



Jan 31, 2017

Consolidated Financial Review for the Third Quarter Ended December 31, 2016

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

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

1. Consolidated financial highlights for the nine months ended December 31, 2016

(1) Operating results (Cumulative)

Note: Percentages indicate changes from the same period of the previous fiscal year.

	Nine months ended			
	December 31, 2015		December 31, 2016	
		%		%
Net sales (Millions of yen)	499,722	15.9	539,087	7.9
Operating income (Millions of yen)	86,763	66.2	94,160	8.5
Ordinary income (Millions of yen)	88,039	55.1	95,692	8.7
Net income attributable to owners of parent (Millions of yen)	59,235	58.1	67,918	14.7
Net income per share of common stock (Yen):				
Basic	347.30		414.01	
Diluted	346.42		412.90	
Comprehensive income:	Nine months ended December 31, 2016: 68,563 million yen, 25.9% Nine months ended December 31, 2015: 54,461 million yen, 18.5%			

(2) Financial position

	As of	
	March 31, 2016	December 31, 2016
Total assets (Millions of yen)	793,367	885,786
Total net assets (Millions of yen)	564,239	594,566
Equity ratio (%)	70.9	66.8
Equity:	591,636 million yen (as of December 31, 2016) 562,369 million yen (as of March 31, 2016)	

2. Dividends

	Year ended	Year ending
	March 31, 2016	March 31, 2017
1Q-end dividends per share (Yen)	-	-
2Q-end dividends per share (Yen)	125.00	128.00
3Q-end dividends per share (Yen)	-	-
Year-end dividends per share (Yen)	112.00	177.00 (Forecast)
Annual dividends per share (Yen)	237.00	305.00 (Forecast)

Note: Revision of dividends forecast: None

3. Financial forecasts for the fiscal year ending March 31, 2017

Note: Percentages for year ending March 31, 2017 indicate changes from the previous fiscal year.

	Year ending March 31, 2017	
		%
Net sales (Millions of yen)	762,000	14.8
Operating income (Millions of yen)	140,000	19.9
Ordinary income (Millions of yen)	142,000	18.9
Net income attributable to owners of parent (Millions of yen)	100,000	28.4
Net income per share of common stock (Yen)	609.56	

Note: Revision of financial forecasts: None

***Notes:**

(1) Important changes in subsidiaries (Changes on specific subsidiaries with changes in scope of consolidation): None

(2) Changes in accounting principles, accounting estimation and restatement

1. Changes in accounting policies along with changes in accounting standards: Yes

2. Other changes of accounting policies besides number 1 above: None

3. Changes in accounting estimation: None

4. Restatement: None

(3) Number of shares outstanding (common stock)

1. Number of shares outstanding (including treasury stock)

As of December 31, 2016: 165,210,911 shares

As of March 31, 2016: 165,210,911 shares

2. Number of shares of treasury stock

As of December 31, 2016: 1,146,591 shares

As of March 31, 2016: 1,176,800 shares

3. Average number of shares outstanding

As of December 31, 2016: 164,049,252 shares

As of December 31, 2015: 170,561,309 shares

***Notification of the status of quarterly financial review procedures:**

This quarterly financial report is outside the jurisdiction of auditing procedures outlined in the Financial Instruments and Exchange Act and remains incomplete at the time of this report's publication.

***Explanation of the appropriate use of financial forecast:**

The financial forecasts and estimates as provided in this Consolidated Financial Review are based on certain assumptions judged to be reasonable by the Company at time of report issuance and in light of currently available information. Consequently, actual operating results may differ substantially from the projections in this Consolidated Financial Review.

The Company plans to hold a financial meeting for analysts and investors on January 31, 2017. Supplementary schedules and other information deemed relevant to these financial reports will be handed out at this meeting and posted simultaneously on our company website.

1. Qualitative Information on Financial Results for the Current Quarter

(1) Description of Operating Results

During the first three quarters of the current fiscal year, the US economy was gradually expanding and there were signs that the Chinese economy was picking up. In Japan, as well, the economy headed towards recovery while the world economy overall showed a slow improvement.

In the electronics industry, where the Tokyo Electron (TEL) Group operates, demand for semiconductors and electronic components remained firm owing to the increasing sophistication of smartphones and strong demand for servers at data centers.

Under these circumstances, the TEL Group's consolidated results (cumulative) for the first three quarters of the current fiscal year were net sales of 539,087 million yen (year-on-year growth of 7.9%), operating income of 94,160 million yen (year-on-year growth of 8.5%), ordinary income of 95,692 million yen (year-on-year growth of 8.7%) and net income attributable to owners of parent of 67,918 million yen (year-on-year growth of 14.7%).

