TOKYO ELECTRON LIMITED

April 28, 2014

Consolidated Financial Review for the Year Ended March 31, 2014

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

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

1. Consolidated financial highlights for the year ended March 31, 2014

(1) Operating results

	Year ended	
	March 31, 2013	March 31, 2014
Net sales (Millions of yen)	497,299	612,170
Operating income (Millions of yen)	12,548	32,204
Ordinary income (Millions of yen)	16,696	35,487
Net income (Millions of yen)	6,076	(19,408)
Net income per share (Yen)	33.91	(108.31)
Fully diluted net income per share (Yen)	33.85	-
Return on equity (%)	1.0	(3.3)
Ordinary income to total assets (%)	2.1	4.4
Operating income to net sales (%)	2.5	5.3

Comprehensive income: Year ended March 31, 2014: (10,888) million yen
Year ended March 31, 2013: 15,826 million yen

Profit/loss on equity method: Year ended March 31, 2014: - million yen
Year ended March 31, 2013: - million yen

(2) Financial position

	As of March 31, 2013	As of March 31, 2014
Total assets (Millions of yen)	775,527	828,591
Net assets (Millions of yen)	605,127	590,613
Equity ratio (%)	76.5	69.8
Net assets per share (Yen)	3,309.58	3,225.92

Equity: 578,091 million yen (as of March 31, 2014)
593,032 million yen (as of March 31, 2013)

(3) Cash flow

(Millions of yen)

	Year ended	
	March 31, 2013	March 31, 2014
Cash flow from operating activities	84,266	44,449
Cash flow from investing activities	(141,769)	(19,599)
Cash flow from financing activities	(10,625)	(186)
Cash and cash equivalents at end of period	85,313	104,797

2. Dividends

	Year ended March 31, 2013	Year ended March 31, 2014
1Q-end dividend per share (Yen)	-	-
2Q-end dividend per share (Yen)	25.00	25.00
3Q-end dividend per share (Yen)	-	-
Year-end dividend per share (Yen)	26.00	25.00
Annual dividend per share (Yen)	51.00	50.00
Total dividend (Millions of yen)	9,138	8,959
Payout ratio (%)	150.4	-
Dividend on equity (%)	1.5	1.5

Note: The effective date of the business combination with Applied Materials, Inc. has not yet been determined despite this merger having been announced because it is conditional upon the approval of the General Meeting of Shareholders of both companies as well as approval from the relevant authorities in Japan, the U.S., and other countries subject to competition laws. Given these circumstances, TEL plans to declare a provisional quarterly dividend of 10 yen per share for the first quarter of the fiscal year ending March 31, 2015.

3. Earnings forecasts for the year ending March 31, 2015

	Year ending September 30, 2014 (Cumulative)	Year ending March 31, 2015
Net sales (Millions of yen)	278,000	-
Operating income (Millions of yen)	18,000	-
Ordinary income (Millions of yen)	18,000	-
Net income (Millions of yen)	11,000	-
Net income per share (Yen)	61.38	-

Note: Regarding TEL's forecasts for consolidated operating results of the next fiscal year ending March 31, 2015, we are disclosing provisional estimates for cumulative consolidated operating results through the second quarter because the date on which the business combination with Applied Materials, Inc. will be effected has not yet been determined.

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 accountins 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 March 31, 2014: 180,610,911 shares
   As of March 31, 2013: 180,610,911 shares
2. Number of shares of treasury stock
   As of March 31, 2014: 1,408,950 shares
   As of March 31, 2013: 1,424,203 shares
3. Average number of shares outstanding
   As of March 31, 2014: 179,192,909 shares
   As of March 31, 2013: 179,177,531 shares

(Reference) Non-consolidated financial review for the year ended March 31, 2014

(1) Operating results

Note: Percentages indicate changes from the previous fiscal year.

	Year ended			
	March 31, 2013		March 31, 2014	
		%		%
Net sales (Millions of yen)	375,485	(27.3)	462,282	23.1
Operating income (Millions of yen)	5,717	(19.8)	16,230	183.9
Ordinary income (Millions of yen)	27,314	(38.3)	27,839	1.9
Net income (Millions of yen)	22,984	(41.3)	(26,420)	-
Net income per share (Yen)	128.28	-	(147.44)	-
Fully diluted net income per share (Yen)	128.04	-	-	-

(2) Financial position

	As of March 31, 2013	As of March 31, 2014
Total assets (Millions of yen)	570,042	608,206
Net assets (Millions of yen)	390,303	356,701
Equity ratio (%)	68.2	58.4
Net assets per share (Yen)	2,170.52	1,981.33

Equity: 355,057 million yen (as of March 31, 2014)
388,929 million yen (as of March 31, 2013)

* **Notes on the status of auditing procedure execution:**

This earnings 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.

