tokyo Electron Group began building business continuity plans in 2003. After the Great East Japan Earthquake, the Group rebuilt these plans to be more effective and include provisions for restoring operations after crises, focusing on major business sites. As examples of specific initiatives, the Group has put considerable effort into such preparations for disasters as stockpiling emergency supplies (including food and drinking water), reinforcing essential infrastructure, rebuilding the safety confirmation system, creating manuals, and implementing drills and employee training.

Corporate Governance Framework, Internal Control System and Risk Management System



Message from the Outside Audit & Supervisory Board Member

Outside Audit & Supervisory Board Member

Takatoshi Yamamoto

Mr. Yamamoto has extensive experience as a securities analyst covering the electronics industry as well as expert knowledge of global finance and accounting. He is concurrently serving as an outside director at Hitachi, Ltd.

I have now served as an outside Audit & Supervisory Board Member for four years, beginning in 2013. The initial two year period was marked by work toward the planned merger with Applied Materials. The next two years, after the merger was called off, have been focused on charting a new course for Tokyo Electron. During these four years, the importance of strengthening corporate governance has been the subject of much discussion across Japan, including questions related to earnings power, the sustained improvement of corporate value and effective institutional design. These crucial issues have also received careful consideration at Tokyo Electron as the Company marked a new beginning, aiming to maintain a healthy sense of urgency while evolving into a truly global company that boasts world-class profitability.

Tokyo Electron has been able to do this thanks to its highly effective Board of Directors. The board has vigorously debated subjects including lessons learned from the merger process, technological innovation in semiconductor production, the development of new technologies and products, operational efficiency, the numerical targets of the medium-term management plan, and new measures to return profits in order to raise shareholder value. The board continues to strive to reflect these discussions in business execution and ensure the effective oversight and monitoring of the resulting developments.

As global business prospects expand, opportunities to grow Tokyo Electron's profitability and corporate value to world-class levels through the effective combination of such aggressive management and careful oversight are emerging. As an outside Audit & Supervisory Board Member, I will strive to remain highly alert, diligently analyzing risks in and outside the Group from an objective standpoint. I will work to increase the overall effectiveness of audits through a three-pronged approach, in conjunction with the Internal Audit Department and accounting auditors, and provide oversight and monitoring to ensure proper corporate behavior. I believe that doing these things is the key to meeting the expectations of shareholders and other stakeholders.

Messages from the Outside Audit & Supervisory Board Members

Furthermore, to meet its responsibilities as an equipment manufacturer, the Group pursues ongoing efforts to improve its BCPs, including taking steps to facilitate early recovery and alternate production.

When the Kumamoto Earthquake struck in April 2016, the Group was able to respond with speed and precision based on the BCP it had prepared.

Information Security Management

To ensure the appropriate management of information assets, the Group has an information management framework centered on its Information Security Committee, which is composed of representatives from departments across the Group.

The Information Security Committee acts as a decision-making body for the Group. Rules concerning the handling and protection of such sensitive information as trade secrets and personal information are formulated based on the committee's policy and applied throughout the Group. An e-learning system is used to educate and promote awareness of these rules among Group employees and executives.

Additionally, the Group has a reporting system for both actual and potential cases (incidents) of information leakage. Reported incidents are quickly settled and then analyzed. Based on such analyses, recurrence prevention measures are implemented throughout the Group.

In order to mitigate emerging cyber security threats, the Group examines and undertakes rational countermeasures as necessary. The Group also has in place systems to detect targeted threats that utilize social engineering as well as a supervisory framework to prevent damage.

Business Ethics and Compliance

Basic Stance

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

Business Ethics

In 1998, Tokyo Electron formulated the Code of Ethics of the Tokyo Electron Group as a set of uniform standards to govern all of its global business activities. In the same year, the Company appointed a Chief Business Ethics Director and established the Ethics Committee, which is responsible for promoting business ethics awareness throughout the Tokyo Electron Group. The Ethics Committee comprises the Chief Business Ethics Director, the Ethics Committee Chairman, and presidents of major Group companies in and outside Japan. The members meet semiannually, report on ethics-related issues facing each company, and discuss measures to further improve ethical behavior and compliance.

The Code of Ethics is reviewed in response to changes in the expectations of society. In January 2015, an anti-corruption statement was added to its introduction based on Principle 10 of the UN Global Compact, which concerns working against corruption including extortion and bribery. In August 2016, the Group revised the Code of Ethics in light of the Code of Conduct of the EICC®* and broader social changes.

The Tokyo Electron Group's Code of Ethics and its Q&A section are published in Japanese, English, Korean and Chinese and disclosed on the intranet to enable all Group executives and employees, including those overseas, to view them at any time. The Code of Ethics is also publicly accessible from the corporate website.

http://www.tel.com/ir/policy/compliance/ethical.htm

* EICC is a registered trademark of Electronic Industry Citizenship Coalition Incorporated.

Compliance System

Tokyo Electron has appointed a Compliance & Internal Control Executive Officer from among its executive officers to raise awareness of compliance across the Group and further improve Group-wide compliance. Each Group company has also drawn up its own compliance regulations, setting out basic compliance-related requirements in line with the Code of Ethics. The compliance regulations are intended to ensure that all individuals who take part in the business activities of the Tokyo Electron Group clearly understand the pertinent laws and regulations, international standards and internal company rules, and consistently apply these rules in all of their activities.

Compliance Education

Through the Group's e-learning system, we provide web-based training programs covering the basics of compliance, export-related compliance, protection of personal information, the Act for Subcontracting and other topics. All executives and employees are required to complete these programs. In addition, other web-based programs tailored to specific positions and job roles are also available, including those on insider trading and the Social Security and Tax Number System.

We also have a quiz-based business ethics and compliance education course, launched in fiscal 2014, for all Group executives and employees. Updated yearly, the quiz is intended to maintain compliance awareness throughout the Group and disseminate the latest information.

In addition to these web-based courses, we organized in-house seminars in fiscal 2017 for Corporate Directors and executive officers on the subjects of compliance and internal control.

Internal Reporting System

The Tokyo Electron Group has an internal reporting system that employees can use to report any activity suspected of being in breach of laws, regulations or business ethics. An ethics hotline and a compliance hotline have been established to receive reports from all Group companies, and each overseas location also has its own reporting system. In all instances, the system ensures that whistleblowers remain anonymous and are protected from any disadvantage or repercussions.

There were no reports or cases of non-compliance with laws, regulations, or principles of ethics in fiscal 2017 that could have had a material impact on the Group's business or local communities.

Message from the Outside Audit & Supervisory Board Member

Outside Audit & Supervisory Board Member

Ryuji Sakai

Serving as a partner at Nagashima Ohno & Tsunematsu, Mr. Sakai possesses abundant experience and expert knowledge as an attorney at law specializing in the Companies Act, M&A, and international transactions.

One of Tokyo Electron's defining strengths is the way the Company brings together insights derived from front-line experience to drive business development, unleashing the maximum benefits of long-standing Japanese manufacturing practices. Tokyo Electron is deeply committed to the semiconductor industry. With the arrival of the internet of things (IoT), this industry has been undergoing dramatic development. Going forward, within this industry, the role that Tokyo Electron plays—as well as the business opportunities available to it—will only grow.

Given this environment, to meet shareholder expectations by continuously expanding corporate value, Tokyo Electron must make full use of its strengths as a representative of Japanese manufacturing with an outstanding customer reputation.

At the same time, management must be willing to take bold risks when necessary. It is also extremely important to proactively work to meet the expectations that exist for a global company such as Tokyo Electron, including further enhancing compliance frameworks and employee diversity.

Fortunately, Tokyo Electron's leadership is comprised of ambitious, flexibly thinking individuals. The Board of Directors freely engages in open and vigorous discussion, and the Company is set up to facilitate the aggressive management decision making necessary for growth. I will continue to carry out my duties as an Audit & Supervisory Board Member, particularly in the area of defensive governance. By doing so, I hope to contribute to Tokyo Electron's ongoing growth.

CSR-Oriented Operations

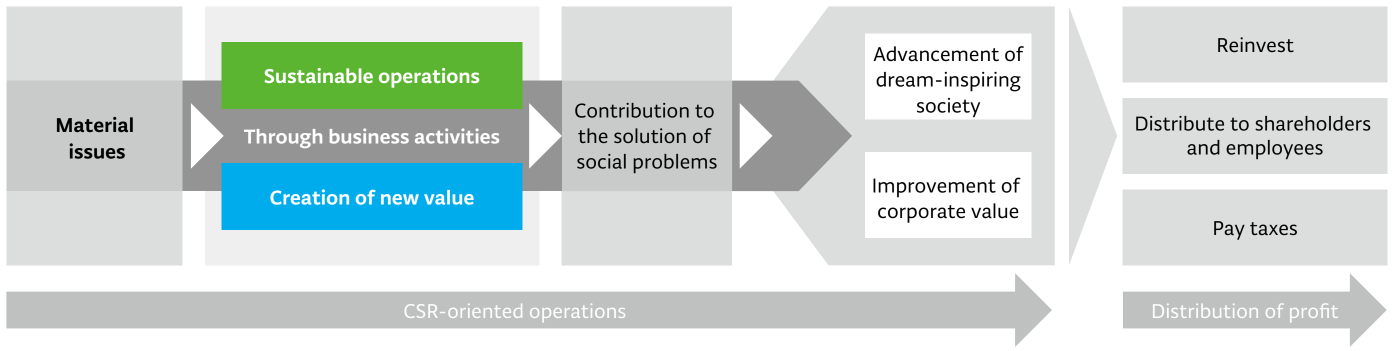
CSR Policy

Tokyo Electron considers CSR to be the embodiment of its Corporate Philosophy, which has been firmly upheld since the Company's founding. Tokyo Electron pursues sustainable operations from the viewpoints of corporate governance, legal and regulatory compliance and business ethics while creating new value through its products and services.

Based on these efforts, the Company implements CSR activities to help address social issues. Tokyo Electron will continue to pursue CSR activities to build stakeholder trust, improve corporate value and, by doing so, promote the growth of a sustainable and dream-inspiring society.

