Notes to Consolidated Financial Statements

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2018 and 2017

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 and thousands of yen; thousands of U.S. dollars; and thousands of shares as of and for the years ended March 31, 2018 and 2017 are truncated at the nearest unit. Accordingly, totals do not necessarily agree with the sum of the corresponding individual amounts.

U.S. dollar amounts included herein are solely for the convenience of readers and are presented at the rate of ¥106.24 to $1.00, the approximate rate as of March 31, 2018. 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 33 and 35 subsidiaries as of March 31, 2018 and 2017, respectively. All significant inter-company accounts, transactions and unrealized profits or losses have been eliminated through consolidation procedures.

There are 9 and 8 affiliates accounted for using the equity method as of March 31, 2018 and 2017, respectively.

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 and cash equivalents

Cash and cash equivalents consist of cash, short term deposits and low-risk financial instruments with original maturities of three months or less.

(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, 2018 and 2017. 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 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.

(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 (loss). Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(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) Research and development expenses

Research and development expenses are charged to earnings as incurred and amounted to ¥97,103 million ($914,000 thousand) and ¥83,800 million for the years ended March 31, 2018 and 2017, respectively.

(r) 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, 2018.

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.

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. Accounting Standards Issued but Not yet Adopted

"Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018)

"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 (revised 2018), February 16, 2018)

(1) Overview

The above guidance was revised with regard to the treatment of taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements, and to clarify the approach to determining recoverability of deferred tax assets in a company which is categorized as 'Type 1' according to the guidance.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2019.

(3) Effects of the application of the guidance

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of this new guidance on the consolidated financial statements.

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018 (hereinafter, "Statement No.29")) "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018 (hereinafter, "Guidance No.30"))

(1) Overview

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) collaborated on a project to develop a single, comprehensive revenue recognition model and jointly issued new revenue recognition standards "Revenue from Contracts with Customers" (IFRS 15 published by IASB, Topic 606 published by FASB) in May 2014. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 and Topic 606 is effective for annual reporting periods beginning after December 15, 2017.

Considering the above circumstances, the Accounting Standard Board of Japan (ASBJ) also developed a new revenue recognition and issued Statement No.29 together with Guidance No.30.

ASBJ's basic policy in developing the new revenue recognition standards is to first incorporate the core principle of IFRS 15 in the light of improving the international comparability of financial statements and then add additional alternative treatments to the extent that international comparability would not be significantly impaired where any business practices operated in Japan need to be considered.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

6. Securities

Other securities as of March 31, 2018 and 2017 are as follows:

	Millions of yen	
2018:	Cost	Carrying value
Non-current		
Securities with carrying value exceeding acquisition cost		
Equity securities	¥7,620	¥32,293
Securities with carrying value not exceeding acquisition cost		
Equity securities	819	819
Other	15	15
Total	¥8,455	¥33,128

	Millions of yen	
2017:	Cost	Carrying value
Non-current		
Securities with carrying value exceeding acquisition cost		
Equity securities	¥7,183	¥22,704
Securities with carrying value not exceeding acquisition cost		
Equity securities	—	—
Total	¥7,183	¥22,704

	Thousands of U.S. dollars	
2018:	Cost	Carrying value
Non-current		
Securities with carrying value exceeding acquisition cost		
Equity securities	$71,730	$303,971
Securities with carrying value not exceeding acquisition cost		
Equity securities	7,714	7,714
Other	141	141
Total	$79,587	$311,827

Held-to-maturity securities classified as current assets are ¥286,500 million ($2,696,724 thousand) and ¥244,500 million as of March 31, 2018 and 2017, respectively.

Reconciliation of held-to-maturity securities as of March 31, 2018 and 2017 to the amounts of short-term investments in the consolidated balance sheets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Held-to-maturity (current)	¥286,500	¥244,500	$2,696,724
Deposits and low-risk financial instruments with original maturities of three months or less	(170,500)	(93,500)	(1,604,856)
Deposits with original maturities of more than three months	—	—	—
Short-term investments	¥116,000	¥151,000	$1,091,867

Net loss on devaluation of investment securities was ¥536 million ($5,049 thousand) and ¥105 million for the years ended March 31, 2018 and 2017, respectively.

For the years ended March 31, 2018 and 2017, the amounts of gain and loss on sale of available-for-sale securities were immaterial.