The overview of each business segment is as described below.

(i) Semiconductor Production Equipment

The market for semiconductor production equipment has remained robust by continuing active investments for logic semiconductors in cutting-edge technology and for 3D NAND flash memory. What has supported this investment is the increasingly high functionality and capacity of mobile devices as well as the higher performance of servers that have accompanied the development of cloud computing. Consequently, net sales to external customers in this segment for the first three quarters of the current fiscal year were 506,382 million yen (year-on-year growth of 9.2%).

(ii) Flat Panel Display (FPD) Production Equipment

In the FPD production equipment market, there has been on-going investment, in equipment for small to medium-sized flat panel displays used in mobile handsets. Consequently, net sales to external customers in this segment for the first three quarters of the current fiscal year were 32,367 million yen (year-on-year growth of 7.9%).

(iii) Other

Net sales to external customers in this segment were 337 million yen (year-on-year decrease of 94.6%) during the first three quarters of the current fiscal year.

(For reference)

Consolidated Operating Results

(Millions of yen)

	FY2017			
	1Q	2Q	3Q	Total
Net Sales	147,976	204,745	186,364	539,087
Semiconductor Production Equipment	130,796	196,211	179,373	506,382
Japan	17,819	26,429	20,329	64,578
U.S.	17,022	34,416	24,634	76,074
Europe	5,234	6,695	15,061	26,991
Korea	19,805	29,031	33,376	82,213
Taiwan	30,504	58,289	62,360	151,155
China	30,049	24,044	13,798	67,892
Southeast Asia	10,360	17,304	9,812	37,476
FPD Production Equipment	17,064	8,414	6,887	32,367
Other	115	119	103	337
Operating Income	22,095	37,916	34,147	94,160
Ordinary Income	24,083	38,281	33,327	95,692
Net Income Attributable to Owners of Parent	12,684	29,281	25,951	67,918

Note: Intersegment sales or transfers are eliminated.

Production and Order Performance**1. Production**

(Millions of yen)

	FY2017			
	1Q	2Q	3Q	Total
Semiconductor Production Equipment	140,236	203,496	174,941	518,674
FPD Production Equipment	9,623	6,832	13,271	29,727
Other	-	-	-	-
Total	149,860	210,328	188,213	548,402

Note: 1. Amounts are based on sales prices.

2. The above amounts do not include consumption taxes.

2. Orders Received

(Millions of yen)

	FY2017			
	1Q	2Q	3Q	Total
Semiconductor Production Equipment	197,496	195,695	267,187	660,380
FPD Production Equipment	15,955	15,032	30,484	61,472
Other	111	119	115	346
Total	213,564	210,848	297,787	722,199

Note: 1. Intersegment sales or transfers are eliminated.

2. The above amounts do not include consumption taxes.

3. Orders Backlog

(Millions of yen)

	FY2017		
	1Q	2Q	3Q
Semiconductor Production Equipment	329,988	329,473	417,286
FPD Production Equipment	36,319	42,937	66,533
Other	1	0	13
Total	366,309	372,411	483,833

- Note: 1. Intersegment sales or transfers are eliminated.
2. The above amounts do not include consumption taxes.

(2) Description of Financial Conditions**(i) Financial Conditions**

Current assets at the end of the third quarter of the current fiscal year were 710,330 million yen, an increase of 92,914 million yen compared to the end of the previous fiscal year. This was largely due to an increase of 39,118 million yen in cash and deposits, an increase of 35,244 million yen in inventories, and an increase of 9,686 million yen in trade notes and accounts receivable.

Tangible fixed assets increased by 2,180 million yen from the end of the previous fiscal year, to 98,497 million yen.

Intangible fixed assets decreased by 847 million yen from the end of the previous fiscal year, to 16,756 million yen.

Investments and other assets decreased by 1,829 million yen from the end of the previous fiscal year, to 60,202 million yen.

As a result, total assets increased by 92,418 million yen from the end of the previous fiscal year, to 885,786 million yen.

Current liabilities increased by 61,210 million yen compared to the end of the previous fiscal year, to 227,271 million yen. This was primarily due to a 57,595 million yen increase in customer advances, a 6,230 million yen increase in trade notes and accounts payable, and a 7,347 million yen decrease in income taxes payable.

Long-term liabilities increased by 881 million yen compared to the end of the previous fiscal year, to 63,949 million yen.

