

Consolidated Financial Review for the Third Quarter Ended December 31, 2015

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

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

1. Financial highlights for the nine months ended December 31, 2015

(1) Operating results (Cumulative)

	Nine months ended	
	December 31, 2014	December 31, 2015
Net sales (Millions of yen)	431,295	499,722
Operating income (Millions of yen)	52,196	86,763
Ordinary income (Millions of yen)	56,779	88,039
Net income attributable to owners of parent (Millions of yen)	37,468	59,235
Net income per share (Yen)	209.05	347.30
Fully diluted net income per share (Yen)	208.56	346.42
Comprehensive income:	Nine months ended December 31, 2015: 54,461 million yen Nine months ended December 31, 2014: 45,978 million yen	

(2) Financial position

	As of March 31, 2015	As of December 31, 2015
Total assets (Millions of yen)	876,153	768,640
Net assets (Millions of yen)	641,162	557,717
Equity ratio (%)	73.0	72.3
Equity:	555,665 million yen (as of December 31, 2015) 639,483 million yen (as of March 31, 2015)	

2. Dividends

	Year ended March 31, 2015	Year ending March 31, 2016	
1Q-end dividend per share (Yen)	10.00	-	
2Q-end dividend per share (Yen)	30.00	125.00	
3Q-end dividend per share (Yen)	35.00	-	
Year-end dividend per share (Yen)	68.00	94.00	(Forecast)
Annual dividend per share (Yen)	143.00	219.00	(Forecast)

Note: Revision of dividends forecast : None

3. Earnings forecasts for the year ending March 31, 2016

	Year ending March 31, 2016
Net sales (Millions of yen)	660,000
Operating income (Millions of yen)	105,000
Ordinary income (Millions of yen)	106,000
Net income attributable to owners of parent (Millions of yen)	72,000
Net income per share (Yen)	426.25

Notes: Revision of earnings forecast : None

4. Others

- (1) Important changes in subsidiaries: None
(Changes on specific subsidiaries with changes in scope of consolidation)
- (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 issued and outstanding (common stock)
 1. Number of shares issued and outstanding (including treasury stock)

As of December 31, 2015:	180,610,911 shares
As of March 31, 2015:	180,610,911 shares
 2. Number of shares of treasury stock

As of December 31, 2015:	16,630,134 shares
As of March 31, 2015:	1,344,892 shares
 3. Average number of shares outstanding

Nine months ended December 31, 2015:	170,561,309 shares
Nine months ended December 31, 2014:	179,232,134 shares

Notification of the status of quarterly financial review procedures:

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

Explanations on the appropriate use of earnings forecast:

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

The company plans to hold a financial meeting for analysts and investors on Friday Jan 29, 2016. The supplementary materials to these financial reports that will be handed out at this meeting will be posted simultaneously on our company website.

1. Qualitative Information on Financial Results for the Current Quarter

(1) Description of Operating Results

Although economic growth was observed to slow in emerging economies such as China, the global economy during the first three quarters of the current fiscal year generally showed signs of a moderate recovery.

In the electronics industry, the primary area of the Tokyo Electron (TEL) Group's business activities, the electronics components market was robust, as mobile devices gained increased functionality and advancements made in areas such as cloud services led to soaring demand for servers for data centers.

Under these circumstances, the Group's consolidated results (cumulative) for the first three quarters were net sales of 499,722 million yen (a year-on-year growth of 15.9%), operating income of 86,763 million yen (a year-on-year growth of 66.2%), ordinary income of 88,039 million yen (a year-on-year growth of 55.1%) and net income attributable to owners of parent of 59,235 million yen (a year-on-year growth of 58.1%).

The overview of each business segment is as described below.

As of the first quarter of the current fiscal year, the Photovoltaic Panel (PV) Production Equipment business, from which we announced our intention to withdraw, was no longer material as stipulated in the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information. Therefore, it has been removed from the reportable segments and included in "Others." The year-on-year comparisons below are based on figures reclassified into segments after the amendment of year-on-year figures.

(i) Semiconductor Production Equipment

Although demand for smartphones and tablets was sluggish, capital investment by semiconductor manufacturers was robust due to the increased functionality of smartphones and demand for servers for data centers. Consequently, net sales to external customers in this segment for the first three quarters of the current fiscal year were 463,511 million yen (a year-on-year growth of 14.6%).

(ii) Flat Panel Display (FPD) Production Equipment

In the market for FPD production equipment, capital investment in facilities for manufacturing large-sized flat panel displays increased in China, and investment aimed at small to medium-sized flat panel displays used for mobile devices showed signs of recovery. As a result, net sales to external customers in this segment for the first three quarters of the current fiscal year were 30,000 million yen (a year-on-year growth of 31.7%).

