

Q2 FY2018 (July - September 2017) Financial Announcement

October 31, 2017

Agenda:

- Q2 FY2018 Consolidated Financial Summary
Tetsuro Hori, Representative Director, CFO, Executive Vice President
- Business Environment and Financial Estimates
Toshiki Kawai, Representative Director, President & CEO



Forward Looking Statements

- Disclaimer regarding forward-looking statement

Forecast of TEL's performance and future prospects and other sort of information published are made based on information available at the time of publication. Actual performance and results may differ significantly from the forecast described here due to changes in various external and internal factors, including the economic situation, semiconductor/FPD market conditions, intensification of sales competition, safety and product quality management, and intellectual property-related risks.

- Processing of numbers

For the amount listed, because fractions are rounded down, there may be the cases where the total for certain account titles does not correspond to the sum of the respective figures for account titles. Percentages are calculated using full amounts, before rounding.

- Exchange Risk

In principle, export sales of Tokyo Electron's mainstay semiconductor and FPD panel production equipment are denominated in yen. While some settlements are denominated in dollars, exchange risk is hedged as forward exchange contracts are made individually at the time of booking. Accordingly, the effect of exchange rates on profits is negligible.

FPD: Flat panel display



Q2 FY2018 Consolidated Financial Summary

October 31, 2017

Tetsuro Hori
Representative Director, CFO, Executive Vice President



FY2018 Q2 (July - September) Highlights

- Record high sales of 280.5 billion yen (QoQ+19%)
 - Approx. 60% of SPE new equipment sales for memory
 - FS business sales 64.4 billion yen, up 18% QoQ
- Solid increase in profit margins
 - Operating margin new record high of 24.4% (+1.2pts QoQ)
 - FPD segment profit margin improving as planned
- Raised full year sales and profit estimates based on buoyant semiconductor demand

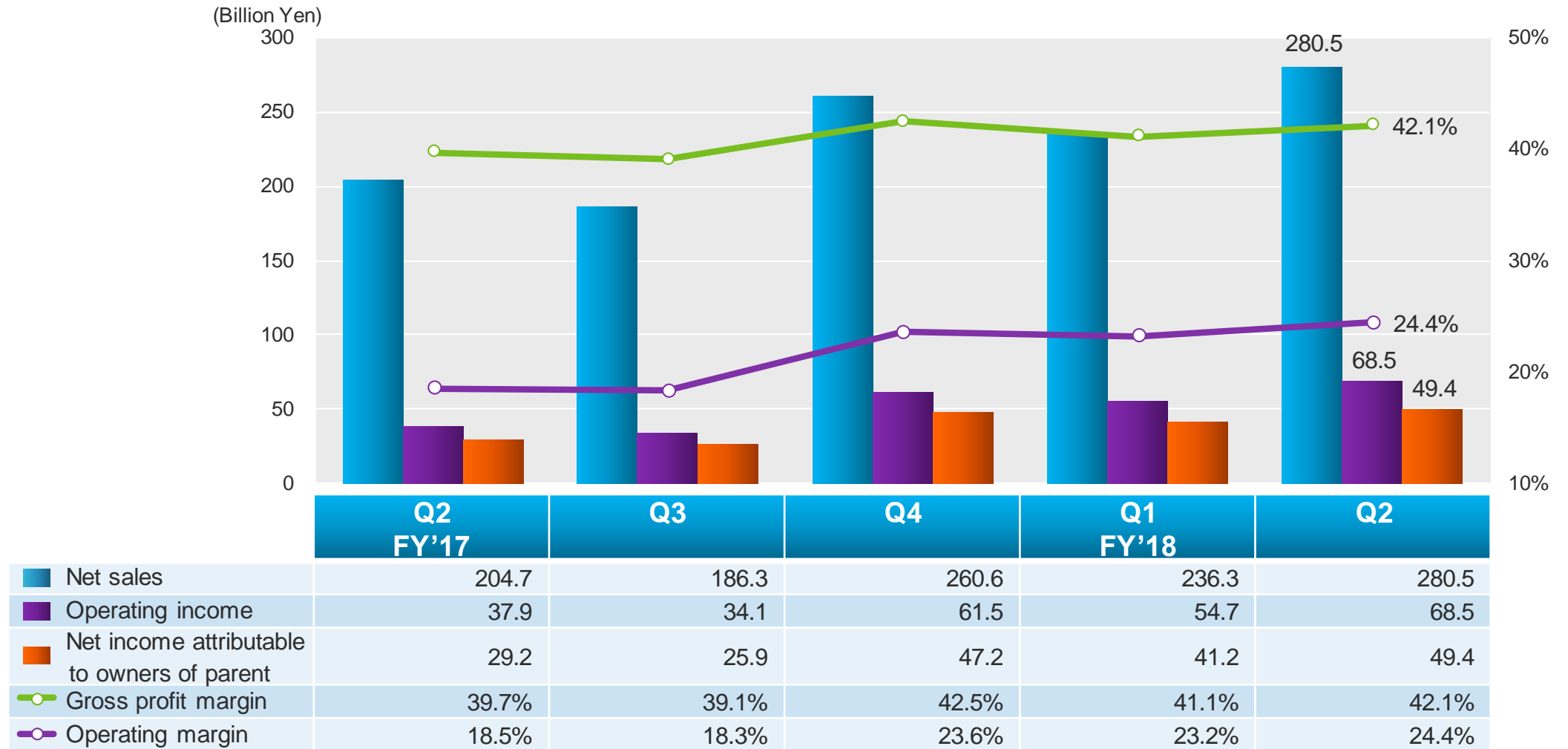
Financial Summary

(Billion yen)

	FY2017			FY2018		vs. Q1 FY2018
	Q2	Q3	Q4	Q1	Q2	
Net sales	204.7	186.3	260.6	236.3	280.5	+18.7%
Gross profit Gross profit margin	81.3 39.7%	72.9 39.1%	110.6 42.5%	97.1 41.1%	118.2 42.1%	+21.7% +1.0pts
SG&A expenses	43.4	38.7	49.1	42.3	49.7	+17.4%
Operating income Operating margin	37.9 18.5%	34.1 18.3%	61.5 23.6%	54.7 23.2%	68.5 24.4%	+25.1% +1.2pts
Income before income taxes	38.2	33.2	61.4	55.1	67.1	+21.8%
Net income attributable to owners of parent	29.2	25.9	47.2	41.2	49.4	+19.8%
R&D expenses	22.0	19.1	24.8	21.1	24.8	+17.4%
Capital expenditures	5.5	4.1	7.1	8.1	11.7	+44.0%
Depreciation and amortization	4.2	4.5	5.0	4.2	4.7	+12.7%