Corporate Philosophy

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



CSR Promotion Framework

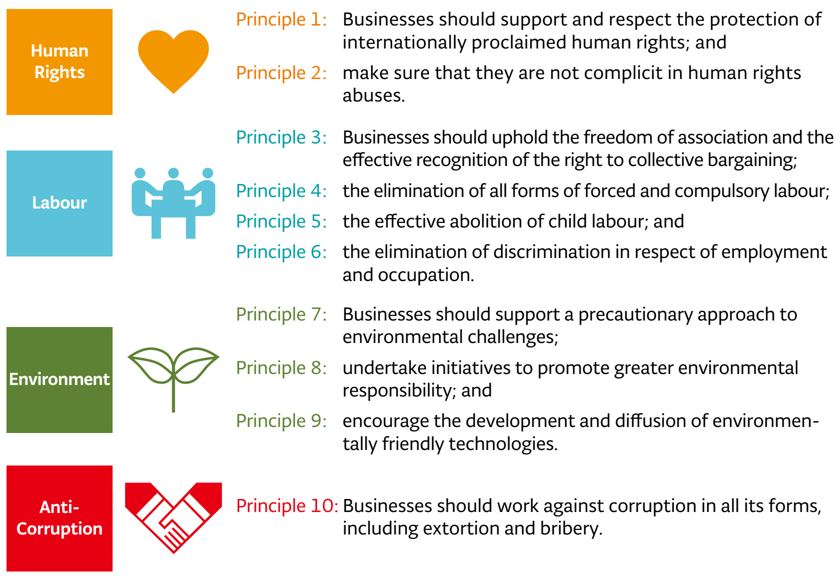
Tokyo Electron implements CSR activities on a global basis, including domestic and overseas affiliates, from a medium- to long-term perspective. To back up these CSR activities, the Company has established the following three bodies composed of members from top management to department representatives. The CSR Management Council is convened twice annually and functions as the Group's highest decision-making body for CSR-related issues. The council approves Group-wide policy and considers the most important CSR matters. Also assembling twice a year, the CSR Global Promotion Committee sets CSR targets and implements of global projects. Furthermore, at the CSR Monthly Meeting, representatives from each division share information related to CSR activities as part of a responsive framework for promoting CSR initiatives across divisions.

Body	Participants	Functions	Meeting frequency
CSR Management Council	• Chairman of the Board • President & CEO • Directors and general managers	• Approve Group-wide CSR policy • Discuss important CSR matters	Twice annually
CSR Global Promotion Committee	• Chief CSR Promotion Director • Heads of related departments • CSR officers of affiliates and overseas companies	• Set CSR targets • Implement global projects	Twice annually
CSR Monthly Meeting	• Persons in charge of CSR at each division	• Share information on CSR activities • Discuss cross-divisional CSR initiatives	Monthly

Participation in International CSR Initiatives

Tokyo Electron is a member of the UN Global Compact, a global CSR initiative, and the EICC, an electronic industry CSR alliance. The Company complies with these initiatives' codes of conduct and principles in areas regarding such issues as human rights, labor, environment, safety and health, ethics and corruption prevention. By doing so, Tokyo Electron strives to maintain a sustainable management platform.

The Ten Principles of the UN Global Compact



EICC Framework (Five Sections)

Stakeholder Engagement

Building firm stakeholder trust is essential to raising corporate value. To help stakeholders more deeply understand the progress of the Company's business initiatives and the future direction of its business, Tokyo Electron discloses highly transparent information in a fair and timely manner through regular briefings and its corporate website. The Company also works to accurately understand the opinions and demands of stakeholders and to reflect these in its business activities through dialog, surveys and designated contact points. We will continue to actively promote stakeholder engagement, using it to appropriately inform decision making in the course of everyday business activities, and thus further raise corporate value.

Identifying Material Issues

Based on the expectations and requests communicated by stakeholders and on the social and environmental challenges surrounding the sustainability of its businesses, Tokyo Electron has identified issues that are material to the medium- and long-term improvement of its corporate value. Accordingly, CSR goals have been set to address these issues.

Material Issues

Enhancing product competitiveness

In the industries in which Tokyo Electron operates, technological innovation advances very quickly. The Company must keep pace with this innovation while continuously offering high-value-added products that accommodate next-generation technologies. By globally engaging in cutting-edge technological development, the Company releases competitive products in a timely manner.

CSR-Oriented Operations

Reinforcing responsiveness to customers

As new markets emerge—most notably those created by the internet of things (IoT)—customer demands are diversifying, and expectations for equipment performance are rising. Accurately understanding customer needs and delivering solutions that meet these needs is crucial. We strive to reinforce our responsiveness to customers so that they will see us as an irreplaceable strategic partner.

Strengthening earnings power

Profit is the engine that advances business activities. The Company works to continuously generate profit by providing high-value-added products and services, and improving business processes. The ongoing generation of profit drives virtuous cycles, including reinvestment in business and the return of value to shareholders, employees and society at large, helping to make both the Company and society more sustainable.

Invigorating people and workplaces

People are an especially important management resource. Employees who feel purpose in their work and take pride in their company help to increase productivity and power corporate development. By promoting diverse work styles and helping employees build their careers, we are increasing employee engagement and invigorating our people and workplaces.

Fiscal 2018 CSR Goals

For the fiscal year ending March 2018, Tokyo Electron has set 17 goals related to 5 material issues and is working to achieve them.

Material issues	Themes	Main fiscal 2018 goals	Medium-term goals	Relevant SDGs
Enhancing product competitiveness	Technological innovation aimed at creating value	• Ensure that 5% or more (three-year moving average) of all equipment models are new products for next-generation technologies. • Maintain the previous year's global patent application rate.	Create highly competitive next-generation products	9, 13
	Environmental contribution of products	Reduce per-wafer consumption of energy and pure water by 10% by fiscal 2019 (as compared with fiscal 2014).		
Reinforcing responsiveness to customers	Accurate grasp of customer needs	Get 3 points ("Satisfied") or more on 100% of customer satisfaction survey items.	Become an irreplaceable strategic partner	9, 12
	Solutions that create value for customers	• Increase Tokyo Electron's value to customers. • Increase field solutions business sales from the fiscal 2017 level.		
Strengthening earnings power	High quality products	• Reduce quality improvement costs from the fiscal 2017 level.	Improve operational efficiency	12
	Increase added value of processes	• Revise business processes to reduce man-hours used for sales operations from the fiscal 2017 level.		
Invigorating people and workplaces	Human rights and diversity	• Retain 100% of new employees for at least three years. • Reach 70% paid vacation usage. • Increase the use of the Group's "Pep Up" healthcare platform from the fiscal 2017 level.	Maximize dreams and drive	3, 8
	Work-life balance			
	Human resource development			
	Health			
Establishing a sustainable management foundation	Corporate governance	• Improve on issues identified in evaluations of the effectiveness of the Board of Directors. • Revise the internal reporting system (set up new external hotlines, revise range of persons covered, etc.).	Build a management foundation for increasing value	8, 13, 16
	Safety management	Ensure that the number of workplace injuries per 200,000 work hours (the total case incident rate) is less than 0.5.		
	Environmental management	• Reduce energy consumption by 1% on a per-unit basis* from the fiscal 2017 level. • Maintain water consumption at the fiscal 2012 level (on a per-unit basis*). * Per-unit basis: Energy consumption (environmental burden) divided by values closely associated with energy consumption, such as production volume, number of employees or total floor area		
	Supply chain management	Implement supply chain CSR assessments for 80% or more of suppliers (procurement volume basis).		

Establishing a sustainable management foundation

The establishment of a solid management foundation that underpins corporate activities is key to sustainable growth. To create new value through our business and help address social issues, we steadily operate a highly effective governance structure. By doing so, the Company implements sound, highly transparent management.

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 CEO and CFO 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 CEO and CFO 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 CEO and CFO 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 and mails a Notice of Annual General Meeting of Shareholders to shareholders more than three weeks in advance of the meeting as part of its measures to vitalize these meetings and to promote smooth and efficient voting. In addition, shareholders are free to cast their votes via the internet, and the Company 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 notices, resolutions, voting results and presentation materials of shareholders' meetings.

For more details, please refer to the Tokyo Electron Corporate Governance Guidelines.

http://www.tel.com/ir/policy/cg/document/index_02.pdf

Third-Party Recognition

Tokyo Electron's medium- and long-term initiatives to increase its corporate value have been recognized by world-leading socially responsible investment (SRI) institutions.

In fiscal 2017, Tokyo Electron was selected for inclusion in the DJSI* Asia Pacific 2016. The Company also received the Bronze Class distinction in the RobecoSAM Sustainability Award 2017. Furthermore, the Company was once again selected as a constituent of the U.K.-based FTSE Group's FTSE4Good** Global Index.

* DJSI (Dow Jones Sustainability Indices): Environmental, social and governance (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.

** FTSE4Good: An index related to environmental performance and corporate social responsibility developed by the U.K.-based FTSE Group

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

ROBECOSAM Sustainability Award Bronze Class 2017

FTSE4Good

Directors, Audit & Supervisory Board Members and Executive Officers (As of July 1, 2017)

Directors

Tetsuo Tsuneishi
Representative Director
Chairman of the Board

Toshiki Kawai
Representative Director
President & CEO

Tetsuro Hori
Representative Director
CFO
Internal Control

Sadao Sasaki
Corporate Director

Hirofumi Kitayama
Corporate Director

Masami Akimoto
Corporate Director

Gishi Chung
Corporate Director

Tatsuya Nagakubo
Corporate Director
Business Ethics, CSR Promotion

Kiyoshi Sunohara
Corporate Director

Tetsuro Higashi
Corporate Director
Corporate Advisor

Hiroshi Inoue*
Corporate Director
Honorary Chairman, Tokyo Broadcasting System Holdings, Inc.

Charles Ditmars Lake II*
Corporate Director
Chairman and Representative in Japan, American Family Life Assurance Company of Columbus
President, Aflac International, Incorporated

* Outside Director

Audit & Supervisory Board Members

Yoshiteru Harada
Audit & Supervisory Board Member

Yoshikazu Nunokawa
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

Executive Officers

Tetsuo Tsuneishi
Chairman of the Board

Toshiki Kawai
President & CEO, GM, Business Division

Tetsuro Hori
CFO, EVP & GM, Finance, Legal & IT Division, Accounting, Finance, Intellectual Property, Compliance & Internal Control

Sadao Sasaki
EVP & GM, Development & Production 1st Division
President, Tokyo Electron Technology Solutions Ltd.