(iii) Others

Net sales to external customers in this segment for the first three quarters of the current fiscal year were 6,210 million yen (a year-on-year growth of 59.5%).

(For reference)**Consolidated Operating Results**

(Millions of yen)

	FY2016			
	1Q	2Q	3Q	Total
Net Sales	155,762	185,189	158,771	499,722
Semiconductor Production Equipment	140,365	176,622	146,523	463,511
Japan	25,011	37,809	27,028	89,848
U.S.	30,776	29,491	23,428	83,695
Europe	17,053	9,620	14,856	41,530
Korea	28,140	25,211	15,257	68,609
Taiwan	23,130	52,928	43,354	119,413
China	14,084	17,041	17,219	48,344
S.E.Asia	2,169	4,520	5,379	12,069
FPD Production Equipment	10,070	8,205	11,724	30,000
Others	5,326	361	522	6,210
Operating Income	30,279	30,970	25,513	86,763
Ordinary Income	30,207	32,177	25,655	88,039
Net Income Attributable to Owners of Parent	19,481	21,895	17,858	59,235

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

Production and Order Performance**1. Production**

(Millions of yen)

	FY2016			
	1Q	2Q	3Q	Total
Semiconductor Production Equipment	147,830	150,176	131,554	429,561
FPD Production Equipment	10,435	12,758	10,295	33,489
Others	5,124	-	-	5,124
Total	163,390	162,935	141,849	468,175

Note: 1. Amounts are based on sales prices.

2. The above amounts do not include consumption taxes.

2. Orders Received

(Millions of yen)

	FY2016			
	1Q	2Q	3Q	Total
Semiconductor Production Equipment	156,663	122,499	159,307	438,470
FPD Production Equipment	11,847	12,502	13,947	38,297
Others	1,835	204	492	2,531
Total	170,346	135,206	173,747	479,299

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

2. The above amounts do not include consumption taxes.

3. Orders Backlog

(Millions of yen)

	FY2016		
	1Q	2Q	3Q
Semiconductor Production Equipment	276,766	222,643	235,426
FPD Production Equipment	33,388	37,686	39,908
Others	201	44	13
Total	310,355	260,373	275,348

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

2. The above amounts do not include consumption taxes.

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

Current assets at the end of the third quarter of the current fiscal year were 579,835 million yen, down 91,047 million yen compared to the end of the previous fiscal year. The major factors influencing this result were a 59,300 million yen decrease in short-term investments included in securities, a 24,573 million yen decrease in cash and deposits, and an 8,006 million yen decrease in trade notes and accounts receivable. Tangible fixed assets decreased by 6,562 million yen from the end of the previous fiscal year, to 100,333 million yen.

Intangible fixed assets decreased by 6,853 million yen from the end of the previous fiscal year, to 20,712 million yen.

Investment and other assets decreased by 3,049 million yen from the end of the previous fiscal year, to 67,758 million yen.

As a result, total assets decreased by 107,513 million yen from the end of the previous fiscal year, to 768,640 million yen.

Current liabilities were down 21,376 million yen compared to the end of the previous fiscal year, to 151,436 million yen. The major factors causing the decrease were a 10,416 million yen decrease in trade notes and accounts payable, and a 10,231 million yen decrease in customer advances.

Long-term liabilities were down 2,692 million yen compared to the end of the previous fiscal year, to 59,485 million yen.

Net assets were down 83,444 million yen compared to the end of the previous fiscal year, to 557,717 million yen. The main factors were an increase due to reported net income attributable to owners of parent of 59,235 million yen, a decrease of 105,808 million yen due to the purchase of treasury stock, and a decrease as a result of the payment of 33,013 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 72.3%.

(ii) Cash Flow

Cash and cash equivalents at the end of the third quarter of the current fiscal year decreased by 191,861 million yen compared to the end of the previous fiscal year, to 125,770 million yen. The combined balance including 108,038 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 233,809 million yen, down 83,873 million yen from the end of the previous fiscal year. The overall situation regarding cash flow during the first three quarters of the current fiscal year was as described below.

Cash flow from operating activities was positive 61,439 million yen, up 21,369 million yen compared to the same period of the previous fiscal year. The main positive factors were 82,657 million yen in net income before income taxes, 14,279 million yen in depreciation and amortization, and a 7,100 million yen decrease in trade notes and accounts receivable. The main negative factors were the payment of income taxes of 12,176 million yen, a decrease of 10,639 million yen in customer advances, a decrease of 10,107 million yen in accounts payable and a 9,686 million yen increase in inventories.