7. Inventories

Inventories as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Finished products	¥220,497	¥152,629	$2,075,465
Work in process, raw materials and supplies	123,573	83,626	1,163,154
Total	¥344,071	¥236,256	$3,238,620

The amounts of change in inventory provision included in cost of sales in the consolidated statements of income for the years ended March 31, 2018 and 2017 were an increase of ¥173 million ($1,635 thousand) and a decrease of ¥3,060 million, respectively.

8. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2018 and 2017.

9. Short-Term Borrowings

There are no short-term borrowings classified as current liabilities as of March 31, 2018 and 2017.

As of March 31, 2018 and 2017, Tokyo Electron had unused lines of credit amounting to ¥126,953 million ($1,194,971 thousand) and ¥126,944 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.

Effective April 1, 2018, Tokyo Electron and its domestic subsidiaries converted a part of their defined benefit plans to a defined contribution plan. The loss on revision of retirement benefit plan of ¥3,154 million ($29,690 thousand) resulting from this change was recognized and presented in other income (expenses) for the year ended March 31, 2018 in accordance with the "Accounting Procedures for Conversion between Different Retirement Benefit Schemes" (Corporate Accounting Standards Implementation Guidelines No. 1) and the "Practical Treatment of Accounting Procedures for Conversion between Different Retirement Benefit Schemes" (Practical Issues Task Force No. 2).

Defined benefit plans

(1) Movement of defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at April 1, 2017 and 2016	¥118,660	¥116,228	$1,116,912
Service cost	6,052	6,080	56,967
Interest cost	963	772	9,066
Actuarial gain (loss)	4,632	(3,075)	43,601
Benefits paid	(3,029)	(2,708)	(28,517)
Prior service cost	1,690	—	15,915
Decrease by conversion of a part of defined benefit plans to a defined contribution plan	(15,946)	—	(150,100)
Increase by transfer	—	1,327	—
Foreign currency exchange rate changes	(30)	101	(288)
Other	—	(65)	—
Balance at March 31, 2018 and 2017	¥112,992	¥118,660	$1,063,557

(2) Movement of plan assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at April 1, 2017 and 2016	¥67,653	¥62,549	$636,798
Expected return on plan assets	1,400	1,266	13,186
Actuarial gain	526	540	4,960
Employer contributions	3,577	2,940	33,678
Benefits paid	(915)	(1,011)	(8,616)
Decrease by conversion of a part of defined benefit plans to a defined contribution plan	(18,523)	—	(174,359)
Increase by transfer	—	1,289	—
Foreign currency exchange rate changes	(24)	84	(227)
Other	(12)	(6)	(119)
Balance at March 31, 2018 and 2017	¥53,683	¥67,653	$505,301

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded defined benefit obligations	¥54,677	¥63,761	$514,657
Plan assets	(53,683)	(67,653)	(505,301)
Funded status	993	(3,892)	9,355
Unfunded defined benefit obligations	58,315	54,899	548,899
Net liability for defined benefits at March 31, 2018 and 2017	¥59,309	¥51,007	$558,255
Net liability for defined benefits	59,309	55,825	558,255
Net asset for defined benefits	—	(4,818)	—
Net liability for defined benefits at March 31, 2018 and 2017	¥59,309	¥51,007	$558,255

Note: The provision for accrued pension and severance costs for directors and audit & supervisory board members of ¥374 million ($3,529 thousand) and ¥374 million as of March 31, 2018 and 2017 is not included.

(4) Defined benefit costs

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥6,052	¥6,080	$56,967
Interest cost	963	772	9,066
Expected return on plan assets	(1,400)	(1,266)	(13,186)
Net actuarial gain (loss) amortization	(1,237)	291	(11,649)
Other	388	290	3,654
Total defined benefit costs for the years ended March 31, 2018 and 2017	¥4,765	¥6,168	$44,852
Loss on transfer to defined contribution plan (Note)	3,154	—	29,690

Note: Loss on revision of retirement benefit plan was recognized in other income (expenses) for the year ended March 31, 2018.

(5) Remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Prior service cost	¥(1,354)	¥ —	$(12,747)
Actuarial gain (loss)	(5,093)	3,869	(47,947)
Total	¥(6,448)	¥3,869	$(60,695)

Note: Prior service cost and actuarial loss for the year ended March 31, 2018 include the reclassification adjustments of ¥336 million ($3,167 thousand) and ¥240 million ($2,263 thousand), respectively associated with the conversion of a part of defined benefit plans to a defined contribution plan.