Hirofumi Kitayama
EVP & GM, Development & Production 2nd Division, EHS, Quality, Procurement Division
President, Tokyo Electron Miyagi Ltd.

Masami Akimoto
EVP & GM, Development & Production 3rd Division
President, Tokyo Electron Kyushu Ltd.

Gishi Chung
SVP & GM, Technology Strategy Division

Tatsuya Nagakubo
SVP & GM, Human Resources & General Affairs Division, Human Resources, General Affairs, CSR Promotion

Kiyoshi Sunohara
SVP & GM, FS BU

Hideyuki Tsutsumi
SVP & GM, Global Field Division
President, Tokyo Electron FE Ltd.

Takeshi Okubo
SVP & Deputy GM, Global Field Division,
VP, Planning of Region Strategy Division

Barry Mayer
SVP & GM, Global Strategy

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

Seisu (Yoh) Ikeda
SVP & Deputy GM, Business Division
GM, CTSPS BU

Kenji Washino
SVP & GM, ATS BU

Yoshinobu Mitano
SVP & GM, ES BU

Yoshifumi Tahara
SVP & GM, Development & Production 4th Division

Masahiko Hamajima
VP & GM, Corporate Strategy

Takeo Sasaki
VP & GM, Legal, Export & Logistics Control

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

Masayuki Kojima
VP & Deputy GM, Development & Production 2nd Division

Akihisa Sekiguchi
VP & GM, Advanced Semiconductor Technology Division

Kazushi Tahara
VP & GM, System Development

Toshihiko Nishigaki
VP & GM, Advanced Semiconductor Technology Division, Business Innovation
President, TEL FSI, Inc.

Shingo Tada
VP &GM, TFF BU

Tsuguhiko Matsuura
VP & GM, FPD BU

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

Financial Review

Sales and Income

Operating Environment

The overall world economy in fiscal 2017 saw gradual recovery, with ongoing gentle expansion in the U.S. economy and signs of recovery in China. In the electronics industry, capital investment by semiconductor manufacturers was strong. This was due to growth in demand for data center servers, reflecting increases in data transmission volumes driven by the arrival of the internet of things (IoT), as well as the growing sophistication of smartphones. As a result, the wafer fab equipment market, in which Tokyo Electron operates, grew more than 10% year on year to US$37 billion. At the same time, the display industry also saw active capital investment aimed mainly at manufacturing higher resolution panels for mobile devices. Accordingly, the market for flat panel display (FPD) production equipment was brisk, surpassing US$10 billion for the first time since 2011.

Sales

Net sales in fiscal 2017 rose 20.4% year on year to ¥799.7 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 22.3% year on year to ¥749.8 billion. Net sales in the FPD production equipment segment grew 10.5% year on year to ¥49.3 billion. For details on performance by segment, please refer to Review of Operations and Business Outlook on page 9. Furthermore, net sales in the field solutions business (encompassing sales of parts and used equipment, modifications and maintenance services) rose 12% year on year to approximately ¥208.0 billion, accounting for 26% of overall net sales.

Gross Profit, SG&A Expenses and Operating Income

Gross profit in fiscal 2017 was up 20.6% year on year to ¥322.2 billion, reflecting the growth in net sales. However, the gross profit margin rose only 0.1 of a percentage point to 40.3%, as profitability gains from increased factory utilization were partially offset by investment in growth aimed at reinforcing product competitiveness.

SG&A expenses rose 10.8% year on year to ¥166.5 billion, but the ratio of SG&A expenses to consolidated net sales dropped 1.8 percentage points from the previous fiscal year to 20.8% in the fiscal year under review. Consequently, operating income increased 33.3% year on year to ¥155.6 billion, and the operating margin rose 1.9 percentage points to a record high of 19.5%. As this shows, the Group made progress toward its medium-term management plan target of an operating margin of 24–26%, including reducing the ratio of SG&A expenses to consolidated net sales.

R&D Expenses

R&D expenses were up 9.8% year on year to ¥83.8 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, all of which are especially important in terms of differentiating the Company's products going forward.

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 released a new single wafer deposition system and increased its market share in all of its key product areas, making tangible progress toward the goals of the medium-term management plan.

In FPD production equipment, Tokyo Electron primarily advanced development of products for new generation 10.5/11 panels, which are expected to see rapid market growth going forward.

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

During fiscal 2017, net other expenses came to ¥6.5 billion, reflecting ¥7.5 billion in loss on disaster related to the Kumamoto Earthquake and ¥1.0 billion in interest and dividend income. As a result, income before income taxes came to ¥149.1 billion, up 40.1% year on year. Net income attributable to owners of the parent totaled ¥115.2 billion in fiscal 2017, up 47.9% from fiscal 2016. Net income per share rose 52.3% year on year to ¥702.26.

Comprehensive income

In fiscal 2017, Tokyo Electron recognized comprehensive income of ¥119.9 billion, up from ¥61.0 billion in fiscal 2016. This was mainly due to the ¥115.2 billion in net income, ¥2.8 billion in unrealized gains on investment securities related to strategically held shares, and ¥2.6 billion in gain on remeasurements of defined benefit plans due to an increase in the discount rate used to calculate retirement benefits as a result of rising 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. Furthermore, with an eye to ensuring stable dividends, a lower limit of ¥150 per share has been set on annual dividends.* Reflecting the Company's strong sales and profit growth, Tokyo Electron paid annual dividends for fiscal 2017 of ¥352 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.

* 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

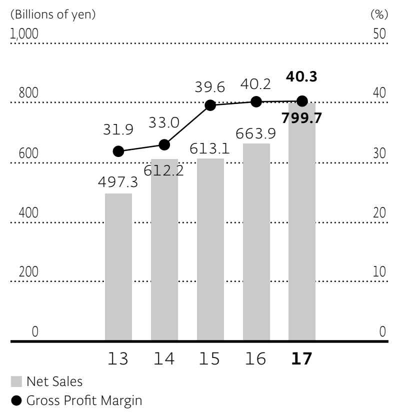
Assets, Liabilities and Net Assets

■ Assets

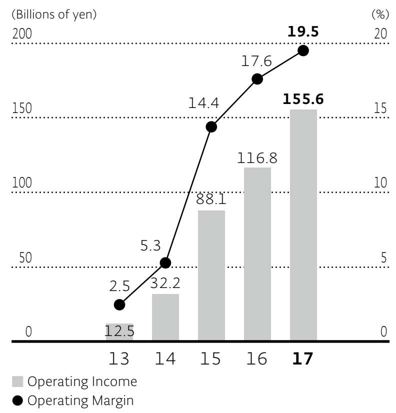
Current assets increased ¥158.5 billion from the end of the previous fiscal year to ¥775.9 billion, reflecting

Sales and Income	2013	2014	2015	2016	2017
			Millions of yen		
Net sales	¥497,300	¥612,170	¥613,125	¥663,949	¥799,719
Gross profit	158,755	201,892	242,774	267,210	322,291
Gross profit margin	31.9%	33.0%	39.6%	40.2%	40.3%
Selling, general and administrative expenses	146,206	169,687	154,661	150,421	166,594
Operating income	12,549	32,205	88,113	116,789	155,697
Operating margin	2.5%	5.3%	14.4%	17.6%	19.5%
Income (loss) before income taxes	17,767	(11,756)	86,828	106,467	149,116
Net income (loss) attributable to owners of parent	6,076	(19,409)	71,888	77,892	115,208

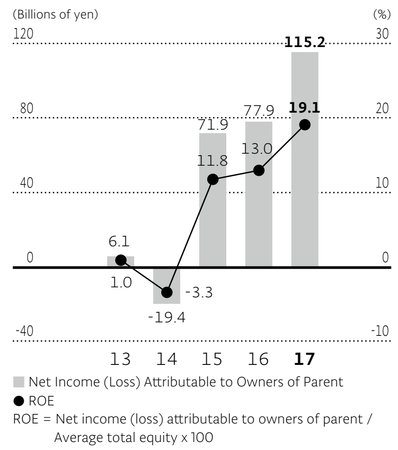
■ Net Sales and Gross Profit Margin



■ Operating Income and Operating Margin



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



Financial Review

a ¥78.6 billion increase in cash on hand* due to the generation of ¥118.0 billion in free cash flow,** a ¥41.1 billion increase in inventories due to increased production to meet robust demand from semiconductor and display manufacturers, and a ¥17.3 billion increase in trade notes and accounts receivable. The turnover period for trade notes and accounts receivable in fiscal 2017 was 61 days, compared with 64 days in fiscal 2016, and the inventory turnover period in fiscal 2017 was 108 days, compared with 107 days in fiscal 2016.

Net property, plant and equipment increased ¥4.1 billion year on year to ¥100.4 billion. This was largely due to ¥20.6 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. These and other positive factors more than offset ¥17.8 billion in depreciation and amortization.

Investments and other assets increased ¥1.4 billion year on year to ¥81.0 billion.

As a result, total assets as of March 31, 2017 stood at ¥957.4 billion, up ¥164.0 billion year on year.

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

** 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 ¥81.7 billion from the end of fiscal 2016 to ¥247.7 billion at the end of fiscal 2017. This was mainly due to a ¥34.4 billion increase in customer advances, a ¥24.1 billion increase in trade notes and accounts payable, a ¥10.2 billion increase in accrued employees' bonuses and an ¥8.6 billion increase in income taxes payable.

Non-current liabilities increased ¥0.6 billion year on year to ¥63.6 billion.

Net assets came to ¥645.9 billion at the end of fiscal 2017, up ¥81.7 billion from the end of fiscal 2016. This was mainly due to a ¥75.7 billion increase in retained earnings, reflecting the recording of ¥115.2 billion in net income attributable to owners of the parent and ¥39.3 billion paid in cash dividends (¥18.3 billion for the fiscal 2016 year-end dividend and ¥20.9 billion for the fiscal 2017 interim dividend).

As a result, the equity ratio fell 3.7 percentage points year on year to 67.2% at the end of March 2017. ROE climbed to 19.1% from 13.0% in fiscal 2016.

Capital Expenditures* and Depreciation and Amortization**

Capital expenditures totaled ¥20.6 billion in fiscal 2017, a 55.1% 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 decreased 7.2% to ¥17.8 billion.

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

** 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 2017 stood at ¥164.3 billion, an increase of ¥68.7 billion from the end of fiscal 2016. 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 ¥78.6 billion year on year to ¥315.3 billion at the end of March 2017. Cash flows during the fiscal year under review were as follows.