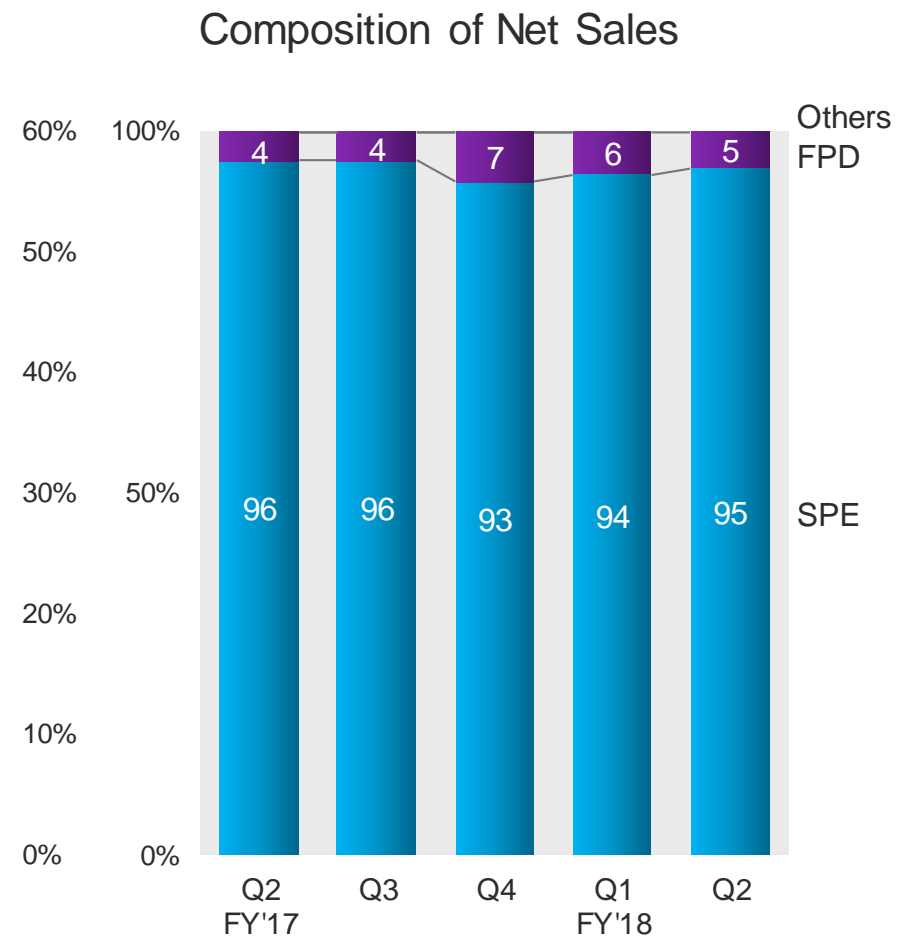
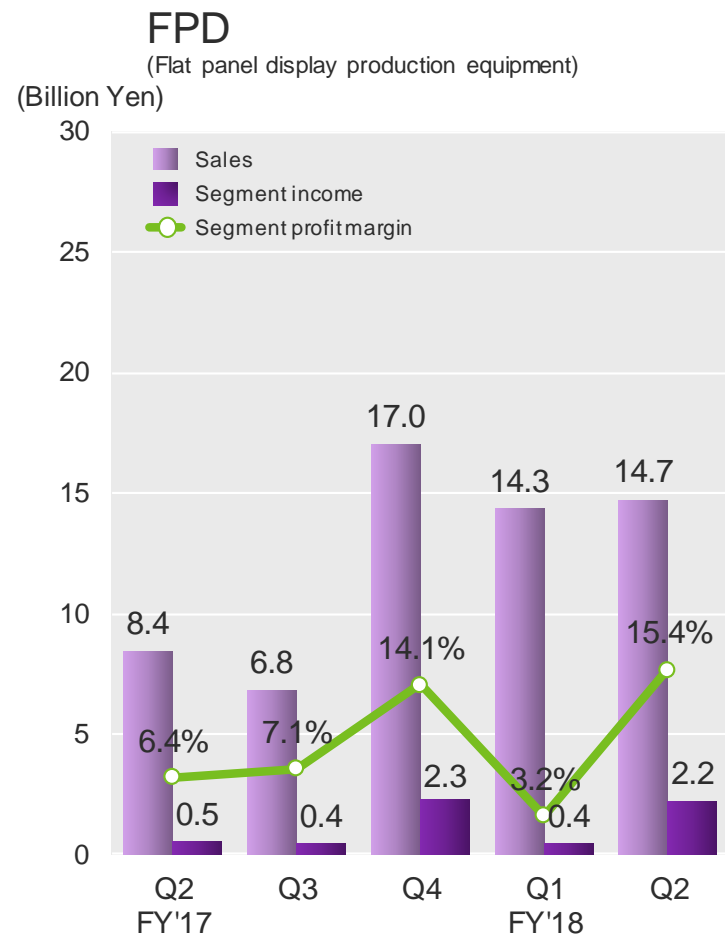
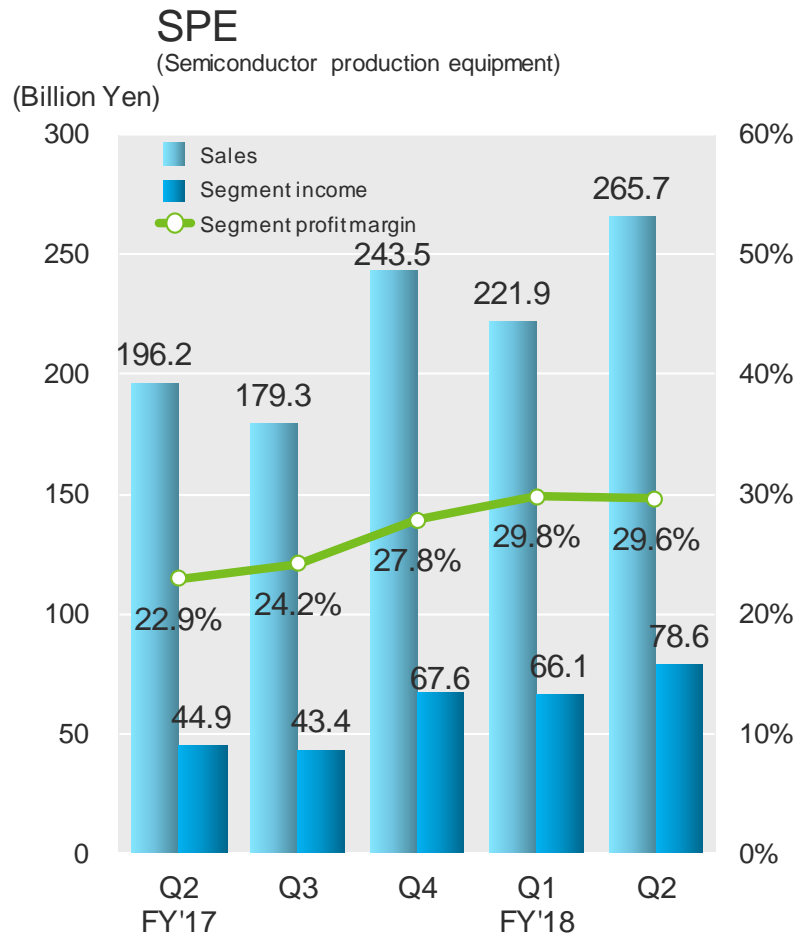
1. In principle, export sales of Tokyo Electron's mainstay semiconductor and FPD production equipment are denominated in yen. While some settlements are denominated in dollars, exchange risk is hedged as forward exchange contracts are made individually at the time of booking.
2. Profit ratios are calculated using full amounts, before rounding.

Financial Performance



Gross margin maintained at high level, new record high operating margin

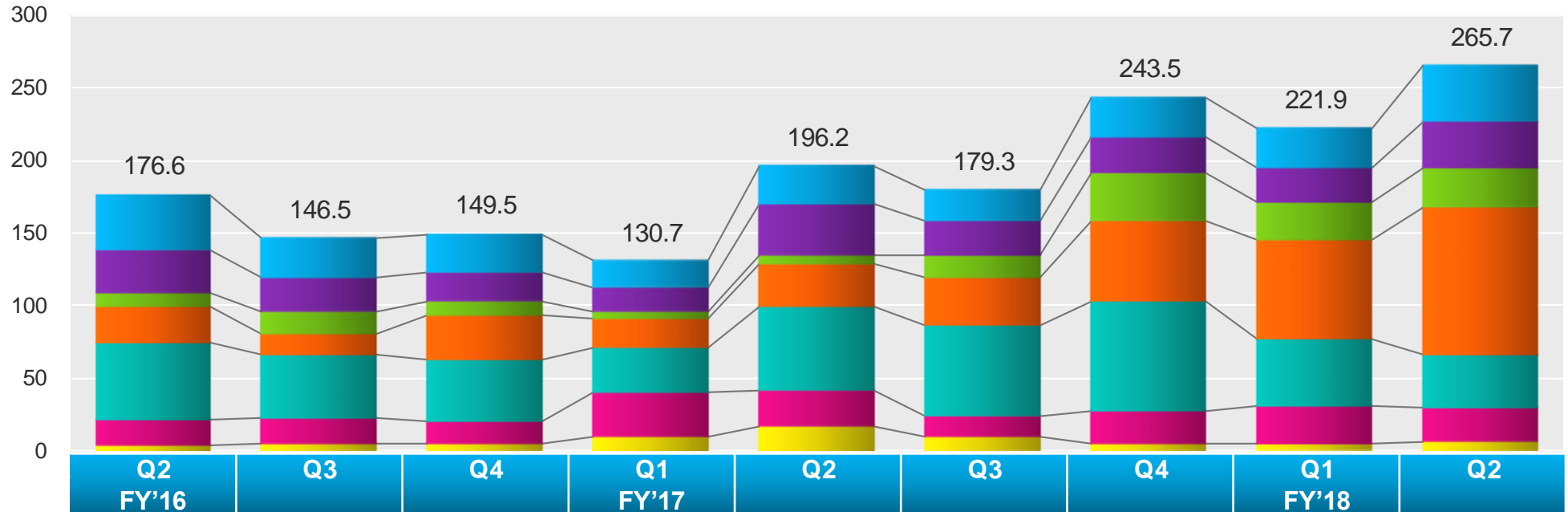
Segment Information



1. Segment income is based on income before income taxes.
2. R&D expenses such as fundamental research and element research are not included in above reportable segments.
3. Composition of net sales figures is based on the sales to customers.