Cash flow from investing activities was negative 114,084 million yen compared to positive 126,701 million yen in the same period of the previous year. The primary negative factor was 108,000 million yen in payments associated with an increase in short-term investments, and 7,529 million yen in payments for purchase of tangible fixed assets.

Cash flow from financing activities was negative 138,598 million yen, compared to negative 11,922 million yen in the same period of the previous fiscal year. This was primarily the result of the payment of 105,531 million yen for the purchase of treasury stock, and the payment of 33,013 million yen in dividends.

Consolidated Cash Flow (Summary)

(Millions of yen)

	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Cash flow from operating activities	40,070	61,439
Income before income taxes	53,852	82,657
Depreciation and amortization	15,189	14,279
Loss on impairment	-	4,434
Decrease in trade notes and accounts receivable (increase)	3,503	7,100
Decrease in inventories (increase)	(15,903)	(9,686)
Increase in accounts payable (decrease)	(2,277)	(10,107)
Others	(14,294)	(27,237)
Cash flow from investing activities	126,701	(114,084)
Decrease in time deposits and short-term investments (increase)	133,300	(107,987)
Others (purchase of fixed assets)	(6,598)	(6,097)
Cash flow from financing activities	(11,922)	(138,598)
Purchase of treasury stock	(168)	(105,531)
Others	(11,754)	(33,067)
Effect of exchange rate changes on cash and cash equivalents	(4,342)	(617)
Net increase in cash and cash equivalents (decrease)	150,505	(191,861)
Cash and cash equivalents at beginning of period	104,797	317,632
Cash and cash equivalents at end of period	255,303	125,770
Cash and cash equivalents and time deposits and short-term investments with periods to maturity or redemption of at least three months that are not included in cash and cash equivalents	285,359	233,809

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

There are no changes in the forecast of consolidated financial results for the entire fiscal year ending March 31, 2016 from the forecasts released at the time of the previous announcement on October 27, 2015.

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

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

Consolidated Balance Sheet

TOKYO ELECTRON

	(Millions of yen)	
	As of March 31, 2015	As of December 31, 2015
ASSETS		
Current assets		
Cash and deposit	79,382	54,809
Trade notes and accounts receivable	110,845	102,838
Securities	238,532	179,000
Merchandise and finished goods	112,301	115,674
Work in process	41,483	44,735
Raw materials and supplies	21,803	23,542
Others	66,913	59,275
Allowance for doubtful accounts	(378)	(40)
Total current assets	670,882	579,835
Long-term assets		
Tangible fixed assets	106,896	100,333
Intangible fixed assets		
Others	27,566	20,712
Total intangible fixed assets	27,566	20,712
Investments and other assets		
Others	72,692	69,610
Allowance for doubtful accounts	(1,884)	(1,852)
Total investments and other assets	70,807	67,758
Total long-term assets	205,271	188,805
Total assets	876,153	768,640

	(Millions of yen)	
	As of March 31, 2015	As of December 31, 2015
LIABILITIES		
Current liabilities		
Trade notes and accounts payable	56,478	46,062
Income taxes payable	6,196	14,783
Accrued warranty expenses	10,441	9,533
Other allowance	13,151	6,543
Others	86,543	74,513
Total current liabilities	<u>172,812</u>	<u>151,436</u>
Long-term liabilities		
Other allowance	374	374
Net defined benefit liability	51,104	51,706
Others	10,699	7,404
Total long-term liabilities	<u>62,178</u>	<u>59,485</u>
Total liabilities	<u>234,991</u>	<u>210,922</u>
NET ASSETS		
Shareholders' equity		
Common stock	54,961	54,961
Capital surplus	78,023	78,023
Retained earnings	488,816	514,492
Treasury stock	(9,064)	(113,766)
Total shareholders' equity	<u>612,736</u>	<u>533,710</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,463	8,267
Deferred gains or losses on hedges	122	(2)
Translation adjustments	12,481	10,269
Remeasurements of defined benefit plans	4,681	3,419
Total accumulated other comprehensive income	<u>26,747</u>	<u>21,954</u>
Subscription rights to shares	1,420	1,827
Non-controlling interests	257	225
Total net assets	<u>641,162</u>	<u>557,717</u>
Total liabilities and net assets	<u>876,153</u>	<u>768,640</u>