(6) Accumulated remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Prior service cost that is yet to be recognized (before tax)	¥(1,354)	¥ —	$(12,747)
Net actuarial loss that is yet to be recognized (before tax)	(7,806)	(2,712)	(73,482)
Total	¥(9,161)	¥(2,712)	$(86,229)

(7) Plan assets

1. Plan assets comprise:

	2018	2017
Bonds	38%	39%
Life insurance company general account	25	26
Equity securities	20	20
Alternative investments (Note)	9	9
Cash and cash equivalents	1	3
Other	7	3
Total	100%	100%

Note: Alternative investments consist of hedge funds and insurance-linked securities

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 as of and for the years ended March 31, 2018 and 2017 are as follows:

	2018	2017
Discount rate	0.46%	0.71%
Long-term expected rate of return	2.00%	2.00%

The expected rates of salary increase for the years ended March 31, 2018 and 2017 are also considered as one of the actuarial assumptions, and are set based on the salary increase index by age group as of January 1, 2018 and January 1, 2014, respectively.

11. Income Taxes

Significant components of the deferred tax assets and liabilities as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets			
Elimination of unrealized profit in inventories	¥27,718	¥19,276	$260,900
Net liability for defined benefits	18,129	18,102	170,648
Net operating loss carryforwards	10,969	15,402	103,254
Accrued employees' bonuses	8,185	4,977	77,051
Devaluation of inventories	4,148	3,995	39,049
Accrued warranty expenses	2,675	2,168	25,186
Accrued enterprise taxes	2,186	1,515	20,583
Other	14,535	12,600	136,815
Total gross deferred tax assets	88,550	78,038	833,490
Less valuation allowance	(8,043)	(9,808)	(75,711)
Total deferred tax assets	80,506	68,229	757,778
Deferred tax liabilities			
Net unrealized gains on investment securities	(7,554)	(4,757)	(71,105)
Undistributed earnings of subsidiaries	(6,143)	(5,197)	(57,828)
Other	(4,384)	(7,327)	(41,267)
Total deferred tax liabilities	(18,082)	(17,282)	(170,201)
Net deferred tax assets	¥62,424	¥50,947	$587,577

Net deferred tax assets are included in the consolidated balance sheets as of March 31, 2018 and 2017 as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current assets	¥50,505	¥36,892	$475,385
Investments and other assets	17,846	19,128	167,979
Other current liabilities	—	—	—
Other non-current liabilities	(5,926)	(5,073)	(55,788)

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 carry forwards 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, 2018 and 2017.

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

Significant components of the difference between the statutory and effective tax rates for the years ended March 31, 2018 and 2017 are as follows:

	2018	2017
Statutory tax rate in Japan	30.86%	30.86%
Adjustments:		
Tax credits	(6.23)	(8.41)
Effect of enacted changes in tax rates on net deferred tax assets	1.55	—
Difference in statutory tax rates of subsidiaries	(1.33)	(0.11)
Others, net	0.89	0.37
Effective tax rate	25.74%	22.71%

Year ended March 31, 2018

The U.S. federal income tax rate applied to the consolidated subsidiaries in the U.S. is reduced from 35% to 21% associated with the U.S. tax reform legislation signed into law on December 22, 2017.

Net deferred tax assets were reduced by ¥3,029 million ($28,519 thousand) and income taxes were increased by ¥3,211 million ($30,233 thousand) as of and for the year ended March 31, 2018 resulting from this tax rate reduction.

Year ended March 31, 2017

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 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. Other Income (Expenses)

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

For the year ended March 31, 2018, the following loss on impairment was recognized:

Goodwill of TEL NEXX, Inc.

Location	Purpose of use	Asset Type	Loss on impairment: Millions of yen	Loss on impairment: Thousands of U.S. dollars
Billerica, Massachusetts, U.S.A.	Business assets	Goodwill	¥925	$8,714

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

Loss on disaster

Loss on disaster of ¥7,521 million for the year ended March 31, 2017 represents the actual and 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 revision of retirement benefit plan

Effective April 1, 2018, Tokyo Electron and its domestic subsidiaries converted a part of their defined benefit plans to a defined contribution plan. The loss on revision of retirement benefit plan of ¥3,154 million ($29,690 thousand) resulting from this change was recognized and presented in other income (expenses) for the year ended March 31, 2018 in accordance with the "Accounting Procedures for Conversion between Different Retirement Benefit Schemes" (Corporate Accounting Standards Implementation Guidelines No. 1) and the "Practical Treatment of Accounting Procedures for Conversion between Different Retirement Benefit Schemes" (Practical Issues Task Force No. 2).