Net cash provided by operating activities came to ¥136.9 billion, up ¥67.5 billion from fiscal 2016. Major contributors were ¥149.1 billion in income before income taxes, a ¥34.4 billion increase in customer advances, a ¥24.0 billion increase in trade notes and accounts payable, and ¥17.8 billion in depreciation and amortization. Major negative factors included a ¥44.1 billion increase in inventories, ¥32.6 billion in income taxes paid, and a ¥17.4 billion increase in trade notes and accounts receivable.

Net cash used in investing activities was ¥28.8 billion, compared with ¥150.0 billion used in the previous fiscal year. Major outflows included ¥17.5 billion used as payment for purchases of property, plant and equipment and a ¥9.9 billion net increase in short-term investments.

Net cash used in financing activities came to ¥39.3 billion, compared with ¥138.6 billion in fiscal 2016. This was mainly attributable to ¥39.3 billion in dividends paid.

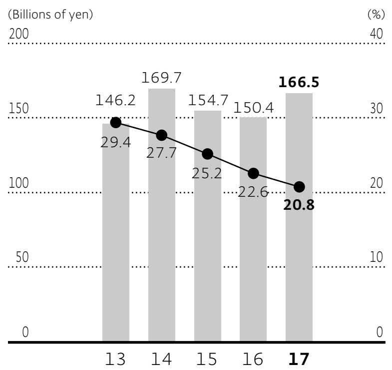
Millions of yen

Financial Position	2013	2014	2015	2016	2017
Total current assets	¥521,501	¥621,492	¥670,883	¥617,416	**¥775,938**
Net property, plant and equipment	135,698	112,344	106,896	96,317	**100,441**
Total investments and other assets	118,329	94,756	98,375	79,635	**81,067**
Total assets	775,528	828,592	876,154	793,368	**957,447**
Total current liabilities	106,670	170,510	172,812	166,061	**247,770**
Total liabilities	170,401	237,978	234,991	229,129	**311,447**
Total net assets (Total shareholders' equity)	605,127	590,614	641,163	564,239	**645,999**

Millions of yen

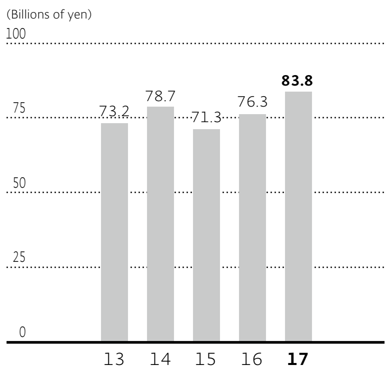
Cash Flows	2013	2014	2015	2016	2017
Cash flows from operating activities	¥ 84,267	¥ 44,449	¥ 71,806	¥ 69,398	**¥136,948**
Cash flows from investing activities	(141,769)	(19,599)	155,738	(150,014)	**(28,893)**
Cash flows from financing activities	(10,625)	(187)	(18,214)	(138,601)	**(39,380)**
Cash and cash equivalents at end of year	85,314	104,797	317,632	95,638	**164,366**

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

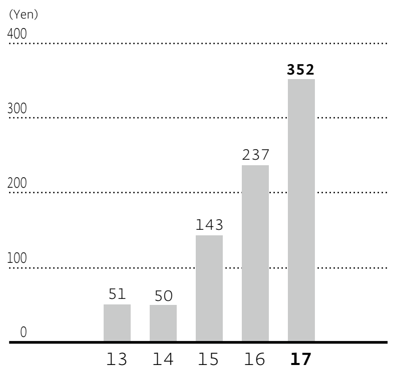


■ Selling, General and Administrative Expenses
● Ratio to Net Sales

■ R&D Expenses

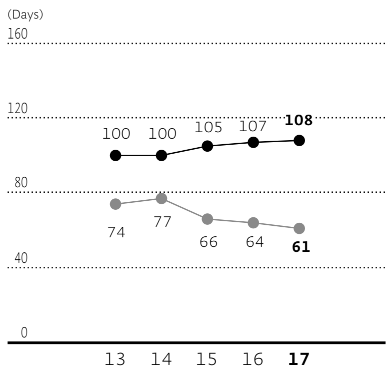


■ Cash Dividends per Share



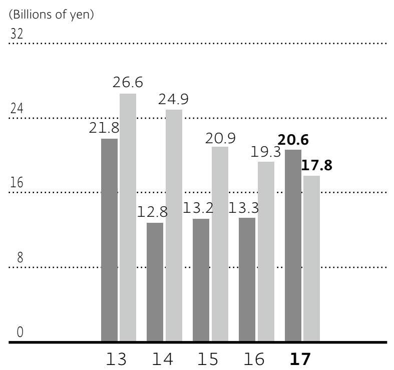
The fiscal 2013 annual dividend of ¥51 includes a commemorative 50 year anniversary dividend of ¥20.

■ Receivable Turnover and Inventory Turnover



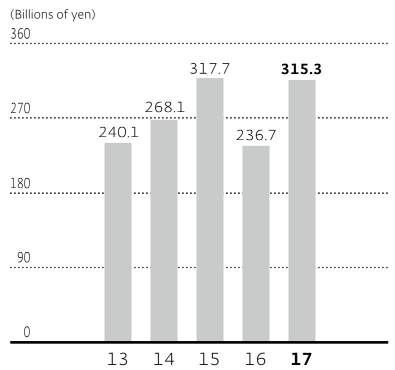
● Receivable Turnover
● Inventory Turnover

■ Capital Expenditures and Depreciation and Amortization



■ Capital Expenditures
■ Depreciation and Amortization

■ Cash on Hand



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

Financial Review

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) 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										
	2017	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Net sales[1]	$7,128,260	¥799,719	¥663,949	¥613,125	¥612,170	¥ 497,300	¥ 633,091	¥ 668,722	¥ 418,637	¥ 508,082	¥ 906,092	¥ 851,975
Semiconductor production equipment	6,684,140	749,893	613,033	576,242	478,842	392,027	477,873	511,332	262,392	325,383	726,440	642,625
FPD production equipment	440,210	49,387	44,687	32,710	28,317	20,077	69,889	66,721	71,361	88,107	68,016	100,766
PV production equipment	—	—	—	3,618	3,806	83	—	—	—	—	—	—
Computer networks	—	—	—	—	—	—	—	—	—	—	—	19,169
Electronic components and computer networks	—	—	—	—	100,726	84,665	84,868	90,216	84,473	94,207	111,181	88,294
Other	3,910	438	6,229	555	479	448	461	453	411	385	455	1,121
Operating income (loss)	1,387,798	155,697	116,789	88,113	32,205	12,549	60,443	97,870	(2,181)	14,711	168,498	143,979
Income (loss) before income taxes	1,329,138	149,116	106,467	86,828	(11,756)	17,767	60,602	99,579	(7,768)	9,637	169,220	144,414
Net income (loss) attributable to owners of parent	1,026,908	115,208	77,892	71,888	(19,409)	6,076	36,726	71,924	(9,033)	7,543	106,271	91,263
Comprehensive income (loss)[2]	1,069,603	119,998	60,984	80,295	(10,889)	15,826	36,954	69,598	(4,751)	—	—	—
Domestic sales	901,348	101,122	121,808	95,046	161,631	118,504	171,364	182,165	162,609	208,871	323,946	313,816
Overseas sales	6,226,911	698,597	542,141	518,079	450,539	378,796	461,727	486,557	256,028	299,211	582,146	538,159
Depreciation and amortization[3]	159,310	17,872	19,257	20,878	24,888	26,631	24,198	17,707	20,002	23,068	21,413	18,820
Capital expenditures[4]	184,482	20,697	13,341	13,184	12,799	21,774	39,541	39,140	14,919	18,108	22,703	27,129
R&D expenses	746,950	83,800	76,287	71,350	78,664	73,249	81,506	70,568	54,074	60,988	66,073	56,962
Total assets	8,534,157	957,447	793,368	876,154	828,592	775,528	783,611	809,205	696,352	668,998	792,818	770,514
Total net assets[5]	5,758,088	645,999	564,239	641,163	590,614	605,127	598,603	584,802	523,370	529,265	545,245	469,811
Number of employees		11,241	10,629	10,844	12,304	12,201	10,684	10,343	10,068	10,391	10,429	9,528
	U.S. dollars	Yen										
Net income (loss) per share of common stock:												
Basic	$ 6.26	¥ 702.26	¥ 461.10	¥ 401.08	¥ (108.31)	¥ 33.91	¥ 205.04	¥ 401.73	¥ (50.47)	¥ 42.15	¥ 594.01	¥ 511.27
Diluted[6]	6.24	700.35	460.00	400.15	—	33.85	204.72	401.10	—	42.07	592.71	509.84
Net assets per share of common stock	34.94	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	2,989.70	2,573.72
Cash dividends per share of common stock	3.14	352.00	237.00	143.00	50.00	51.00	80.00	114.00	12.00	24.00	125.00	103.00
Number of shares outstanding (thousands)		165,210	165,211	180,611	180,611	180,611	180,611	180,611	180,611	180,611	180,611	180,611
Number of shareholders		21,937	24,664	20,829	30,563	41,287	42,414	44,896	39,285	42,509	43,324	41,289
		%										
ROE		19.1	13.0	11.8	(3.3)	1.0	6.3	13.3	(1.8)	1.4	21.4	21.8
Operating margin		19.5	17.6	14.4	5.3	2.5	9.5	14.6	(0.5)	2.9	18.6	16.9
Equity ratio		67.2	70.9	73.0	69.8	76.5	74.9	70.8	73.5	77.5	67.5	59.7
Asset turnover (times)		0.91	0.80	0.72	0.76	0.64	0.79	0.89	0.61	0.70	1.16	1.19
		Thousands of yen										
Net sales per employee	$ 634,130	¥ 71,143	¥ 62,466	¥ 56,540	¥ 49,754	¥ 40,759	¥ 59,256	¥ 64,655	¥ 41,581	¥ 48,896	¥ 86,882	¥ 89,418

1 From fiscal 2008 to 2014, Computer networks was included in Electronic components and computer networks. Electronic components and computer networks were excluded from fiscal 2015 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. From fiscal 2016, PV production equipment is 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 2007, "Total net assets" has been disclosed in accordance with "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Guidance No. 8) released by the ASBJ. "Total net assets" through fiscal 2006 represents "Total shareholders' equity" under the former accounting standards.
6 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.
7 The amounts in this summary in millions of yen and in thousands of yen, U.S. dollars and shares, as of and for the year ended March 31, 2016 and prior periods are rounded. On the other hand, such amounts as of and for the year ended March 31, 2017 are rounded down and therefore the totals do not necessarily agree with the sum of the individual account balances for the corresponding period.