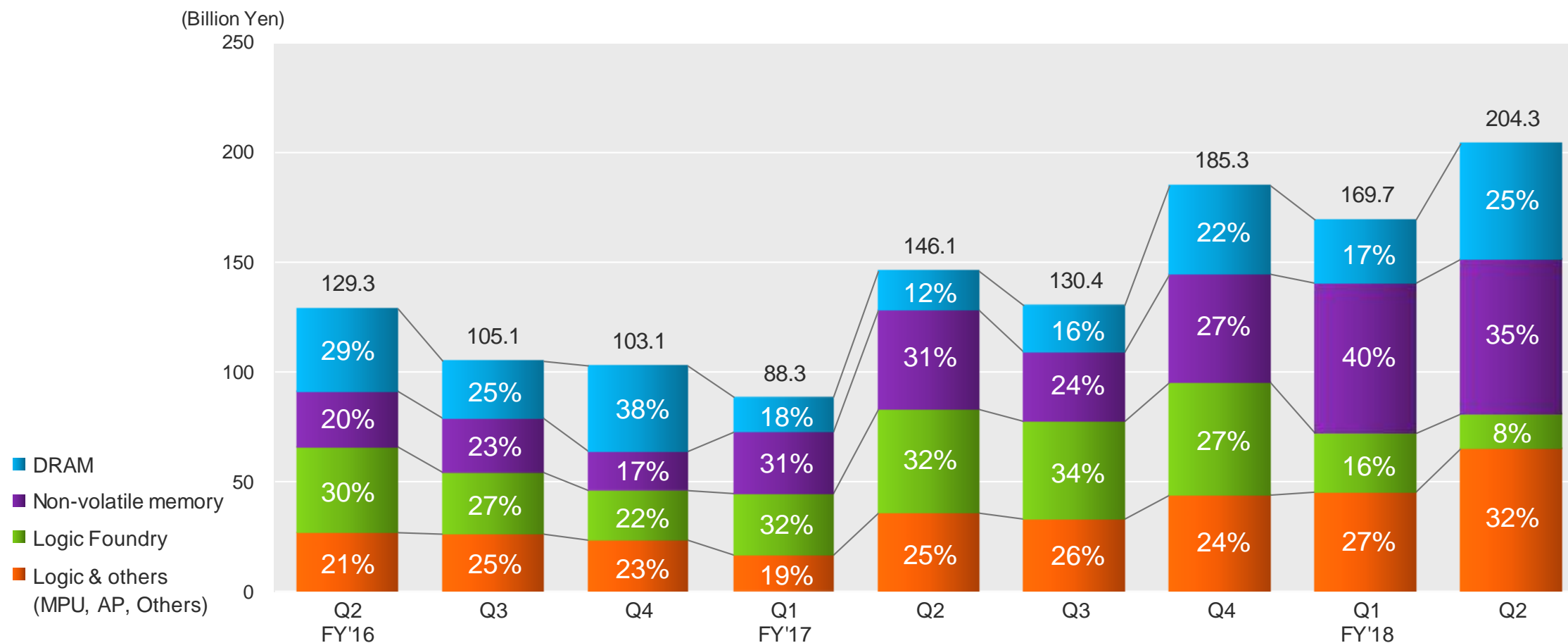
SPE Division: Sales by Region

(Billion Yen)



	Q2 FY'16	Q3	Q4	Q1 FY'17	Q2	Q3	Q4	Q1 FY'18	Q2
Japan	37.8	27.0	26.4	17.8	26.4	20.3	26.6	26.7	38.4
North America	29.4	23.4	19.7	17.0	34.4	24.6	25.4	24.0	32.0
Europe	9.6	14.8	9.5	5.2	6.6	15.0	32.9	25.3	26.9
South Korea	25.2	15.2	30.9	19.8	29.0	33.3	55.5	68.3	101.7
Taiwan	52.9	43.3	42.5	30.5	58.2	62.3	74.7	45.8	36.6
China	17.0	17.2	15.2	30.0	24.0	13.7	22.7	26.7	23.0
S. E. Asia, Others	4.5	5.3	5.0	10.3	17.3	9.8	5.3	4.6	6.7

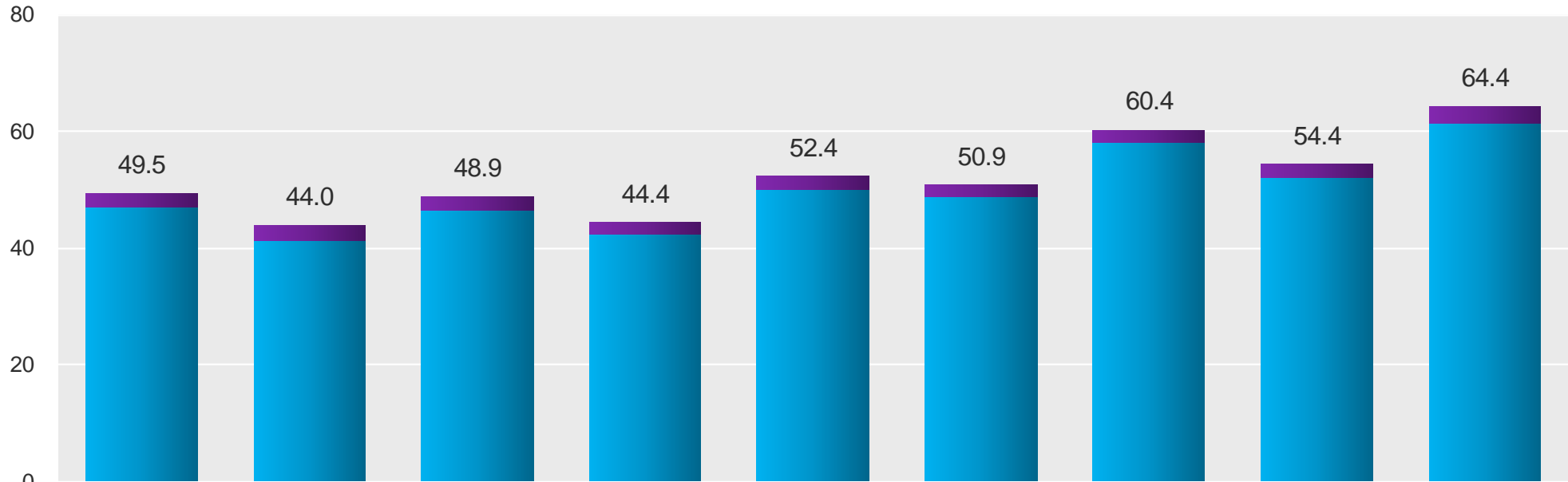
SPE Division: New Equipment Sales by Application



Increase in DRAM sales to Korea and Taiwan and logic to Korea and US, decline in Taiwan foundry

Field Solutions Sales

(Billion Yen)

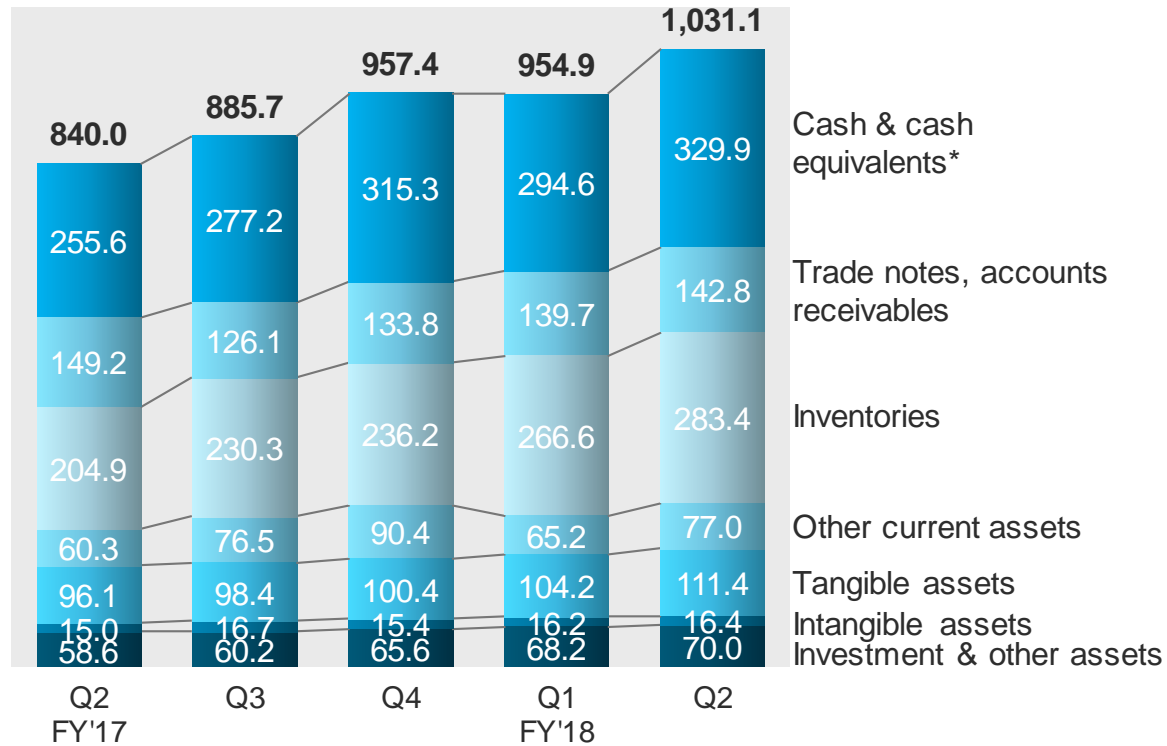


	Q2 FY'16	Q3	Q4	Q1 FY'17	Q2	Q3	Q4	Q1 FY'18	Q2
SPE Sales	47.2	41.3	46.4	42.4	50.0	48.8	58.1	52.2	61.4
FPD Sales	2.3	2.7	2.4	2.0	2.4	2.0	2.2	2.2	2.9