13. 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 11, 2018, the distribution of cash dividends amounting to ¥56,947 million ($536,026 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2018 since they are recognized in the period in which they are resolved at the board of directors' meeting.

14. Other Comprehensive Income

Other comprehensive income for the years ended March 31, 2018 and 2017 is as follows:

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Net unrealized gains on investment securities			
Net unrealized gains arising during the year	¥9,134	¥4,152	$85,979
Reclassification adjustments	—	(6)	—
Sub-total, before tax	9,134	4,146	85,979
Tax expense	(2,796)	(1,271)	(26,322)
Sub-total, net of tax	6,337	2,875	59,657
Net deferred gains (losses) on hedging instruments			
Net deferred gains arising during the year	286	15	2,692
Reclassification adjustments	—	—	—
Sub-total, before tax	286	15	2,692
Tax expense	(87)	(4)	(823)
Sub-total, net of tax	198	10	1,869
Foreign currency translation adjustments			
Adjustments during the year	(297)	(933)	(2,803)
Reclassification adjustments	54	—	516
Sub-total, before tax	(242)	(933)	(2,286)
Tax expense	—	—	—
Sub-total, net of tax	(242)	(933)	(2,286)
Remeasurements of defined benefit plans			
Adjustments during the year	(5,787)	3,578	(54,478)
Reclassification adjustments	(660)	291	(6,217)
Sub-total, before tax	(6,448)	3,869	(60,695)
Tax expense	1,953	(1,187)	18,386
Sub-total, net of tax	(4,494)	2,682	(42,308)
Share of other comprehensive income of associates accounted for using the equity method			
Adjustments during the year	(46)	114	(436)
Total other comprehensive income	¥1,752	¥4,750	$16,494

15. 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 144,700 shares of the Company were authorized and granted at an exercise price of ¥1 ($0.01) for the year ended March 31, 2018.

A summary of stock options outstanding and exercisable as of March 31, 2018 and 2017 is as follows:

	2018			2017	
	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	457,500	¥1	$0.01	305,500	¥1
Granted	144,700	1	0.01	194,400	1
Exercised	38,600	1	0.01	42,400	1
Expired (forfeited)	—	—	—	—	—
Outstanding at the end of year	563,600	1	0.01	457,500	1
Exercisable at the end of year	88,800	1	0.01	127,400	1

Amounts expensed related to stock options

The amounts expensed related to stock options for the years ended March 31, 2018 and 2017, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Selling, general and administrative expenses	¥1,903	¥1,141	$17,921

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, 2018 was ¥13,158 ($123.85) per unit, which was evaluated as follows:

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

	13th Stock Acquisition Rights
Volatility (Note 1)	39.97%
Expected residual period (Note 2)	11.5 years
Expected dividends (Note 3)	¥294.5 ($2.77) per share
Risk-free interest rate (Note 4)	0.12%

Notes: 1. Calculated based on the stock price performance for 11.5 years (from December 2005 to June 2017).
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, 2017 and 2016.
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.

16. Leases

Future minimum lease payments on non-cancelable operating leases are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Due within one year	¥ 3,772	¥3,554	$ 35,505
Due over one year	7,039	6,272	66,255
Total	¥10,811	¥9,827	$101,761

17. 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 nonperformance 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 short term 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 18 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, 2018 and 2017 are set out below. Fair value of financial instruments which is practically difficult to estimate are excluded.

	Millions of yen	
2018:	Carrying amount	Estimated fair value[1]
Assets		
Cash and cash equivalents	¥257,877	¥257,877
Short-term investments	116,000	115,966
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥59 million)	159,510	159,510
Investment securities	32,230	32,230
Liabilities		
Trade notes and accounts payable	108,607	108,607
Derivatives (see note 18)		
Hedge accounting not applied	(7)	(7)
Hedge accounting applied	335	335

	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 18)		
Hedge accounting not applied	(306)	(306)
Hedge accounting applied	49	49

	Thousands of U.S. dollars	
2018:	Carrying amount	Estimated fair value[1]
Assets		
Cash and cash equivalents	$2,427,314	$2,427,314
Short-term investments	1,091,867	1,091,549
Trade notes and accounts receivable, net of allowance for doubtful accounts ($563 thousand)	1,501,419	1,501,419
Investment securities	303,375	303,375
Liabilities		
Trade notes and accounts payable	1,022,284	1,022,284
Derivatives (see note 18)		
Hedge accounting not applied	(70)	(70)
Hedge accounting applied	3,154	3,154

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 6 for further information by classification of investment securities.
Derivatives
See note 18 for detailed discussion on derivative financial instruments.