Consolidated Balance Sheets

Tokyo Electron Limited and Subsidiaries
As of March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
ASSETS	2017	2016	2017
Current assets:			
Cash and cash equivalents	¥164,366	¥ 95,638	$1,465,075
Short-term investments	151,000	141,035	1,345,931
Trade notes and accounts receivable	133,858	116,503	1,193,138
Allowance for doubtful accounts	(63)	(48)	(569)
Inventories	236,256	195,080	2,105,861
Deferred income taxes	36,892	31,204	328,837
Prepaid expenses and other current assets	53,628	38,004	478,012
Total current assets	775,938	617,416	6,916,286
Property, plant and equipment:			
Land	24,855	23,868	221,545
Buildings	145,901	147,653	1,300,489
Machinery and equipment	132,043	129,169	1,176,965
Construction in progress	6,026	3,774	53,713
Total property, plant and equipment	308,826	304,464	2,752,713
Less: Accumulated depreciation	208,385	208,147	1,857,436
Net property, plant and equipment	100,441	96,317	895,277
Investments and other assets:			
Investment securities	24,119	19,914	214,983
Deferred income taxes	19,128	20,782	170,505
Net asset for defined benefits	4,818	1,623	42,949
Intangible assets	15,401	17,603	137,280
Other assets	19,416	21,538	173,067
Allowance for doubtful accounts	(1,816)	(1,825)	(16,192)
Total investments and other assets	81,067	79,635	722,593
Total assets	¥957,447	¥793,368	$8,534,157

	Millions of yen		Thousands of U.S. dollars
LIABILITIES AND NET ASSETS	2017	2016	2017
Current liabilities:			
Trade notes and accounts payable	¥ 79,217	¥ 55,050	$ 706,100
Income taxes payable	31,069	22,461	276,935
Accrued employees' bonuses	21,853	11,624	194,793
Customer advances	67,976	33,523	605,900
Other accrued expenses and other current liabilities	47,653	43,403	424,756
Total current liabilities	247,770	166,061	2,208,486
Non-current liablities:			
Net liablitiy for defined benefits	56,200	55,677	500,942
Other liabilities	7,476	7,391	66,640
Total non-current liabilities	63,677	63,068	567,583
Total liabilities	311,447	229,129	2,776,069
Net assets:			
Shareholders' equity			
Common stock Authorized: 300,000,000 shares Issued: 165,210,911 and 165,210,911 shares as of March 31, 2017 and 2016, respectively	54,961	54,961	489,893
Capital surplus	78,023	78,023	695,455
Retained earnings	503,325	427,618	4,486,369
Treasury stock, at cost 1,135,104 and 1,176,800 shares as of March 31, 2017 and 2016, respectively	(7,766)	(8,051)	(69,227)
Accumulated other comprehensive income			
Net unrealized gains on investment securities	10,788	7,903	96,166
Net deferred gains on hedging instruments	59	50	527
Foreign currency translation adjustments	5,789	6,743	51,603
Accumulated remeasurements of defined benefit plans	(2,086)	(4,878)	(18,597)
Share subscription rights	2,620	1,641	23,356
Non-controlling interests	284	229	2,540
Total net assets	645,999	564,239	5,758,088
Total liabilities and net assets	¥957,447	¥793,368	$8,534,157

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net sales	¥799,719	¥663,949	$7,128,260
Cost of sales	477,427	396,739	4,255,528
Gross profit	322,291	267,210	2,872,732
Selling, general and administrative expenses	166,594	150,421	1,484,933
Operating income	155,697	116,789	1,387,798
Other income (expenses):			
Interest and dividend income	1,032	856	9,204
Share of profit of associates accounted for using the equity method	342	326	3,056
Insurance dividend income	300	297	2,677
Foreign exchange gain (loss), net	(791)	886	(7,055)
Gain on sales of property, plant and equipment	55	1,025	491
Gain on sales of investment securities	6	446	56
Commission for purchases of treasury stocks	—	(662)	—
Loss on disaster	(7,521)	—	(67,039)
Loss on impairment of property, plant and equipment, goodwill and other assets	(362)	(9,727)	(3,235)
Loss on business restructuring	—	(2,235)	—
Other, net	357	(1,534)	3,183
Income before income taxes	149,116	106,467	1,329,138
Income taxes:			
Current	40,633	32,560	362,182
Deferred	(6,765)	(4,029)	(60,304)
Net income	115,248	77,936	1,027,260
Net income attributable to non-controlling interests	39	44	352
Net income attributable to owners of parent	¥115,208	¥ 77,892	$1,026,908

	Yen		U.S. dollars
Per share of common stock:			
Net income — basic	¥ 702.26	¥ 461.10	$ 6.26
Net income — diluted	700.35	460.00	6.24
Net assets	3,919.50	3,428.37	34.94
Cash dividends	352.00	237.00	3.14

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net income	¥115,248	¥77,936	$1,027,260
Other comprehensive income (loss):			
Net unrealized gains (losses) on investment securities	2,875	(1,556)	25,629
Net deferred gains (losses) on hedging instruments	10	(112)	97
Foreign currency translation adjustments	(933)	(5,706)	(8,317)
Remeasurements of defined benefit plans	2,682	(9,233)	23,911
Share of other comprehensive income of associates accounted for using the equity method	114	(345)	1,021
Total other comprehensive income (loss)	4,750	(16,952)	42,342
Comprehensive income	119,998	60,984	1,069,603
Total comprehensive income attributable to:			
Owners of parent	119,942	60,962	1,069,098
Non-controlling interests	56	22	505

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2017 and 2016

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 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, 2015	¥54,961	¥78,023	¥488,816	¥(9,064)	¥ 9,463	¥122	¥12,481	¥ 4,682	¥1,421	¥ 258	¥641,163
Cash dividends	—	—	(33,013)	—	—	—	—	—	—	—	(33,013)
Net income attributable to owners of parent	—	—	77,892	—	—	—	—	—	—	—	77,892
Repurchase of treasury stocks	—	—	—	(105,810)	—	—	—	—	—	—	(105,810)
Disposal of treasury stocks	—	—	(726)	1,472	—	—	—	—	—	—	746
Cancellation of treasury stocks	—	—	(105,351)	105,351	—	—	—	—	—	—	—
Other, net	—	—	—	—	(1,560)	(72)	(5,738)	(9,560)	220	(29)	(16,739)
Balance as of March 31, 2016	¥54,961	¥78,023	¥427,618	¥ (8,051)	¥ 7,903	¥ 50	¥ 6,743	¥(4,878)	¥1,641	¥ 229	¥564,239
Cash dividends	—	—	(39,371)	—	—	—	—	—	—	—	(39,371)
Net income attributable to owners of parent	—	—	115,208	—	—	—	—	—	—	—	115,208
Repurchase of treasury stocks	—	—	—	(6)	—	—	—	—	—	—	(6)
Disposal of treasury stocks	—	—	(130)	290	—	—	—	—	—	—	159
Other, net	—	—	—	—	2,886	9	(953)	2,791	979	56	5,769
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

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 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, 2016	$489,893	$695,455	$3,811,552	$(71,758)	$70,440	$446	$60,101	$(43,477)	$14,628	$2,034	$5,029,317
Cash dividends	—	—	(350,931)	—	—	—	—	—	—	—	(350,931)
Net income attributable to owners of parent	—	—	1,026,908	—	—	—	—	—	—	—	1,026,908
Repurchase of treasury stocks	—	—	—	(54)	—	—	—	—	—	—	(54)
Disposal of treasury stocks	—	—	(1,159)	2,585	—	—	—	—	—	—	1,425
Other, net	—	—	—	—	25,726	81	(8,498)	24,880	8,727	505	51,422
Balance as of March 31, 2017	$489,893	$695,455	$4,486,369	$(69,227)	$96,166	$527	$51,603	$(18,597)	$23,356	$2,540	$5,758,088

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flow

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes	¥149,116	¥106,467	$1,329,138
Depreciation and amortization	17,872	19,257	159,310
Loss on impairment of property, plant and equipment, goodwill and other assets	362	9,727	3,235
Amortization of goodwill	631	970	5,625
Increase (decrease) in accrued employees' bonuses	10,112	(283)	90,140
Interest and dividend income	(1,032)	(856)	(9,204)
Loss on sales of affiliates' shares	—	1,111	—
Increase in trade notes and accounts receivable	(17,411)	(8,650)	(155,200)
Increase in inventories	(44,102)	(23,535)	(393,102)
Increase in trade notes and accounts payable	24,053	31	214,401
Increase in prepaid consumption tax	(12,350)	(1,910)	(110,084)
Increase (decrease) in customer advances	34,444	(15,004)	307,023
Other, net	6,607	(3,527)	58,893
Subtotal	168,304	83,798	1,500,176
Receipts from interest and dividends	1,266	957	11,291
Income taxes paid	(32,622)	(15,357)	(290,779)
Net cash provided by operating activities	136,948	69,398	1,220,687
Cash flows from investing activities:			
Payment for purchases of short-term investments	(202,200)	(209,491)	(1,802,299)
Proceeds from maturities of short-term investments	192,232	68,505	1,713,456
Payment for purchases of property, plant and equipment	(17,557)	(11,294)	(156,498)
Payment for acquisition of intangible assets	(1,116)	(708)	(9,952)
Other, net	(252)	2,974	(2,248)
Net cash used in investing activities	(28,893)	(150,014)	(257,543)
Cash flows from financing activities:			
Payment for purchases of treasury stock	(6)	(105,532)	(54)
Dividends paid	(39,371)	(33,013)	(350,931)
Other, net	(2)	(56)	(26)
Net cash used in financing activities	(39,380)	(138,601)	(351,012)
Effect of exchange rate changes on cash and cash equivalents	53	(2,777)	473
Net increase (decrease) in cash and cash equivalents	68,728	(221,994)	612,605
Cash and cash equivalents at beginning of year	95,638	317,632	852,469
Cash and cash equivalents at end of year	¥164,366	¥ 95,638	$1,465,075

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2017 and 2016

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 of yen and in thousands of yen, U.S. dollars and shares, as of and for the year ended March 31, 2016 and prior periods are rounded. On the other hand, such amounts as of and for the year ended March 31, 2017 are rounded down and therefore the totals do not necessarily agree with the sum of the individual account balances for the corresponding period.