Balance Sheet

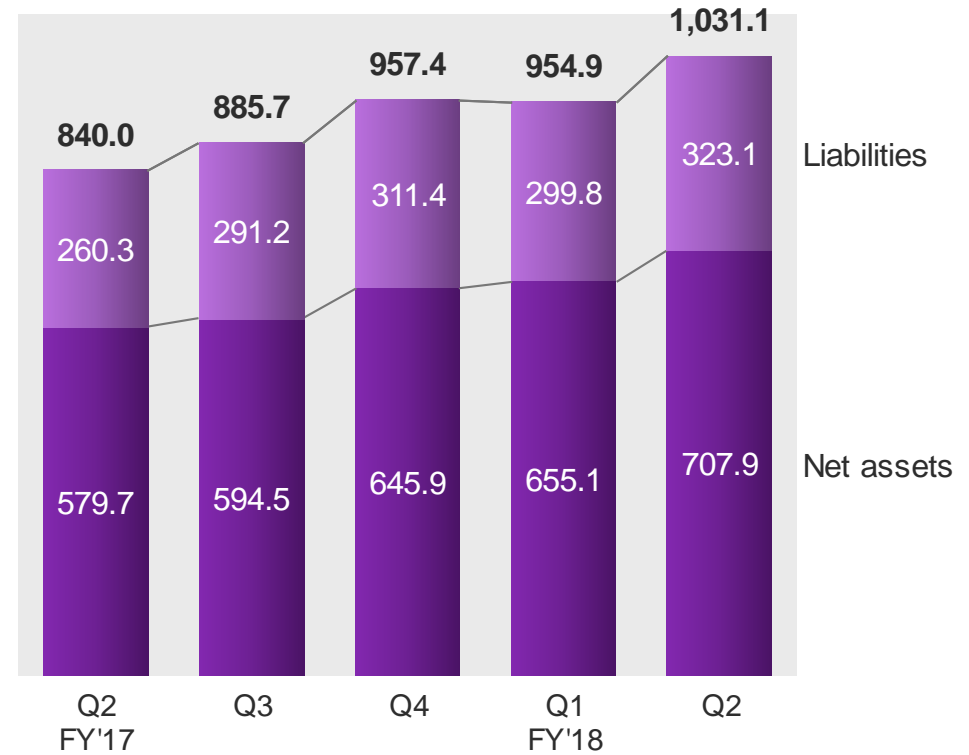
Assets

(Billion Yen)



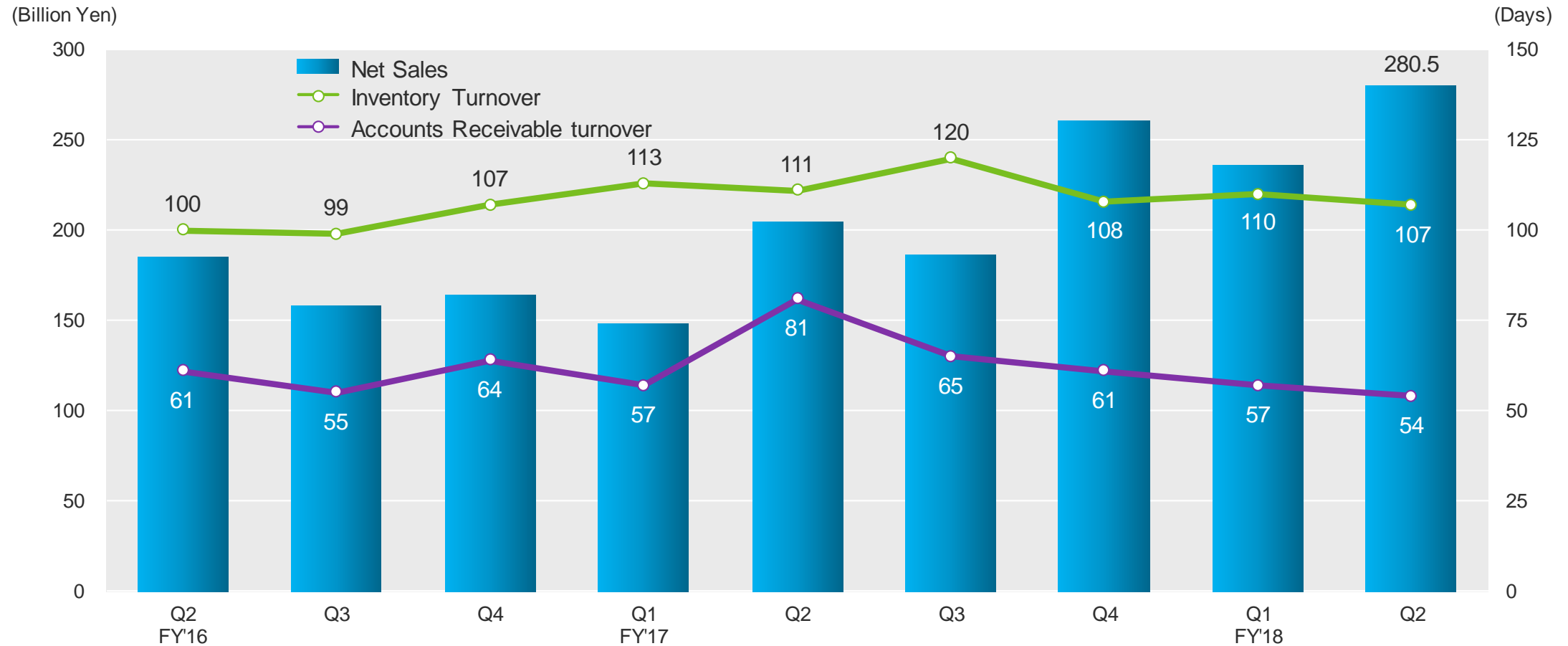
Liabilities & Net Assets

(Billion Yen)



* Cash and cash equivalents: Cash and deposits + Short-term investments, etc. (Securities in B/S).

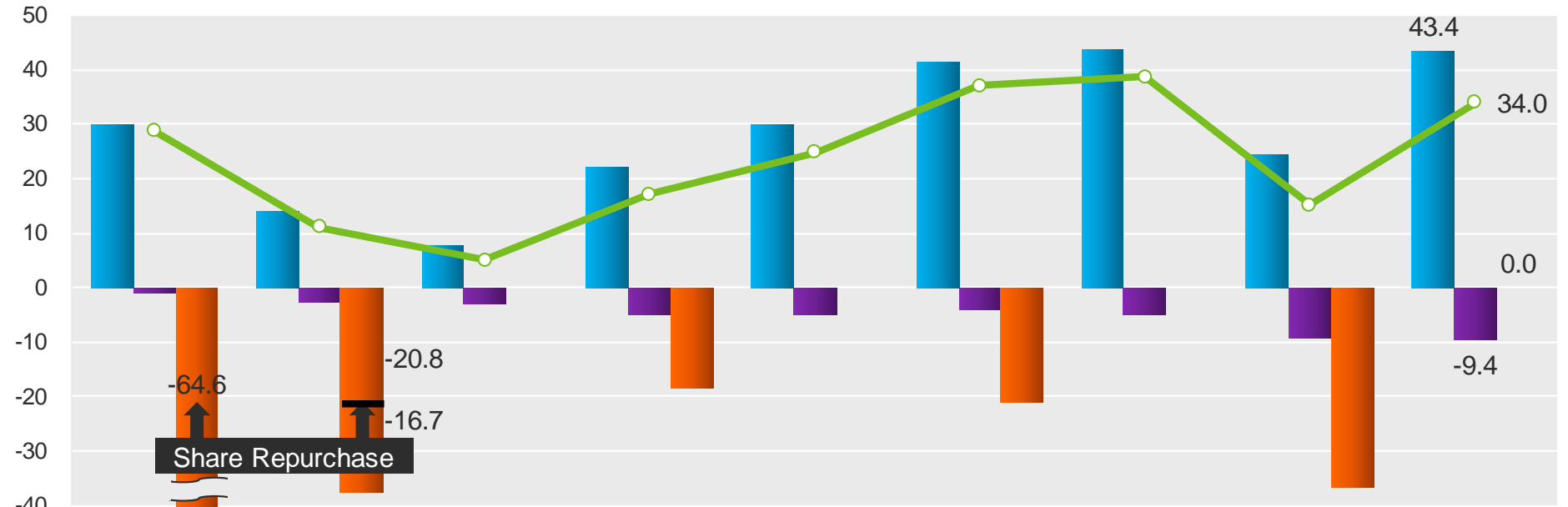
Inventory Turnover and Accounts Receivable Turnover



Turnover days = inventory or accounts receivable at the end of each quarter / last 12 months sales x 365

Cash Flow

(Billion Yen)



	Q2 FY'16	Q3	Q4	Q1 FY'17	Q2	Q3	Q4	Q1 FY'18	Q2
Cash flow from operating activities	30.1	13.8	7.9	22.1	29.8	41.3	43.6	24.4	43.4
Cash flow from investing activities*	-1.2	-2.7	-2.9	-4.9	-4.9	-4.1	-4.9	-9.3	-9.4
Cash flow from financing activities	-64.6	-37.5	0.0	-18.3	0.0	-21.0	-0.0	-36.8	-0.0
Free cash flow**	28.8	11.1	5.0	17.2	24.8	37.1	38.7	15.1	34.0
Cash on hand***	260.7	233.8	236.6	230.9	255.6	277.2	315.3	294.6	329.9

* Cash flow from investing activities excludes changes in deposits with periods to maturity of over 3 months.

** Free cash flow = cash flow from operating activities + cash flow from investing activities excluding changes in deposits with periods to maturity of over 3 months.