2. The following financial instruments 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
	2018	2017	2018
	Reported amount In balance sheet		
Unlisted stocks	¥882	¥1,399	$8,309
Other	15	14	141
Total	¥897	¥1,414	$8,451

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

	Millions of yen	
2018:	Within 1 year	After 1 through 5 years
Cash and cash equivalents	¥257,877	¥—
Short-term investments	116,000	—
Trade notes and accounts receivable	159,570	—

	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	—

	Thousands of U.S. dollars	
2018:	Within 1 year	After 1 through 5 years
Cash and cash equivalents	$2,427,314	$—
Short-term investments	1,091,867	—
Trade notes and accounts receivable	1,501,982	—

18. 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, 2018 and 2017 are as follows:

1. Derivative financial instruments not designated as hedging instruments

2018:	Contract amount (Millions of yen)	Fair value (Millions of yen)	Gains (losses) (Millions of yen)
Sell U.S. dollars	¥ 703	¥18	¥18
Buy U.S. dollars	3,639	(19)	(19)
Buy Chinese yuan	1,515	(0)	(0)
Buy Taiwan dollars	912	0	0
Buy GBP	820	(2)	(2)
Buy EURO	785	(1)	(1)
Buy Singapore dollars	706	(2)	(2)
Total	¥9,084	¥ (7)	¥ (7)

2017:	Contract amount (Millions of yen)	Fair value (Millions of yen)	Gains (losses) (Millions of yen)
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)

2018:	Contract amount (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)	Gains (losses) (Thousands of U.S. dollars)
Sell U.S. dollars	$ 6,622	$172	$172
Buy U.S. dollars	34,257	(184)	(184)
Buy Chinese yuan	14,265	(4)	(4)
Buy Taiwan dollars	8,591	8	8
Buy GBP	7,727	(20)	(20)
Buy EURO	7,396	(18)	(18)
Buy Singapore dollars	6,646	(24)	(24)
Total	$85,506	$ (70)	$ (70)

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:

2018:	Millions of yen		Thousands of U.S. dollars	
	Contract amount	Fair value	Contract amount	Fair value
Future transactions denominated in a foreign currency				
Sell U.S. dollars	¥11,853	¥335	$111,575	$3,156
Buy U.S. dollars	156	(0)	1,474	(2)
Monetary assets and liabilities in foreign currency (Note)				
Sell U.S. dollars	555	—	5,230	—
Total	¥12,566	¥335	$118,280	$3,154

2017:	Contract amount (Millions of yen)	Fair value (Millions of yen)
Future transactions denominated in a foreign currency		
Sell U.S. dollars	¥4,117	¥50
Sell Korean won	1	(0)
Buy U.S. dollars	340	(0)
Monetary assets and liabilities in foreign currency (Note)		
Sell U.S. dollars	130	—
Buy U.S. dollars	127	—
Total	¥4,717	¥49

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.

19. 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, etch systems, 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 such products and provide services on them.

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 such products and provide services on them.

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 by negotiation between the Tokyo Electron group companies considering 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, 2018 and 2017 is as follows:

2018: (Millions of yen)	Reportable Segment: Semiconductor production equipment	Reportable Segment: FPD production equipment	Other	Total	Eliminations and Corporate	Consolidated
Net sales						
Sales to external customers	¥1,055,234	¥75,068	¥ 425	¥1,130,728	¥ —	¥1,130,728
Intersegment sales or transfers	—	—	19,469	19,469	(19,469)	—
Total	1,055,234	75,068	19,894	1,150,197	(19,469)	1,130,728
Segment profit (loss)	314,602	13,299	(57)	327,844	(52,601)	275,242
Segment assets	494,964	43,963	3,014	541,943	666,762	1,208,705
Depreciation and amortization	11,402	701	81	12,185	8,434	20,619
Amortization of goodwill	600	—	—	600	—	600
Loss on impairment	925	—	—	925	—	925
Capital expenditures, including intangible assets	16,392	935	247	17,575	33,722	51,297

Notes to Consolidated Financial Statements

Millions of yen

2017:	Reportable Segment: Semiconductor production equipment	Reportable Segment: 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