U.S. dollar amounts included herein are solely for the convenience of readers and are presented at the rate of ¥112.19 to $1.00, the approximate rate as of March 31, 2017. 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 35 and 37 subsidiaries as of March 31, 2017 and 2016, respectively. All significant inter-company accounts, transactions and unrealized profits or losses have been eliminated through consolidation procedures.

There are 8 affiliates accounted for using the equity method as of March 31, 2017.

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 equivalents

Tokyo Electron considers all highly-liquid instruments purchased with original maturities of three months or less to be cash equivalents.

(d) Short-term investments

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

(e) Investment securities

Tokyo Electron examines the intent of holding each security and classifies those securities as trading securities, held-to maturity debt securities or other securities. Tokyo Electron has no trading securities as of March 31, 2017 and 2016. 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 other than raw materials 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. Raw materials are stated at the lower of cost, determined principally by the moving-average method, or replacement cost.

(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 liability for defined benefits 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. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

Notes to Consolidated Financial Statements

(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) 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, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net income attributable to owners of parent	¥115,208	¥77,892	$1,026,908
Less components not pertaining to holders of common stock	—	—	—
Net income pertaining to holders of common stock	¥115,208	¥77,892	$1,026,908
Weighted-average number of shares of common stock outstanding (thousands)	164,054	168,924	

(r) Research and development expenses

Research and development expenses are charged to earnings as incurred and amounted to ¥83,800 million ($746,950 thousand) and ¥76,287 million for the years ended March 31, 2017 and 2016, respectively.

(s) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements to conform with the presentation used for the year ended March 31, 2017.

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

Year ended March 31, 2017

In accordance with the revision to the Japanese Corporation Tax Act, the Company and its domestic subsidiaries adopted the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (ASBJ Practical Issues Task Force No. 32, June 17, 2016) and changed the depreciation method for facilities attached to buildings and structures acquired since April 1, 2016 from the declining-balance method to the straight-line method, starting from the fiscal year ended March 31, 2017.

The effect of this change on the consolidated financial statements is immaterial.

Year ended March 31, 2016

The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013 (hereinafter, "Statement No.21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013 (hereinafter, "Statement No.22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013 (hereinafter, "Statement No.7")) (together, the "Business Combination Accounting Standards"), from the year ended March 31, 2016. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion of following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests". In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities".

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the year ended March 31, 2016 prospectively.

As a result of adoption of these standards, there is no effect on the consolidated financial statements for the year ended March 31, 2016.

4. Additional Information

The Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the year ended March 31, 2017.

5. Securities

Other securities as of March 31, 2017 and 2016 are as follows:

	Millions of yen	
2017:	Cost	Carrying value
Non-current		
Securities with market prices		
Equity securities	¥7,183	¥22,704
Securities without market prices		
Unlisted stock	1,381	1,399
Other	14	14
Total	¥8,580	¥24,119

	Millions of yen	
2016:	Cost	Carrying value
Non-current		
Securities with market prices		
Equity securities	¥7,204	¥18,580
Securities without market prices		
Unlisted stock	1,318	1,334
Total	¥8,522	¥19,914

	Thousands of U.S. dollars	
2017:	Cost	Carrying value
Non-current		
Securities with market prices		
Equity securities	$64,032	$202,378
Securities without market prices		
Unlisted stock	12,314	12,472
Other	133	133
Total	$76,480	$214,983

Held-to-maturity securities classified as current assets are ¥244,500 million ($2,179,338 thousand) and ¥160,999 million as of March 31, 2017 and 2016, respectively.

Reconciliation of held-to-maturity securities as of March 31, 2017 and 2016 to the amounts of short-term investments in the consolidated balance sheets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Held-to-maturity (current)	¥244,500	¥160,999	$2,179,338
Deposits and low-risk financial instruments with original maturities of three months or less	(93,500)	(45,000)	(833,407)
Deposits with original maturities of more than three months	—	25,036	—
Short-term investments	¥151,000	¥141,035	$1,345,931

Net loss on devaluation of investment securities was ¥105 million ($939 thousand) and ¥331 million for the years ended March 31, 2017 and 2016, respectively.

For the year ended March 31, 2017, the amount of gain and loss on sale of available-for-sale securities was immaterial.

For the year ended March 31, 2016, 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	¥1,275	¥446	¥247
Total	¥1,275	¥446	¥247

6. Inventories

Inventories as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Finished products	¥152,629	¥130,479	$1,360,456
Work in process, raw materials and supplies	83,626	64,601	745,405
Total	¥236,256	¥195,080	$2,105,861

The amounts of change in inventory provision included in cost of sales in the consolidated statements of income for the years ended March 31, 2017 and 2016 were a decrease of ¥3,060 million ($27,283 thousand) and an increase of ¥758 million, respectively.

Notes to Consolidated Financial Statements

7. Other Income (Expenses)

Loss on disaster

Loss on disaster of ¥7,521 million ($67,039 thousand) for the year ended March 31, 2017 represents the actual and current estimated expenses relating to the recovery of buildings, production and development facilities as well as the disposal of inventories caused by the impact of the Kumamoto earthquake in 2016.

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

For the year ended March 31, 2016, the following loss on impairment was recognized:

(1) Goodwill and non-current assets of TEL FSI, Inc.

Location	Use	Type of Asset	Loss on impairment Millions of yen
Chaska, Minnesota, U.S.A.	Business assets	Goodwill	¥3,825
		Buildings	2,756
		Other intangible assets	2,880
		Total	¥9,461

Tokyo Electron performed an impairment test and recognized loss on impairment of assets of TEL FSI, Inc., a subsidiary manufacturing semiconductor production equipment, due to TEL FSI, Inc.'s reconsideration of its business plan. Tokyo Electron recognized the difference between the book value and the recoverable amount of goodwill, buildings, and other intangible assets 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 14.0-14.5%.

(2) Others

Loss on impairment of ¥266 million was recognized for other asset groups of Tokyo Electron.

Loss on business restructuring

Loss on business restructuring of ¥2,235 million for the year ended March 31, 2016 represents losses relating to the business restructuring in U.S. subsidiaries, which mainly consists of inventory disposal costs.

8. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2017 and 2016.

9. Short-term Borrowings

There are no short-term borrowings classified as current liabilities as of March 31, 2017 and 2016.

As of March 31, 2017 and 2016, Tokyo Electron had unused lines of credit amounting to ¥126,944 million ($1,131,512 thousand) and ¥114,960 million, respectively.

10. 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 for their employees. Further, certain consolidated overseas subsidiaries provide defined benefit plans for their employees.

Defined benefit plans

(1) Movement of defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at April 1, 2016 and 2015	¥116,228	¥112,272	$1,035,998
Service cost	6,080	5,677	54,198
Interest cost	772	1,273	6,882
Actuarial loss	(3,075)	9,690	(27,412)
Benefits paid	(2,708)	(7,748)	(24,141)
Increase by transfer	1,327	—	11,828
Effect of change in scope of consolidation	—	(4,548)	—
Foreign currency exchange rate changes	101	(475)	906
Other	(65)	87	(583)
Balance at March 31, 2017 and 2016	¥118,660	¥116,228	$1,057,677

(2) Movement of plan assets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at April 1, 2016 and 2015	¥62,549	¥70,905	$557,534
Expected return on plan assets	1,266	1,271	11,286
Actuarial gain (loss)	540	(2,304)	4,818
Employer contributions	2,940	2,997	26,206
Benefits paid	(1,011)	(5,506)	(9,014)
Increase by transfer	1,289	—	11,495
Effect of change in scope of consolidation	—	(4,461)	—
Foreign currency exchange rate changes	84	(380)	754
Other	(6)	27	(56)
Balance at March 31, 2017 and 2016	¥67,653	¥62,549	$603,026

(3) Reconciliation from defined benefit obligations and plan assets to liability (asset) for defined benefits

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded defined benefit obligations	¥63,761	¥62,003	$568,333
Plan assets	(67,653)	(62,549)	(603,026)
Funded status	(3,892)	(546)	(34,692)
Unfunded defined benefit obligations	54,899	54,225	489,343
Net liability for defined benefits at March 31, 2017 and 2016	¥51,007	¥53,679	$454,651
Net liability for defined benefits	55,825	55,302	497,600
Net asset for defined benefits	(4,818)	(1,623)	(42,949)
Net liability for defined benefits at March 31, 2017 and 2016	¥51,007	¥53,679	$454,651

Note: The provision for accrued pension and severance costs for directors and audit & supervisory board members of ¥374 million ($3,342 thousand) as of March 31, 2017 and 2016 is not included.

(4) Defined benefit costs

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥6,080	¥5,677	$54,198
Interest cost	772	1,273	6,882
Expected return on plan assets	(1,266)	(1,271)	(11,286)
Net actuarial gain amortization	291	(2,268)	2,600
Other	290	243	2,590
Total defined benefit costs for the years ended March 31, 2017 and 2016	¥6,168	¥3,654	$54,985

(5) Remeasurements of defined benefit plants

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial gain (loss)	¥3,869	¥(13,594)	$34,494

(6) Accumulated remeasurements of defined benefit plants

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net actuarial loss that is yet to be recognized (before tax)	¥(2,712)	¥(6,582)	$(24,180)

(7) Plan assets

1. Plan assets comprise:

	2017	2016
Bonds	39%	46%
Life insurance company general account	26	26
Equity securities	20	17
Cash and cash equivalents	3	2
Other	12	9
Total	100%	100%

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 at and for the years ended March 31, 2017 and 2016 are as follows:

	2017	2016
Discount rate	0.71%	0.59%
Long-term expected rate of return	2.00%	2.00%

The expected rates of salary increase for the years ended March 31, 2017 and 2016 are also considered as one of the actuarial assumptions, which are set based on the salary increase index by age group as of January 1, 2014.