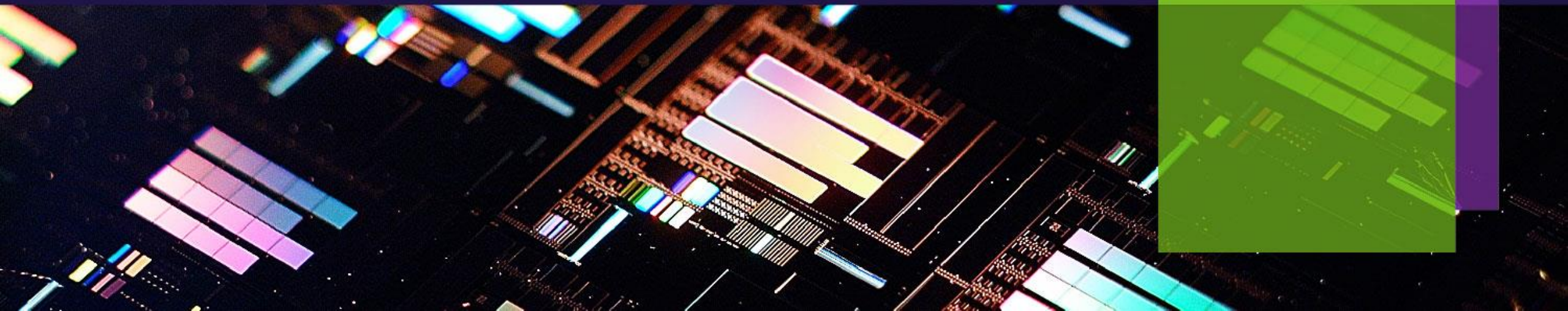
*** Cash on hand includes the total of cash + deposits with periods to maturity of over 3 months.



Business Environment and Financial Estimates Revisions

October 31, 2017

Toshiki Kawai
Representative Director, President & CEO



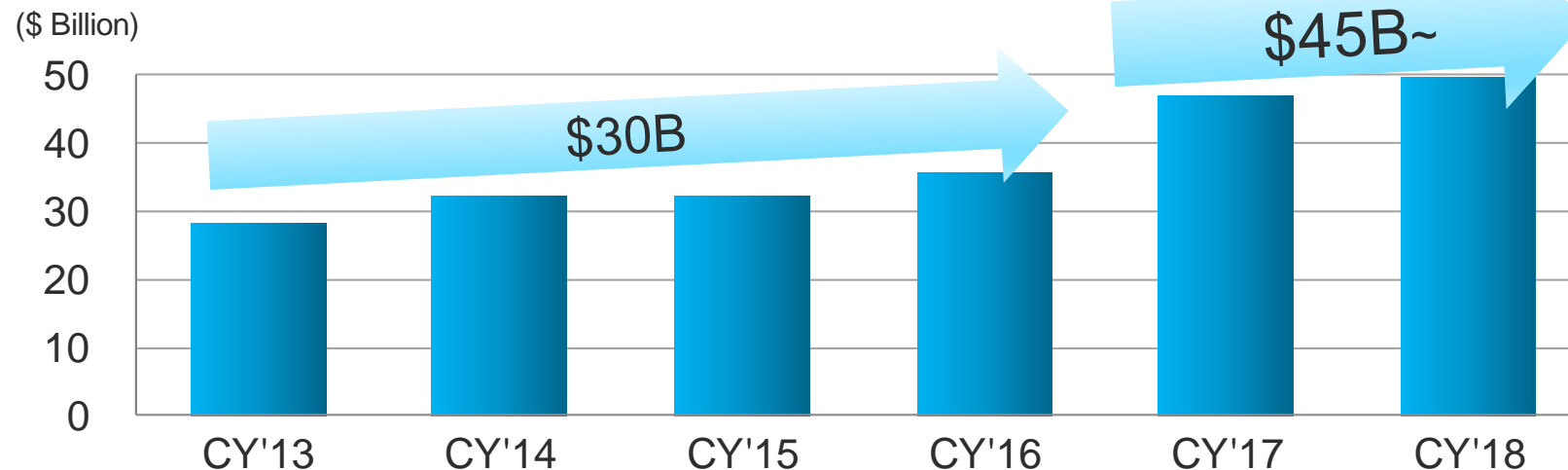
Wafer Fab Equipment (WFE) Market Outlook

Future growth drivers

PC, internet, mobile
+
VR/AR*, IoT, AI**,
machine learning, big data,
autonomous driving, personalized medicine

WFE market growth accelerating.
Ongoing investment of \$45B+
Expanding investment in both
advanced logic and memory

* VR/AR: Virtual reality/Augmented reality ** AI: Artificial intelligence



Equipment market will move to the next phase amid expanding applications for semiconductors

Business Environment (Outlook as of October 2017)

▶ WFE* Capex

CY2017 investment driven by buoyant demand for 3D NAND and DRAM, expect YoY growth of approx. 25%. For CY2018 we expect continued investment above the level seen in CY2017.

▶ FPD production equipment capex for TFT array process**

We expect CY2017 investment in production equipment increase of approx. 30% YoY with demand driven by continued investment in small/medium panels for mobile and startup of G10.5. For CY2018 we expect further growth of 20%+ due to expanded investment in G10.5.

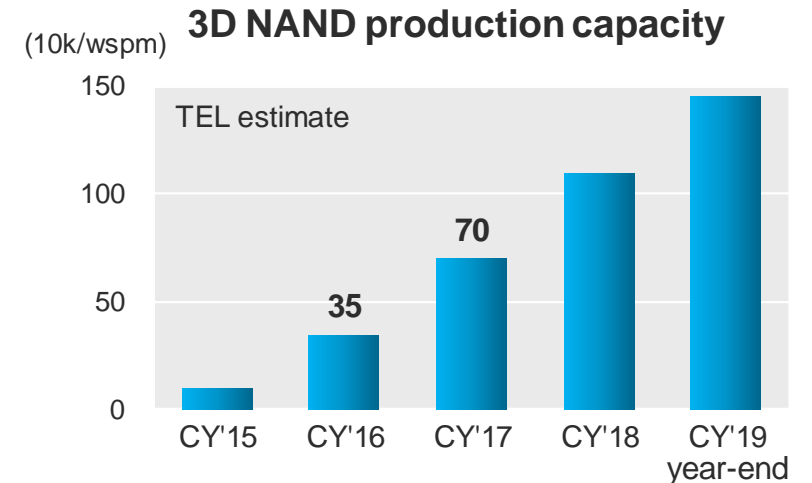
Accelerating growth in the equipment market on active investment in IoT and next generation technologies

* WFE (Wafer fab equipment): The semiconductor production process is divided into front-end production, in which circuits are formed on wafers and inspected, and back-end production, in which wafers are cut into chips, assembled and inspected again. Wafer fab equipment refers to the production equipment used in front-end production and in wafer-level packaging production.

** TFT array process: The processes of manufacturing the substrates with the electric circuit functions that drive displays

CY2017 Market Growth and Business Opportunities by Application

- **NAND: Market growth of 50% YoY forecast**
 - Capex: 6X/7X generations to comprise 70%
 - Driving force: Growth in SSD demand for data centers
 - Opportunity: Differentiation through high value-added etch
- **DRAM: Increase of 50%**
 - Capex: Capex for 1Xnm generation to comprise 60%
 - Driving force: Average mobile device capacity up 25% YoY, server capacity up 40%
 - Opportunity: Differentiation through combined patterning and our strength in interconnects
- **Logic/Foundry: Same level forecast**
 - Capex: 10/7nm generation to comprise 70%
 - Driving force: Demand for higher performance, lower power consumption
 - Opportunity: Business expansion in more complex patterning processes



FY2018 SPE Business Progress

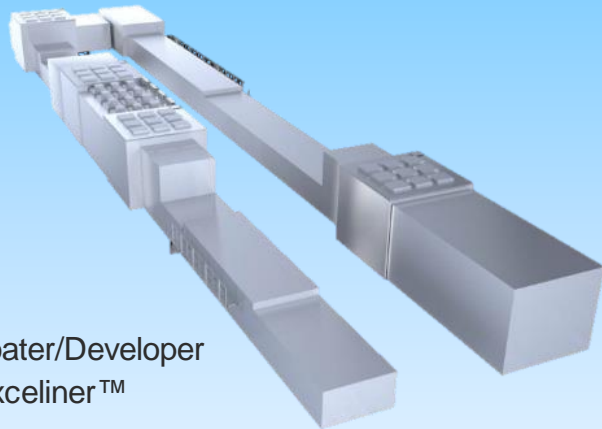
- Expect share to grow in all three key equipment fields (etch, deposition, clean)
 - Differentiation through high value-added equipment for next generation technology
- Full year sales for memory expected to double YoY on increased investment and market share growth
 - Etch system (3D NAND: multi-level contact/word line isolation, DRAM: patterning/interconnects)
 - Deposition system (3D NAND: memory hole film stack)
 - Cleaning system (3D NAND: dummy word line removal, DRAM: metal recess etch)
 - Multi-cell test system (high speed test for 3D NAND)



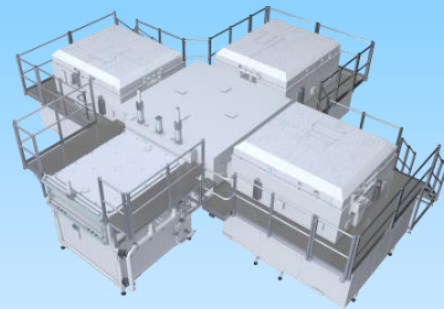
SPE business strategy progressing as planned, growing share with technology for next generation