Net assets increased by 30,326 million yen compared to the end of the previous fiscal year, to 594,566 million yen. The primary factors were an increase stemming from 67,918 million yen in reported net income attributable to owners of parent, and a decrease resulting from the payment of 39,371 million yen in year-end dividends for the previous fiscal year and interim dividends for the current fiscal year. As a result, the equity ratio was 66.8%.

(ii) Cash Flows

Cash and cash equivalents at the end of the third quarter of the current fiscal year increased by 54,654 million yen compared to the end of the previous fiscal year, to 150,293 million yen. The combined balance including 127,000 million yen in time deposits and short-term investments with periods to maturity or redemption of at least three months that are not included in cash and cash equivalents was 277,293 million yen, an increase of 40,619 million yen from the end of the previous fiscal year. The overall status of cash flows during the first three quarters of the current fiscal year was as described below.

Cash flows from operating activities were positive at 93,310 million yen, an increase of 31,870 million yen compared to the same period of the previous fiscal year. The main positive factors were 87,632 million yen in net income before income taxes, 12,779 million yen in depreciation and amortization, an increase of 56,350 million yen in customer advances, and an increase of 5,428 million yen in trade notes and accounts payable. The main negative factors were a 35,458 million yen increase in inventories, the payment of income taxes of 32,735 million yen, and an increase of 9,723 million yen in accounts receivable.

Cash flows from investing activities were positive 43 million yen compared to negative 114,084 million yen in the same period of the previous fiscal year. These were primarily the result of 14,032 million yen in income associated with a decrease in time deposits and short-term investments, and the payment of 12,548 million yen for purchase of fixed assets.

Cash flows from financing activities were negative 39,378 million yen, compared to negative 138,598 million yen in the same period of the previous fiscal year. These were primarily attributable to the payment of 39,371 million yen in dividends.

Consolidated Statements of Cash Flows (Summary)

(Millions of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Cash flows from operating activities	61,439	93,310
Income before income taxes	82,657	87,632
Depreciation and amortization	14,279	12,779
Decrease (increase) in trade notes and accounts receivable	7,100	(9,723)
Decrease (increase) in inventories	(9,686)	(35,458)
Increase (decrease) in trade notes and accounts payable	(10,107)	5,428
Other, net	(22,803)	32,650
Cash flows from investing activities	(114,084)	43
Decrease (increase) in time deposits and short-term investments	(107,987)	14,032
Other (Acquisition of fixed assets)	(6,097)	(13,989)
Cash flows from financing activities	(138,598)	(39,378)
Effect of exchange rate changes on cash and cash equivalents	(617)	679
Net increase (decrease) in cash and cash equivalents	(191,861)	54,654
Cash and cash equivalents at beginning of period	317,632	95,638
Cash and cash equivalents at end of period	125,770	150,293
Cash and cash equivalents, time deposits and short-term investments with periods to maturity or redemption of at least three months	233,809	277,293

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

There are no changes in the forecast of consolidated financial results for the entire fiscal year ending March 31, 2017 from the forecasts released at the time of the previous announcement on October 28, 2016.

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

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

Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2016	As of December 31, 2016
ASSETS		
Current assets		
Cash and deposit	75,674	114,793
Trade notes and accounts receivable	116,503	126,189
Securities	160,999	162,500
Merchandise and finished goods	130,478	149,702
Work in process	41,556	51,157
Raw materials and supplies	23,044	29,464
Others	69,207	76,584
Allowance for doubtful accounts	(48)	(61)
Total current assets	617,416	710,330
Long-term assets		
Tangible fixed assets	96,316	98,497
Intangible fixed assets		
Others	17,603	16,756
Total intangible fixed assets	17,603	16,756
Investments and other assets		
Others	63,857	62,035
Allowance for doubtful accounts	(1,825)	(1,832)
Total investments and other assets	62,031	60,202
Total long-term assets	175,951	175,456
Total assets	793,367	885,786

Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2016	As of December 31, 2016
LIABILITIES		
Current liabilities		
Trade notes and accounts payable	55,050	61,280
Income taxes payable	22,460	15,112
Customer advances	33,522	91,118
Other allowances	21,731	17,491
Others	33,295	42,267
Total current liabilities	<u>166,060</u>	<u>227,271</u>
Long-term liabilities		
Other allowances	374	374
Net liability for defined benefit	55,302	56,643
Others	7,390	6,930
Total long-term liabilities	<u>63,067</u>	<u>63,949</u>
Total liabilities	<u>229,128</u>	<u>291,220</u>
NET ASSETS		
Shareholders' equity		
Common stock	54,961	54,961
Capital surplus	78,023	78,023
Retained earnings	427,618	456,080
Treasury stock, at cost	(8,050)	(7,844)
Total shareholders' equity	<u>552,551</u>	<u>581,220</u>
Accumulated other comprehensive income (loss)		
Net unrealized gains (losses) on investment securities	7,902	8,551
Net deferred gains (losses) on hedging	50	(106)
Foreign currency translation adjustments	6,742	6,620
Accumulated remeasurements of defined benefit plans	(4,877)	(4,648)
Total accumulated other comprehensive income (loss)	<u>9,817</u>	<u>10,416</u>
Share subscription rights	1,641	2,654
Non-controlling interests	<u>228</u>	<u>275</u>
Total net assets	<u>564,239</u>	<u>594,566</u>
Total liabilities and net assets	<u>793,367</u>	<u>885,786</u>

Consolidated Statements of Income

(Millions of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net sales	499,722	539,087
Cost of sales	301,640	327,468
Gross profit	198,082	211,619
Selling, general and administrative expenses		
Research and development expenses	55,931	58,977
Others	55,386	58,481
Total selling, general and administrative expenses	111,318	117,458
Operating income	86,763	94,160
Non-operating income		
Others	2,301	2,083
Total non-operating income	2,301	2,083
Non-operating expenses		
Foreign exchange loss	7	351
Commission for purchase of treasury stock	662	-
Others	356	200
Total non-operating expenses	1,025	551
Ordinary income	88,039	95,692
Unusual or infrequent profit		
Gain on sales of fixed assets	1,010	50
Others	-	6
Total unusual or infrequent profit	1,010	57
Unusual or infrequent loss		
Loss on impairment of fixed assets, goodwill and other assets	4,434	-
Loss on disaster	-	7,828
Others	1,958	288
Total unusual or infrequent loss	6,393	8,116
Income before income taxes	82,657	87,632
Income taxes	23,392	19,678
Net income	59,264	67,953
Net income attributable to non-controlling interests	29	35
Net income attributable to owners of parent	59,235	67,918

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net income	59,264	67,953
Other comprehensive income (loss)		
Net unrealized gains (losses) on investment securities	(1,193)	643
Net deferred gains (losses) on hedging instruments	(146)	(57)
Foreign currency translation adjustments	(2,211)	(128)
Remeasurements of defined benefit plans	(1,224)	189
Share of other comprehensive income of associates accounted for using equity method	(26)	(36)
Total other comprehensive income (loss)	<u>(4,802)</u>	<u>609</u>
Comprehensive income	<u>54,461</u>	<u>68,563</u>
(Breakdown)		
Comprehensive income attributable to owners of parent	54,442	68,516
Comprehensive income attributable to non-controlling interests	19	47

Notes

Going concern: None

Remarkable changes in shareholders' equity: None

Note on consolidated statements of income:

Loss on disaster

These are 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.

Income taxes

Current income tax expense for the nine months ended December 31, 2016 is net of 405 million yen of estimated tax benefit from the expected resolution of the Mutual Agreement Procedure being finalized by the Japanese and US income tax authorities for transfer pricing adjustments assessed during prior historical periods. The 405 million yen is the difference between the current projected tax refunds and the estimated amount recorded in prior fiscal year.

Segment information:

(i) General information about reportable segments

A reportable segment is a component or an aggregated component of TEL Group. 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 TEL Group consists of segments by products and services based on business units (BUs), and TEL Group 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.

(ii) Information about reportable segment net sales, segment profit (loss)

Nine months ended December 31, 2016

(Millions of yen)

	Reportable Segments		Other *1	Total
	Semiconductor Production Equipment	FPD Production Equipment		
Net sales	506,382	32,367	10,555	549,305
Segment profit (loss)	115,083	2,219	98	117,401

	Eliminations and Corporate *2	Consolidated *3
Net sales	(10,217)	539,087
Segment profit (loss)	(29,768)	87,632

Notes:

- *1. "Other" includes all other operating segments which are not included in the reportable segments, including PV Production Equipment business, group-wide logistic services, facility maintenance and insurance.
- *2. "Eliminations and Corporate" segment loss totaling 29,768 million yen includes corporate expenses not allocated to any reportable segments. The corporate expenses consist of research and development costs of 12,129 million yen, pertaining to fundamental research and element research, and loss on disaster costs of 7,828 million yen.
- *3. Segment profit is adjusted to income before income taxes on consolidated statements of Income.

(iii) Impairment losses on fixed assets and information about goodwill in reportable segments

Significant impairment losses related to fixed assets: None

Significant changes in goodwill amount: None

Significant income related to negative goodwill: None