Notes to Consolidated Financial Statements

11. Income Taxes

Significant components of the deferred tax assets and liabilities as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets			
Elimination of unrealized profit in inventories	¥19,276	¥14,100	$171,817
Net liability for defined benefits	18,102	17,717	161,352
Net operating loss carryforwards	15,402	17,061	137,292
Accrued employees' bonuses	4,977	2,831	44,365
Devaluation of inventories	3,995	4,913	35,610
Loss on impairment of property, plant and equipment and other assets	2,765	3,037	24,652
Accrued warranty expenses	2,168	2,395	19,330
Other	11,350	12,366	101,169
Total gross deferred tax assets	78,038	74,420	695,591
Less valuation allowance	(9,808)	(11,995)	(87,429)
Total deferred tax assets	68,229	62,425	608,162
Deferred tax liabilities			
Undistributed earnings of subsidiaries	(5,197)	(5,383)	(46,323)
Net unrealized gains on investment securities	(4,757)	(3,487)	(42,408)
Intangible assets identified through business combination	(3,016)	(3,741)	(26,889)
Other	(4,310)	(3,146)	(38,420)
Total deferred tax liabilities	(17,282)	(15,757)	(154,042)
Net deferred tax assets	¥50,947	¥46,668	$454,119

Net deferred tax assets are included in the consolidated balance sheets as of March 31, 2017 and 2016 as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets	¥36,892	¥31,204	$328,837
Investments and other assets	19,128	20,782	170,505
Other current liabilities	—	—	—
Other non-current liabilities	(5,073)	(5,318)	(45,222)

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 carry forwards 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, 2017 and 2016.

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

On March 31, 2016, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 were changed from 32.34% to 30.86% and 30.62%, respectively, as of March 31, 2016.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥1,781 million, and deferred income tax expense increased by ¥1,893 million for the fiscal year ended March 31, 2016.

Significant components of the difference between the statutory and effective tax rates for the years ended March 31, 2017 and 2016 are as follows:

	2017	2016
Statutory tax rate in Japan	30.86%	33.06%
Adjustments:		
Tax credits	(8.41)	(7.49)
Others, net	0.26	1.23
Effective tax rate	22.71%	26.80%

The Company received notification from the National Tax Agency, Japan (NTA) dated February 14, 2017, that agreement had been reached through the Mutual Agreement Procedure (MAP) between the NTA and U.S. income tax authorities concerning the transfer pricing adjustments assessed during prior historical periods relating to the transactions between the Company and its U.S. subsidiary. As a result, ¥405 million ($3,616 thousand) of tax benefit is included in current income tax expense as the difference between the current tax refunds and the estimated amount recorded in the prior year.

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 12, 2017, the distribution of cash dividends amounting to ¥36,752 million ($327,595 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2017 since they are recognized in the period in which they are resolved at the board of directors' meeting.

13. Other Comprehensive Income

Other comprehensive income for the years ended March 31, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net unrealized gains on investment securities			
Net unrealized gains (losses) arising during the year	¥4,152	¥ (2,379)	$37,016
Reclassification adjustments	(6)	(201)	(56)
Sub-total, before tax	4,146	(2,580)	36,960
Tax expense	(1,271)	1,024	(11,331)
Sub-total, net of tax	2,875	(1,556)	25,629
Net deferred gains (losses) on hedging instruments			
Net deferred gains (losses) arising during the year	15	(168)	141
Reclassification adjustments	—	—	—
Sub-total, before tax	15	(168)	141
Tax expense	(4)	56	(43)
Sub-total, net of tax	10	(112)	97
Foreign currency translation adjustments			
Adjustments during the year	(933)	(5,705)	(8,317)
Reclassification adjustments	—	(1)	—
Sub-total, before tax	(933)	(5,706)	(8,317)
Tax expense	—	—	—
Sub-total, net of tax	(933)	(5,706)	(8,317)
Remeasurements of defined benefit plans			
Adjustments during the year	3,578	(11,326)	31,893
Reclassification adjustments	291	(2,268)	2,600
Sub-total, before tax	3,869	(13,594)	34,494
Tax expense	(1,187)	4,361	(10,582)
Sub-total, net of tax	2,682	(9,233)	23,911
Share of other comprehensive income of associates accounted for using the equity method			
Adjustments during the year	114	(345)	1,021
Total other comprehensive income	¥4,750	¥(16,952)	$42,342

Notes to Consolidated Financial Statements

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 194,400 shares of the Company were authorized and granted at an exercise price of ¥1 ($0.01) for the year ended March 31, 2017.

A summary of stock options outstanding and exercisable as of March 31, 2017 and 2016 is as follows:

	2017			2016	
	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	305,500	¥1	$0.01	378,200	¥1
Granted	194,400	1	0.01	135,700	1
Exercised	42,400	1	0.01	207,400	1
Expired (forfeited)	—	—	—	1,000	1
Outstanding at the end of year	457,500	1	0.01	305,500	1
Exercisable at the end of year	127,400	1	0.01	169,800	1

Amounts expensed related to stock options

The amounts expensed related to stock options for the years ended March 31, 2017 and 2016, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Selling, general and administrative expenses	¥1,141	¥967	$10,178

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, 2017 was ¥5,874 ($52.36) per unit, which was evaluated as follows:

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

	12th Stock Acquisition Rights
Volatility (Note 1)	39.58%
Expected residual period (Note 2)	11.5 years
Expected dividends (Note 3)	190.0 ($1.69) per share
Risk-free interest rate (Note 4)	(0.1%)

Notes: 1. Calculated based on the stock price performance for 11.5 years (from December 2004 to June 2016).
2. Calculated on the assumption that the share subscription rights would be exercised at the mid-point of the exercise period.
3. Based on the dividends paid for the years ended March 31, 2016 and 2015.
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
	2017	2016	2017
Due within one year	¥3,554	¥2,397	$31,685
Due over one year	6,272	4,756	55,908
Total	¥9,827	¥7,153	$87,593

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 time 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, 2017 and 2016 are set out below. Fair value of financial instruments which is practically difficult to estimate are excluded (see note 5).

	Millions of yen	
2017:	Carrying amount	Estimated fair value[1]
Assets		
Cash and cash equivalents	¥164,366	¥164,366
Short-term investments	151,000	151,060
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥63 million)	133,794	133,794
Investment securities	22,704	22,704
Liabilities		
Trade notes and accounts payable	79,217	79,217
Derivatives (see note 17)		
Hedge accounting not applied	(306)	(306)
Hedge accounting applied	49	49

	Millions of yen	
2016:	Carrying amount	Estimated fair value[1]
Assets		
Cash and cash equivalents	¥ 95,638	¥ 95,638
Short-term investments	141,035	140,785
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥48 million)	116,455	116,455
Investment securities	18,580	18,580
Liabilities		
Trade notes and accounts payable	55,050	55,050
Derivatives (see note 17)		
Hedge accounting not applied	1,182	1,182
Hedge accounting applied	33	33

	Thousands of U.S. dollars	
2017:	Carrying amount	Estimated fair value[1]
Assets		
Cash and cash equivalents	$1,465,075	$1,465,075
Short-term investments	1,345,931	1,346,470
Trade notes and accounts receivable, net of allowance for doubtful accounts ($569 thousand))	1,192,569	1,192,569
Investment securities	202,378	202,378
Liabilities		
Trade notes and accounts payable	706,100	706,100
Derivatives (see note 17)		
Hedge accounting not applied	(2,729)	(2,729)
Hedge accounting applied	437	437

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 unlisted equity securities 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		Thousands of U.S. dollars
	2017	2016	2017
	Reported amount In balance sheet		
Unlisted stocks	¥1,399	¥1,334	$12,472
Other	14	—	133
Total	¥1,414	¥1,334	$12,605

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

	Millions of yen	
2017:	Within 1 year	After 1 through 5 years
Cash and cash equivalents	¥164,366	¥—
Short-term investments	151,000	—
Trade notes and accounts receivable	133,858	—

	Millions of yen	
2016:	Within 1 year	After 1 through 5 years
Cash and cash equivalents	¥ 95,638	¥—
Short-term investments	141,035	—
Trade notes and accounts receivable	116,503	—

	Thousands of U.S. dollars	
2017:	Within 1 year	After 1 through 5 years
Cash and cash equivalents	$1,465,075	$—
Short-term investments	1,345,931	—
Trade notes and accounts receivable	1,193,138	—

Notes to Consolidated Financial Statements

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, 2017 and 2016 are as follows:

1. Derivative financial instruments not designated as hedging instruments

	Millions of yen		
2017:	Contract amount	Fair value	Gains (losses)
Sell U.S. dollars	¥ 6,532	¥ 43	¥ 43
Sell Korean won	589	(353)	(353)
Sell Singapore dollars	55	(0)	(0)
Buy U.S. dollars	2,013	4	4
Buy Taiwan dollars	668	0	0
Buy Chinese yuan	404	(0)	(0)
Buy EURO	71	(0)	(0)
Buy Singapore dollars	42	(0)	(0)
Total	¥10,379	¥(306)	¥(306)

	Millions of yen		
2016:	Contract amount	Fair value	Gains (losses)
Sell U.S. dollars	¥51,173	¥1,773	¥1,773
Sell Korean won	1,068	(612)	(612)
Sell Singapore dollars	58	(0)	(0)
Buy Korean won	879	2	2
Buy U.S. dollars	834	(1)	(1)
Buy Taiwan dollars	431	10	10
Buy EURO	359	9	9
Buy Swiss francs	95	1	1
Buy Singapore dollars	33	(0)	(0)
Total	¥54,930	¥1,182	¥1,182

	Thousands of U.S. dollars		
2017:	Contract amount	Fair value	Gains (losses)
Sell U.S. dollars	$58,225	$ 388	$ 388
Sell Korean won	5,258	(3,151)	(3,151)
Sell Singapore dollars	496	(2)	(2)
Buy U.S. dollars	17,950	36	36
Buy Taiwan dollars	5,961	2	2
Buy Chinese yuan	3,605	(3)	(3)
Buy EURO	640	(0)	(0)
Buy Singapore dollars	379	(0)	(0)
Total	$92,517	$(2,729)	$(2,729)

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	
2017:	Contract amount	Fair value	Contract amount	Fair value
Future transactions denominated in a foreign currency				
Sell U.S. dollars	¥4,117	¥50	$36,700	$452
Sell Korean won	1	(0)	13	(7)
Buy U.S. dollars	340	(0)	3,034	(6)
Monetary assets and liabilities in foreign currency (Note)				
Sell U.S. dollars	130	—	1,163	—
Buy U.S. dollars	127	—	1,137	—
Total	¥4,717	¥49	$42,048	$437

	Millions of yen	
2016:	Contract amount	Fair value
Future transactions denominated in a foreign currency		
Sell U.S. dollars	¥1,371	¥63
Sell Korean won	33	(19)
Buy EURO	361	(8)
Buy GBP	19	(3)
Buy U.S. dollars	13	(0)
Monetary assets and liabilities in foreign currency (Note)		
Sell U.S. dollars	162	—
Buy U.S. dollars	200	—
Buy Singapore dollars	21	—
Buy EURO	12	—
Total	¥2,192	¥33

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, plasma etch systems, thermal processing systems, single wafer deposition systems, cleaning systems used in wafer processing, wafer probers used in the wafer testing process and other semiconductor production equipment. The SPE segment principally develops, manufactures, sells and distributes such products.