FY2018 FPD Business Progress

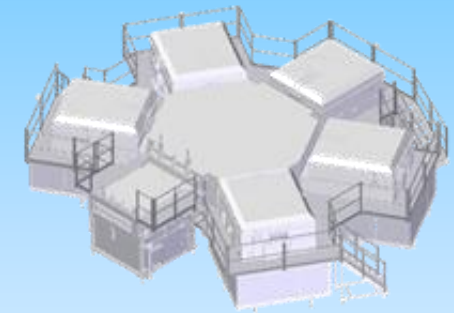
- Establishing our leading position in G10.5
- Introduced new Betelex™ platform etch equipment
- Expansion of PICP™* etch system going well
 - Full year small/medium panel sales expected to approx. double YoY, captured large panel business too



FPD Coater/Developer
Exceliner™



FPD Etch/Ash System
Impressio™



FPD Etch/Ash System
Betelex™

FPD business strategy is proceeding well, expect profit ratio to increase according to plan

FY2018 Financial Estimates

Revision of FY2018 Financial Estimates

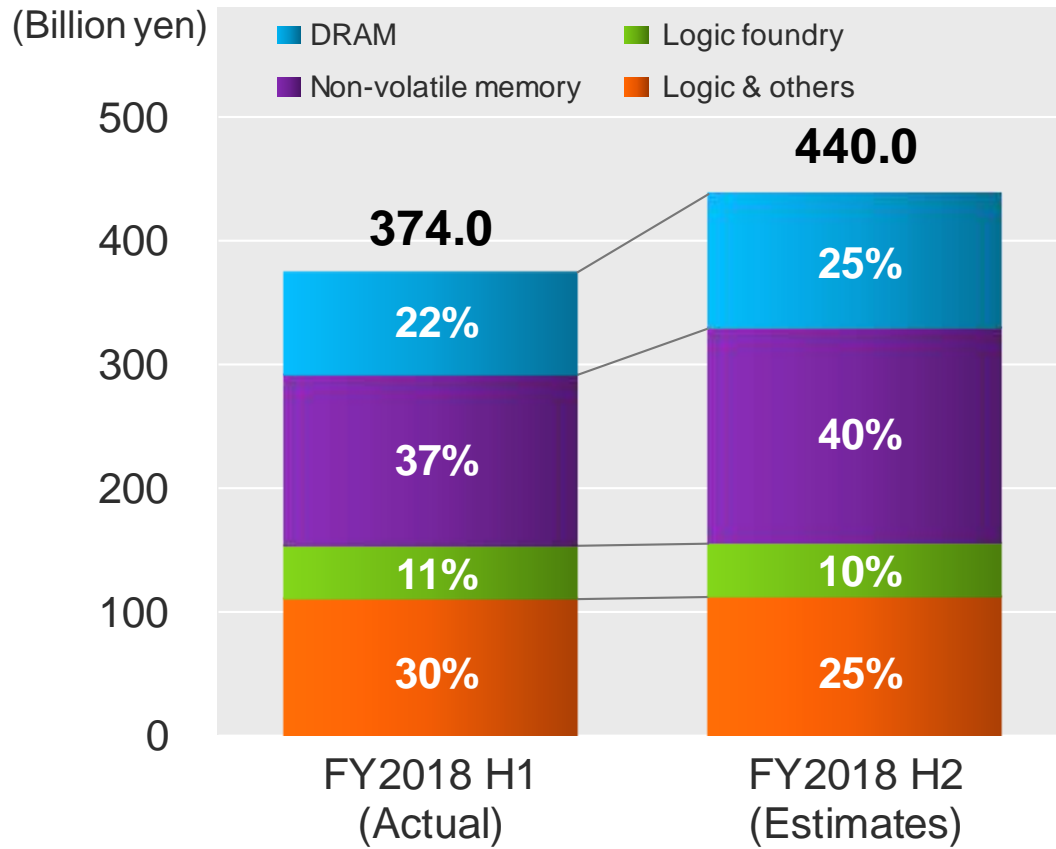
(Billion yen)

	FY2017 (Actual)	FY2018 (Estimates)					
		1st half	2nd half		Full year		Full year YoY change
		Actual	New estimates	Adjustments*	New estimates	Adjustments*	
Net sales	799.7	516.9	613.0	+113.0	1,130.0	+150.0	+41.3%
SPE	749.8	487.7	567.0	+108.0	1,054.7	+144.7	+40.6%
FPD	49.3	29.0	45.9	+4.9	75.0	+5.0	+51.9%
Gross profit	322.2	215.4	251.5	+41.5	467.0	+55.0	+144.7
Gross profit margin	40.3%	41.7%	41.0%	-1.0pts	41.3%	-0.7pts	+1.0pts
SG&A expenses	166.5	92.0	103.9	+5.9	196.0	+0.0	+29.4
Operating income	155.6	123.3	147.6	+35.6	271.0	+55.0	+115.3
Operating margin	19.5%	23.9%	24.1%	+1.7pts	24.0%	+2.0pts	+4.5pts
Income before income taxes	149.1	122.3	144.7	+32.7	267.0	+51.0	+117.8
Net income attributable to owners of parent	115.2	90.6	107.3	+23.3	198.0	+35.0	+82.7
Net income per share (Yen)	702.26	552.59	654.13	+142.17	1,206.73	+213.29	+504.47

Large upward revision of full-year financial estimates due to expanding customer investment and increase in market share

FY2018 SPE Division New Equipment Sales Forecast

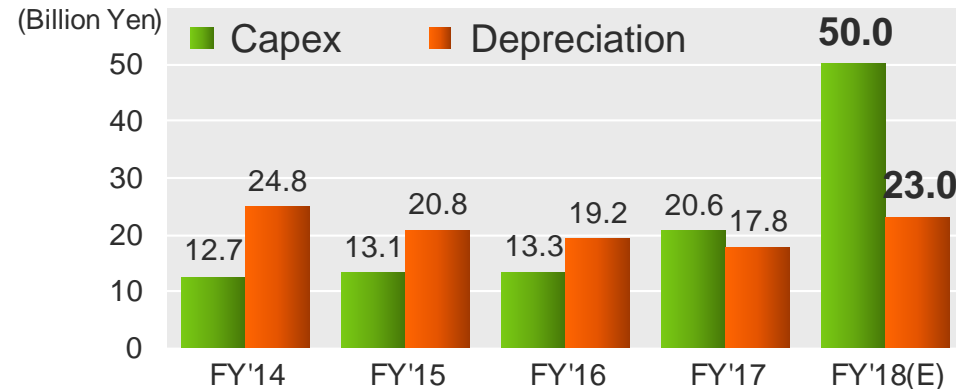
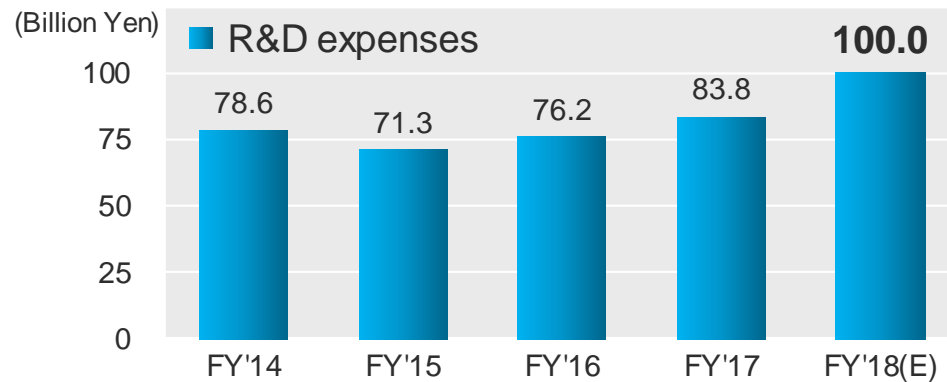
Sales by application



- DRAM
 - Sharp increase in investment on tight supply
- 3D NAND
 - Strong demand for SSD, greater than expected increase in investment
 - Begin supplying equipment for next 9X generation
- Logic/Foundry
 - Continue investment in 10/7nm generation
 - Firm investment in 28nm and above generation too