Thousands of U.S. dollars

2018:	Reportable Segment: Semiconductor production equipment	Reportable Segment: FPD production equipment	Other	Total	Eliminations and Corporate	Consolidated
Net sales						
Sales to external customers	$9,932,551	$706,597	$ 4,001	$10,643,151	$ —	$10,643,151
Intersegment sales or transfers	—	—	183,255	183,255	(183,255)	—
Total	9,932,551	706,597	187,256	10,826,406	(183,255)	10,643,151
Segment profit (loss)	2,961,247	125,179	(542)	3,085,884	(495,121)	2,590,762
Segment assets	4,658,932	413,814	28,376	5,101,123	6,275,998	11,377,121
Depreciation and amortization	107,331	6,603	764	114,699	79,389	194,088
Amortization of goodwill	5,652	—	—	5,652	—	5,652
Loss on impairment	8,714	—	—	8,714	—	8,714
Capital expenditures, including intangible assets	154,292	8,804	2,332	165,429	317,414	482,844

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

2. (1) "Eliminations and Corporate" segment loss totaling ¥52,601 million ($495,121 thousand) and ¥38,294 million for the years ended March 31, 2018 and 2017, respectively, includes corporate expenses not allocated to any reportable segments. The corporate expenses consist of the Company's research and development costs of ¥22,263 million ($209,561 thousand) and ¥17,830 for the years ended March 31, 2018 and 2017, respectively, pertaining to fundamental research and element research, not allocated to any of the reportable segments, the loss on revision of retirement benefit plan of ¥3,154 million ($29,690 thousand) for the year ended March 31, 2018 and the loss on disaster of ¥7,521 million for the year ended March 31, 2017.

(2) "Eliminations and Corporate" segment assets totaling ¥666,762 million ($6,275,998 thousand) and ¥552,792 million as of March 31, 2018 and 2017, 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 ¥33,722 ($317,414 thousand) and ¥10,347 million for the years ended March 31, 2018 and 2017, 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, 2018 and 2017 are as follows:

Millions of yen

2018:	Japan	North America	Europe	South Korea	Taiwan	China	Other	Total
Net sales	¥148,760	¥119,257	¥96,948	¥378,496	¥174,636	¥164,344	¥48,283	¥1,130,728

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

Millions of yen

2017:	Japan	North America	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.

Thousands of U.S. dollars

2018:	Japan	North America	Europe	South Korea	Taiwan	China	Other	Total
Net sales	$1,400,233	$1,122,532	$912,543	$3,562,658	$1,643,794	$1,546,914	$454,473	$10,643,151

(2) Net property, plant and equipment by location as of March 31, 2018 and 2017 are as follows:

Millions of yen

2018:	Japan	Other	Total
Property, plant and equipment	¥97,610	¥28,342	¥125,952

Millions of yen

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

Thousands of U.S. dollars

2018:	Japan	Other	Total
Property, plant and equipment	$918,772	$266,777	$1,185,550

(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 2018	Thousands of U.S. dollars 2018
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD production equipment	¥261,544	$2,461,829
Intel Corporation	Semiconductor production equipment	181,053	1,704,197
SK hynix Inc.	Semiconductor production equipment	132,146	1,243,846

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

Name of customer	Related reportable segment	Millions of yen 2017
Intel Corporation	Semiconductor production equipment	¥143,488
Taiwan Semiconductor Manufacturing Company Ltd.	Semiconductor production equipment	127,621
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD production equipment	112,151
Micron Technology, Inc.	Semiconductor production equipment	84,111

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, 2018 and 2017, and unamortized balances as of March 31, 2018 and 2017 are as follows:

	Millions of yen		
2018:	Semiconductor production equipment	FPD production equipment	Total
Amortization of goodwill	¥ 600	¥—	¥ 600
Goodwill	1,699	—	1,699

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

	Thousands of U.S. dollars		
2018:	Semiconductor production equipment	FPD production equipment	Total
Amortization of goodwill	$ 5,652	$—	$ 5,652
Goodwill	15,998	—	15,998

20. 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, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net income (loss) per share of common stock - Basic			
Net income attributable to owners of parent	¥204,371	¥115,208	$1,923,674
Less components not pertaining to holders of common stock	—	—	—
Net income pertaining to holders of common stock	¥204,371	¥115,208	$1,923,674
Weighted-average number of shares of common stock outstanding (thousands)	164,090	164,054	
Net income (loss) per share of common stock - Diluted			
Adjustment of net income attributable to owners of parent	—	—	—
Increase in number of common stock (Thousands of share)	562	446	
Increase in number of share subscription rights (Thousands of share)	562	446	

Independent Auditor's Report

KPMG

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, 2018 and 2017, 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 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, 2018 and 2017, 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, 2018 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

KPMG AZSA LLC
June 19, 2018
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.