Consolidated Statement of Income

	(Millions of yen)	
	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Net sales	431,295	499,722
Cost of sales	266,204	301,640
Gross profit	165,090	198,082
Selling, general & administrative expenses		
Research and development expenses	51,794	55,931
Others	61,099	55,386
Total selling, general & administrative expenses	112,894	111,318
Operating income	52,196	86,763
Non-operating income		
Foreign currency translation income	1,796	-
Others	2,879	2,301
Total non-operating income	4,675	2,301
Non-operating expenses		
Payment for purchase of treasury stock	-	662
Others	92	363
Total non-operating expenses	92	1,025
Ordinary income	56,779	88,039
Unusual or infrequent profit		
Gain on sale of fixed assets	183	1,010
Gain on sale of investment securities	54	-
Total unusual or infrequent profit	238	1,010
Unusual or infrequent loss		
Loss on impairment	-	4,434
Expenses for restructuring of business bases	951	-
Others	2,214	1,958
Total unusual or infrequent loss	3,165	6,393
Income before income taxes	53,852	82,657
Income taxes	16,350	23,392
Net income	37,501	59,264
Net income attributable to non-controlling interests	33	29
Net income attributable to owners of parent	37,468	59,235

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Net income	37,501	59,264
Other comprehensive income		
Valuation difference on available-for-sale securities	2,370	(1,193)
Deferred gains or losses on hedges	143	(146)
Translation adjustments	7,277	(2,211)
Remeasurements of defined benefit plans	(1,321)	(1,224)
Share of other comprehensive income of associates accounted for using equity method	5	(26)
Total other comprehensive income	8,476	(4,802)
Comprehensive income	45,978	54,461
(Breakdown)		
Comprehensive income attributable to owners of parent	45,916	54,442
Comprehensive income attributable to non-controlling interests	61	19

Notes

Remarkable Changes in Shareholders' Equity

Tokyo Electron Limited executed the purchase of treasury stock based on the resolution of its Board of Directors dated April 27, 2015. Due to the purchase and other transactions, the amount of treasury stock of the company increased by 104,702 million yen for the third quarter of the current fiscal year and resulted in 113,766 million yen at the end of the third quarter of the current fiscal year.

Loss on impairment

The Tokyo Electron Group groups its business assets into small units that generate independent cash flow. For those business sites we have decided to restructure or handle otherwise, we are grouping assets separately based on each individual business.

During the first three quarters of the current fiscal year, we posted a loss on impairment of the following asset groups.

Location	Purpose	Accounting treatment	Loss on impairment (Millions of yen)
Chaska, Minnesota, U. S. A.	-	Goodwill, etc.	4,434

Regarding the goodwill and other items posted at the time we acquired the consolidated subsidiary TEL FSI, Inc., in the semiconductor production equipment (SPE) business, given that sales have been trending below initial plans, we implemented an impairment test. And as a result, we wrote down this goodwill to a recoverable value and are posting this write-down as an unusual or infrequent loss. We note that the recoverable book value was gauged in accordance with value in use and applying a 14.0% discount to future cash flow.

Segment Information

(i) Overview of reportable segments

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

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

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

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

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

Nine months ended December 31, 2015

(Millions of yen)

	Reportable Segments		Others	Total
	Semiconductor Production Equipment	FPD Production Equipment		
Net sales	463,511	30,000	14,663	508,175
Segment income (loss)	97,034	2,976	2,168	102,179

	Eliminations	Consolidated Total
Net sales	(8,453)	499,722
Segment income (loss)	(19,521)	82,657

Notes:

1. The "Others" is all other businesses segment which are not included in the reported business segments, such as Photovoltaic Panel (PV) Production Equipment and the transportation of products, facility management and insurance of the Tokyo Electron Group.
2. The eliminations of segment income amounting to 19,521 million yen includes corporate expenses pertaining to the corporate account which are not allocated to any specific reportable segments. The corporate account expenses are mainly R&D expenses of 9,647 million yen, pertaining to fundamental research and element research conducted by the company not related to any of the reportable segments.
3. Segment income is adjusted against income before income taxes in consolidated statement of income.

Segment Information

(iii) Items Related to Changes in Reportable Segments

As of the first quarter of the current fiscal year, the Photovoltaic Panel (PV) Production Equipment business was no longer material as stipulated in the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information. Therefore, it has been removed from the reportable segments and included in "Others."

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

Significant impairment losses related to fixed assets: None

Significant changes in goodwill amount: None

Significant income related to negative goodwill: None

Note: Significant events after reporting period

Cancellation of treasury stock

At the Board of Directors meeting held on December 21, 2015, Tokyo Electron Ltd. resolved to cancel treasury stock under the provision of Article 178 of the Companies Act.

The cancellation was put into effect on January 20, 2016, as scheduled. The details are listed below.

1. Type of shares cancelled: Share of common stock
2. Total number of shares cancelled: 15,400,000 shares
(8.53% of issued shares before the cancellation)
3. Date of cancellation: January 20, 2016