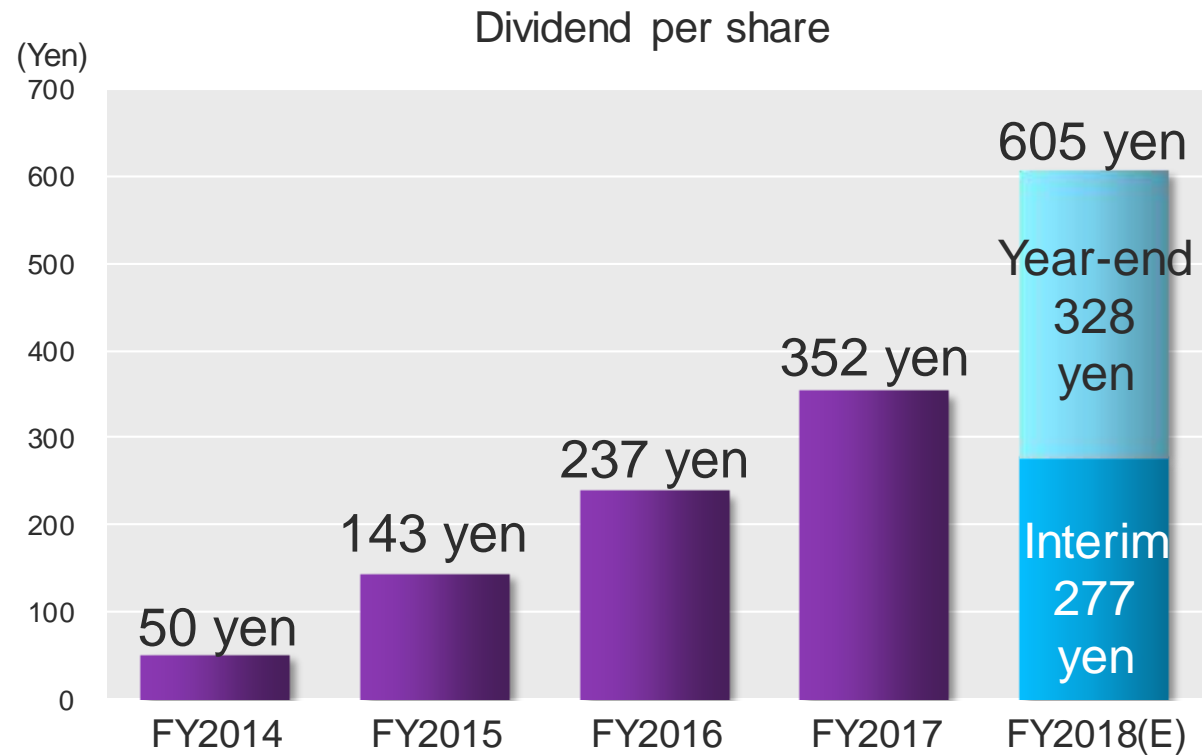
R&D Expenses, Capex Plan

- R&D Expenses ¥94.0B⇒¥100.0B
 - Continue investing based on focus areas and sustainable growth
- Capex ¥42.0B⇒¥50.0B
 - Actively invest in advanced technologies R&D and to meet increasing production
- Depreciation ¥24.0B⇒¥23.0B



Plan to conduct proactive upfront investment towards a new phase in the equipment market

FY2018 Dividend Forecast



TEL shareholder return policy

Dividend payout ratio: 50%

Annual DPS of not less than 150 yen

We will review our dividend policy if the company does not generate net income for two consecutive fiscal years

We will flexibly consider share buybacks

Expect to raise DPS more than 70% YoY

Appendix

FY2018 H1 (April-September 2017) Highlights

- Record high sales of 516.9 billion yen (up 47% YoY)
 - SPE new equipment sales for memory doubled
 - FS business sales up 23% to 118.8 billion yen
- Solid increase in profit margins
 - Gross margin up 2.4pts to 41.7%
 - Operating margin new record high of 23.9% (+6.9pts YoY).
Medium-term target of 24%-26% now in sight
- Raised full year sales and profit estimates based on buoyant semiconductor demand

Financial Summary

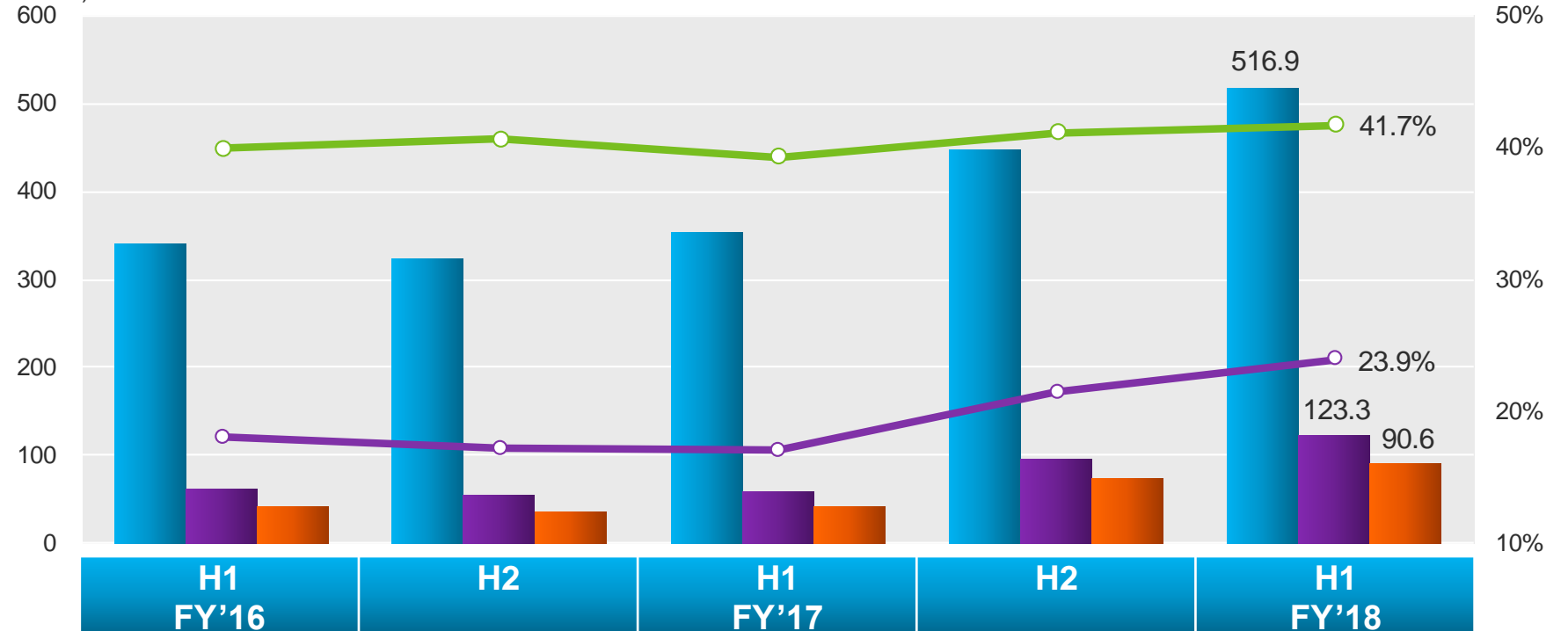
(Billion Yen)

	FY2017		FY2018	YoY Change	(Reference) FY2018 H1 estimates announced on Apr. 28
	H1	H2	H1		
Net sales	352.7	446.9	516.9	+46.6%	480.0
Gross profit	138.6	183.6	215.4	+55.3%	202.0
Gross profit margin	39.3%	41.1%	41.7%	+2.4pts	42.1%
SG&A expenses	78.6	87.9	92.0	+17.1%	98.0
Operating income	60.0	95.6	123.3	105.5%	104.0
Operating margin	17.0%	21.4%	23.9%	+6.9pts	21.7%
Income before income taxes	54.4	94.6	122.3	+124.8%	104.0
Net income attributable to owners of parent	41.9	73.2	90.6	+116.1%	79.0
R&D expenses	39.8	43.9	46.0	+15.7%	
Capital expenditures	9.4	11.2	19.8	+110.8%	
Depreciation and amortization	8.1	9.6	9.0	+10.1%	

1. In principle, export sales of Tokyo Electron's mainstay semiconductor and FPD production equipment are denominated in yen. While some settlements are denominated in dollars, exchange risk is hedged as forward exchange contracts are made individually at the time of booking.
2. Profit ratios are calculated using full amounts, before rounding.