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 and distributes such products.

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 based on current market prices. Assets in common use have not been allocated to each reportable segment, while costs associated with those assets have been allocated to reportable segments on a systematic basis.

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, 2017 and 2016 is as follows:

	Millions of yen					
	Reportable Segment					
2017:	Semiconductor production equipment	FPD production equipment	Other	Total	Eliminations and Corporate	Consolidated
Net sales						
Sales to external customers	¥749,893	¥49,387	¥ 438	¥799,719	¥ —	¥799,719
Intersegment sales or transfers	—	—	14,372	14,372	(14,372)	—
Total	749,893	49,387	14,810	814,091	(14,372)	799,719
Segment profit	182,709	4,618	82	187,410	(38,294)	149,116
Segment assets	374,513	27,494	2,646	404,654	552,792	957,447
Depreciation and amortization	8,694	418	89	9,202	8,670	17,872
Amortization of goodwill	631	—	—	631	—	631
Loss on impairment	362	—	—	362	—	362
Capital expenditures, including intangible assets	10,881	562	472	11,917	10,347	22,264

Notes to Consolidated Financial Statements

Millions of yen

2016:	Reportable Segment: Semiconductor production equipment	Reportable Segment: FPD production equipment	Other	Total	Eliminations and Corporate	Consolidated
Net sales						
Sales to external customers	¥613,033	¥44,687	¥ 6,229	¥663,949	¥ —	¥663,949
Intersegment sales or transfers	—	—	11,592	11,592	(11,592)	—
Total	613,033	44,687	17,821	675,541	(11,592)	663,949
Segment profit	123,163	4,747	2,036	129,946	(23,479)	106,467
Segment assets	321,100	25,186	2,134	348,420	444,948	793,368
Depreciation and amortization	8,792	424	45	9,261	9,996	19,257
Amortization of goodwill	970	—	—	970	—	970
Loss on impairment	9,711	—	—	9,711	16	9,727
Capital expenditures, including intangible assets	8,500	285	13	8,798	5,952	14,750

Thousands of U.S. dollars

2017:	Reportable Segment: Semiconductor production equipment	Reportable Segment: FPD production equipment	Other	Total	Eliminations and Corporate	Consolidated
Net sales						
Sales to external customers	$6,684,140	$440,210	$ 3,910	$7,128,260	$ —	$7,128,260
Intersegment sales or transfers	—	—	128,105	128,105	(128,105)	—
Total	6,684,140	440,210	132,015	7,256,366	(128,105)	7,128,260
Segment profit	1,628,573	41,171	730	1,670,475	(341,336)	1,329,138
Segment assets	3,338,207	245,073	23,591	3,606,871	4,927,286	8,534,157
Depreciation and amortization	77,499	3,727	801	82,028	77,281	159,310
Amortization of goodwill	5,625	—	—	5,625	—	5,625
Loss on impairment	3,235	—	—	3,235	—	3,235
Capital expenditures, including intangible assets	96,995	5,015	4,212	106,222	92,232	198,455

Notes: 1. "Other" includes all other operating segments which are not included in the reportable segments, including Photovoltaic panel Production Equipment business, group-wide logistic services, facility maintenance and insurance.

2. (1) "Eliminations and Corporate" segment loss totaling ¥38,294 million ($341,336 thousand) and ¥23,479 million for the years ended March 31, 2017 and 2016, respectively, includes corporate expenses not allocated to any reportable segments. The corporate expenses consist of research and development costs of ¥17,830 million ($158,935 thousand) and ¥13,583 for the years ended March 31, 2017 and 2016, respectively, pertaining to fundamental research and element research, not allocated to any of the reportable segments, and the loss on disaster of ¥7,521 million ($67,039 thousand) for the year ended March 31, 2017.

(2) "Eliminations and Corporate" segment assets totaling ¥552,792 million ($4,927,286 thousand) and ¥444,948 million as of March 31, 2017 and 2016, respectively, consist mainly of cash and cash equivalents, short-term investments and buildings not allocated to any of the reportable segments.

(3) "Eliminations and Corporate" capital expenditures totaling ¥10,347 ($92,232 thousand) and ¥5,952 million for the years ended March 31, 2017 and 2016, respectively, consist mainly of capital expenditures for buildings, machinery and equipment not allocated to any of the reportable segments.

Other information

(1) Domestic and overseas net sales by destination for the years ended March 31, 2017 and 2016 are as follows:

Millions of yen

2017:	Japan	U.S.A.	Europe	South Korea	Taiwan	China	Other	Total
Net sales	¥101,122	¥101,566	¥59,998	¥145,216	¥233,754	¥115,126	¥42,935	¥799,719

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

Millions of yen

2016:	Japan	U.S.A.	Europe	South Korea	Taiwan	China	Other	Total
Net sales	¥121,808	¥103,574	¥56,659	¥107,273	¥170,095	¥87,325	¥17,215	¥663,949

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

Thousands of U.S. dollars

2017:	Japan	U.S.A.	Europe	South Korea	Taiwan	China	Other	Total
Net sales	$901,348	$905,310	$534,791	$1,294,379	$2,083,557	$1,026,173	$382,699	$7,128,260

(2) Net property, plant and equipment by location as of March 31, 2017 and 2016 are as follows:

Millions of yen

2017:	Japan	U.S.A.	Other	Total
Property, plant and equipment	¥77,407	¥11,228	¥11,805	¥100,441

Millions of yen

2016:	Japan	U.S.A.	Other	Total
Property, plant and equipment	¥75,580	¥9,724	¥11,013	¥96,317

Thousands of U.S. dollars

2017:	Japan	U.S.A.	Other	Total
Property, plant and equipment	$689,964	$100,088	$105,223	$895,277

(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 2017	Thousands of U.S. dollars 2017
Intel Corporation	Semiconductor production equipment	¥143,488	$1,278,974
Taiwan Semiconductor Manufacturing Company Ltd.	Semiconductor production equipment	127,621	1,137,549
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD production equipment	112,151	999,657
Micron Technology, Inc.	Semiconductor production equipment	84,111	749,722

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

Name of customer	Related reportable segment	Millions of yen 2016
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD production equipment	¥100,672
Intel Corporation	Semiconductor production equipment	83,795
Taiwan Semiconductor Manufacturing Company Ltd.	Semiconductor production equipment	71,938

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

Notes to Consolidated Financial Statements

Information about reportable segment goodwill

Reportable segment information about amortization of goodwill for the years ended March 31, 2017 and 2016, and unamortized balances as of March 31, 2017 and 2016 are as follows:

	Millions of yen		
2017:	Semiconductor production equipment	FPD production equipment	Total
Amortization of goodwill	¥ 631	¥—	¥ 631
Goodwill	3,376	—	3,376

	Millions of yen		
2016:	Semiconductor production equipment	FPD production equipment	Total
Amortization of goodwill	¥ 970	¥—	¥ 970
Goodwill	4,095	—	4,095

	Thousands of U.S. dollars		
2017:	Semiconductor production equipment	FPD production equipment	Total
Amortization of goodwill	$ 5,625	$—	$ 5,625
Goodwill	30,100	—	30,100

Independent Auditor's Report

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, 2017 and 2016, 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 consolidated 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, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 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 20, 2017
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Consolidated Subsidiaries (As of March 31, 2017)

JAPAN
- Tokyo Electron Yamanashi Limited
- Tokyo Electron Kyushu Limited
- Tokyo Electron Tohoku 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 NEXX, 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

35 consolidated subsidiaries in total, including the above 22 companies

Investor Information (As of March 31, 2017)

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	21,937

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

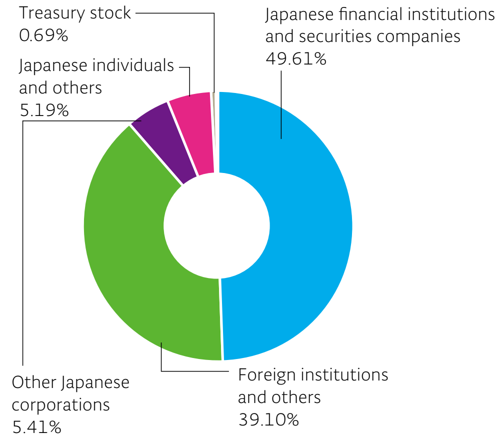
URL:
http://www.tel.com/

Principal Shareholders:

	Number of shares held (thousands)	Voting share ratio (%)
The Master Trust Bank of Japan Limited (trust account)	26,720	16.28
Japan Trustee Services Bank Limited (trust account)	18,508	11.28
Tokyo Broadcasting System Holdings, Inc.	7,727	4.70
Trust & Custody Services Bank, Limited (securities investment trust account)	3,808	2.32
Japan Trustee Services Bank Limited (trust account 4)	3,667	2.23
State Street Bank and Trust Company	3,243	1.97
State Street Bank West Client Treaty 505234	2,533	1.54
Japan Trustee Services Bank Limited (trust account 5)	2,450	1.49
BNP Paribas Securities (Japan) Limited	2,314	1.41
Japan Trustee Services Bank Limited (trust account 7)	2,083	1.27

Notes: 1. Shares of less than one thousand have been rounded down in the "Number of shares held."
2. Voting share ratio is calculated excluding treasury stock (1,135,104 shares). Figures are truncated after the second decimal place.

Distribution of Ownership among Shareholders:



Stock Price and Trading Volume