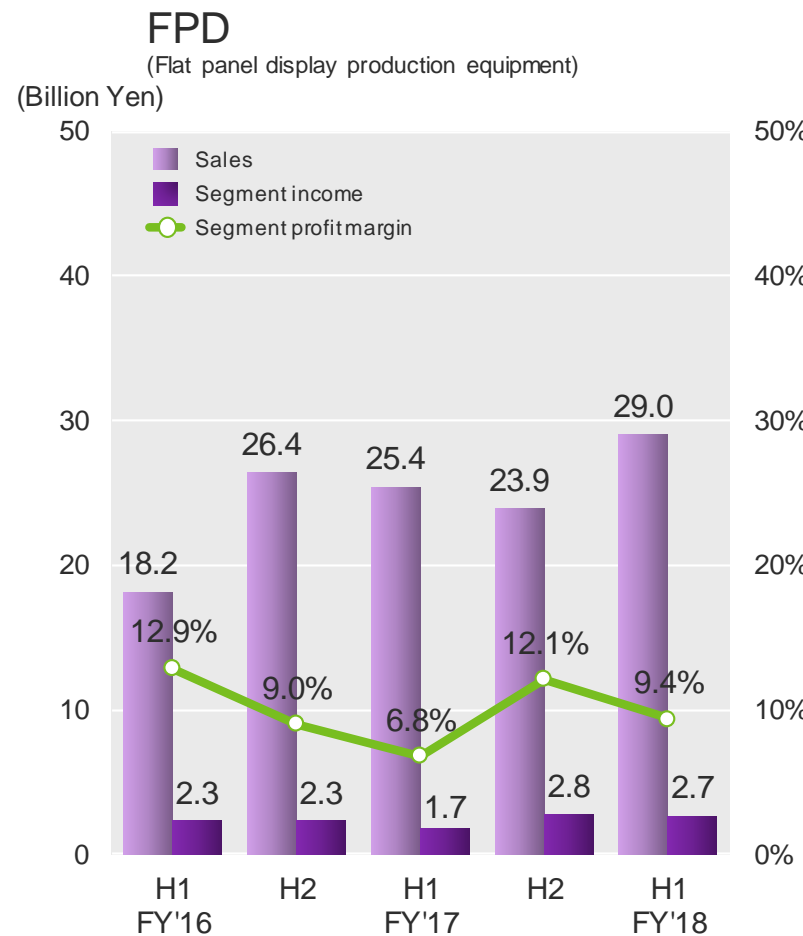
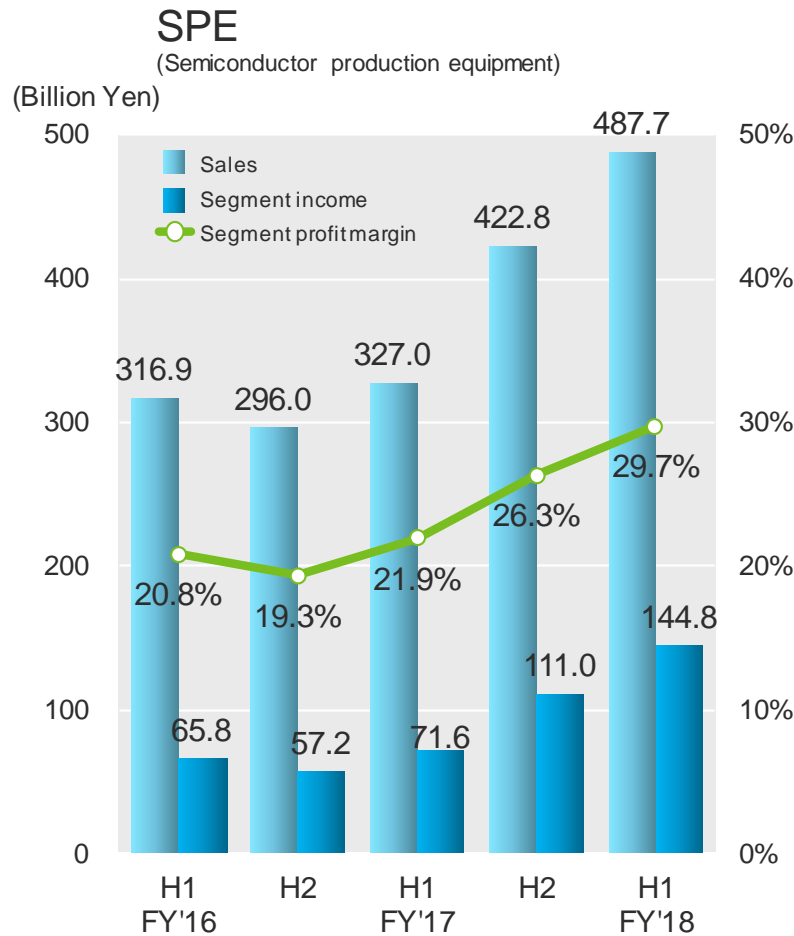
Financial Performance

(Billion Yen)



Net sales	340.9	322.9	352.7	446.9	516.9
Operating income	61.2	55.5	60.0	95.6	123.3
Net income attributable to owners of parent	41.3	36.5	41.9	73.2	90.6
Gross profit margin	39.9%	40.6%	39.3%	41.1%	41.7%
Operating margin	18.0%	17.2%	17.0%	21.4%	23.9%

Segment Information

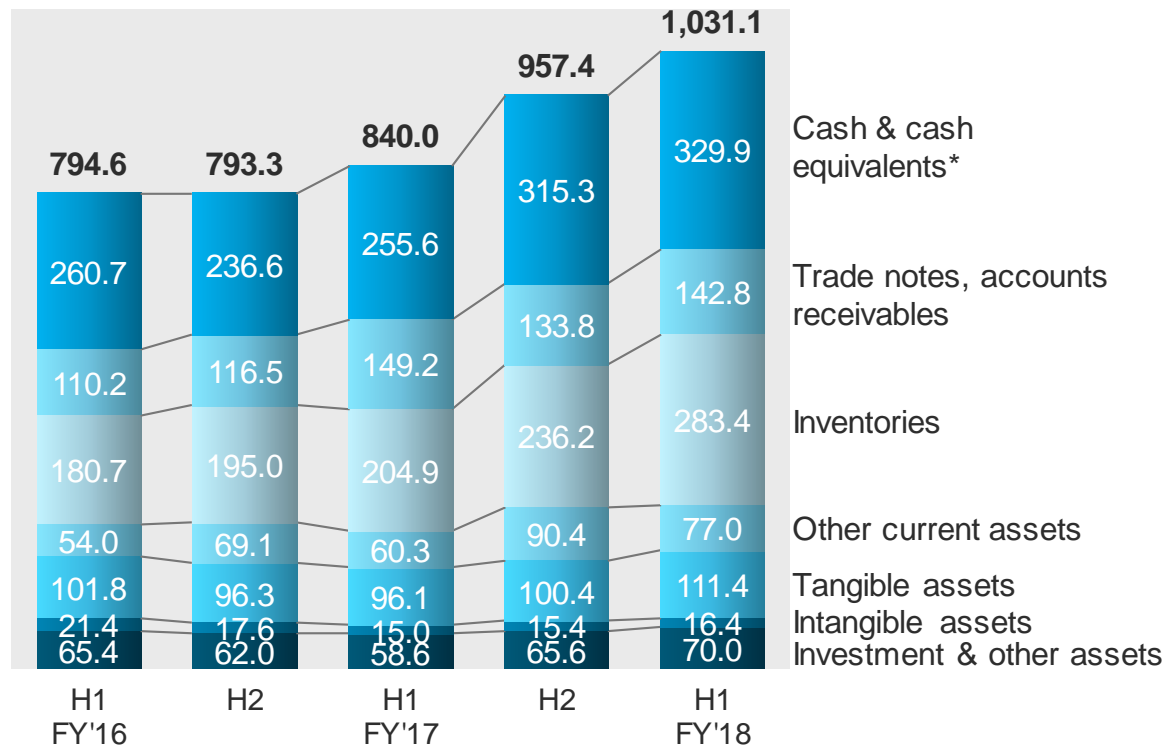


1. Segment income is based on income before income taxes.
2. R&D expenses such as fundamental research and element research are not included in above reportable segments.
3. Composition of net sales figures is based on the sales to customers.

Balance Sheet

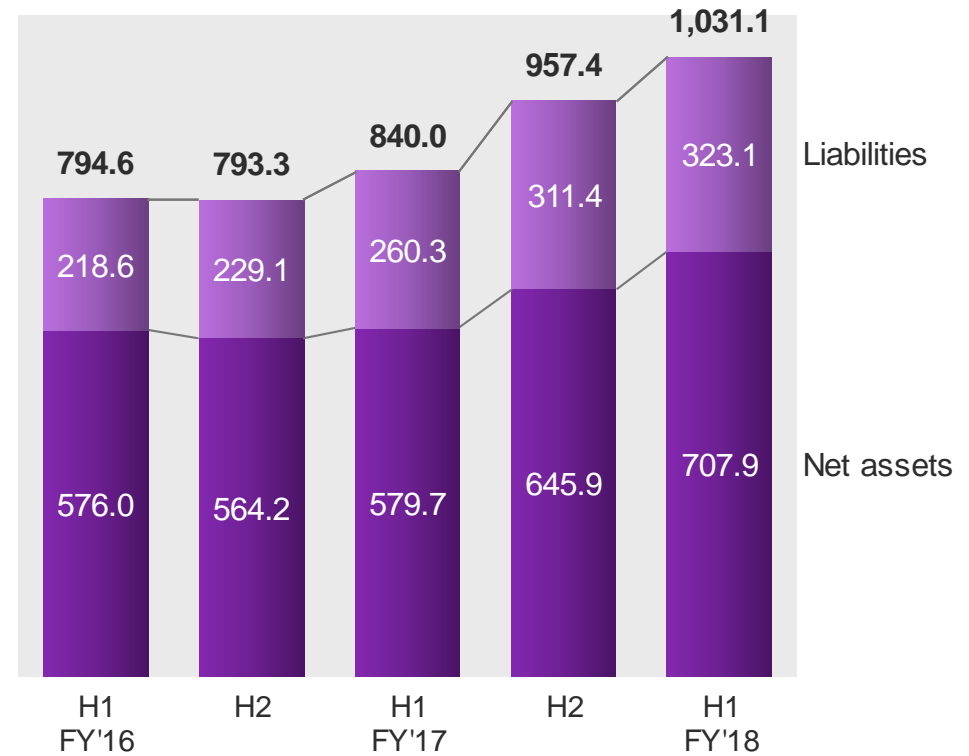
Assets

(Billion Yen)



Liabilities & Net Assets

(Billion Yen)



* Cash and cash equivalents: Cash and deposits + Short-term investments, etc. (Securities in B/S).

TEL™

TOKYO ELECTRON