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

The performance forecasts and estimates stated in this Financial Review are based on certain assumptions judged to be reasonable at the present time in light of currently available information. 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 Monday, April 28, 2014. The supplementary materials to these financial reports that will be handed out at this meeting will be posted simultaneously on our company website.

1.Operating Results

(1)Analysis of Operating Results

(i) Business Environment during the Fiscal Year Ended March 31, 2014

The global economy in general showed signs of a gradual recovery during the fiscal year as the United States and Japanese economies showed a gradual rebound and signs of economic recovery were also seen in Europe, offsetting the slowing of the growth rate in China and the deceleration in growth seen in other emerging nations.

Mobile devices remained firm overall in the electronics industry, the primary area in which the Tokyo Electron Group conducts business. Demand for memory for data centers is also growing with the proliferation of cloud services and the use of big data.

(ii) Overview of Profit and Losses during the Fiscal Year Ended March 31, 2014

Under these circumstances, profit and losses for the fiscal year were as follows.

Consolidated net sales for the fiscal year increased by 23.1% from the previous fiscal year, to 612,170 million yen. Domestic net sales increased by 36.4%, to 161,630 million yen, and overseas net sales increased 18.9%, to 450,539 million yen, with overseas net sales accounting for 73.6% of consolidated net sales. Consolidated orders for the fiscal year increased 54.5%, to 696,194 million yen, and consolidated order backlogs increased 46.6%, to 265,129 million yen.

Cost of sales for the fiscal year increased 21.2%, to 410,277 million yen, and gross profit increased 27.2%, to 201,892 million yen. As a result, gross profit margin increased by 1.1 percentage points, to 33.0%.

Selling, general, and administrative (SG&A) expenses increased 16.1% to 169,687 million yen, and the ratio to consolidated net sales decreased by 1.7 percentage points to 27.7%.

As a result of these developments, operating income was up 156.6% to 32,204 million yen. Ordinary income, adjusted for non-operating income of 5,473 million yen and non-operating expenses of 2,191 million yen, was up 112.5% to 35,487 million yen.

Extraordinary losses were 47,243 million yen (compared to extraordinary income of 1,070 million yen in the previous fiscal year) as a result of impairment losses relating to goodwill and others arising from review of the PV production equipment business and the TEL NEXX, Inc. business plan, recognition of impairment of fixed assets pursuant to the facility restructuring plan, and other factors.

Losses before income taxes were 11,756 million yen (compared to income of 17,766 million yen in the previous fiscal year), and net losses were 19,408 million yen (compared to net income of 6,076 million yen in the previous fiscal year).

As a result, net loss per share was 108.31 yen (net income per share was 33.91 yen in the previous fiscal year).

(iii) Overview of Operations by Business Segment during the Fiscal Year Ended March 31, 2014

The overview of each business segment is as described below.
From the current fiscal year, revisions have been made to the reportable segments based on “Accounting Standards for Disclosures about Segments of an Enterprise and Related Information.”
Figures for the previous fiscal year listed below for comparison have been adjusted in accordance with the new business segments.

Semiconductor Production Equipment

DRAM and NAND flash memory were firm on the back of strong demand for mobile devices and server demand for the growth area of data centers. Demand for high-performance NAND flash memory for SSD (solid state drives) and other applications is also increasing. Against this backdrop, the memory makers pushed ahead with investment, primarily aimed at increased production. Capital investment in devices with new structures and other advanced technology for logic semiconductors also continues. Given these circumstances, net sales from external customers in this segment during the fiscal year were 478,841 million yen (up 22.1% compared to the previous fiscal year).

FPD (Flat Panel Display) Production Equipment

Capital investment for large flat panels continues in China and demand for mobile devices also kept demand firm for small to medium-sized displays. FPD production equipment sales for TEL also remained strong as a result. Net sales from external customers in this segment during the fiscal year were 28,317 million yen (up 41.0% compared to the previous fiscal year). During the fiscal year, TEL announced a new inkjet printing system for manufacturing organic light-emitting diode (OLED) panels.

PV (Photovoltaic Panel) Production Equipment

TEL concluded a sales representative agreement with Oerlikon Solar of Switzerland in 2009 with the intent of entering the thin-film silicon PV panel market, and commenced sales & marketing activities for an end-to-end manufacturing line for the production of PV panels. TEL acquired the company in 2012 and targeted business growth from fusion with TEL’s production equipment technology, but a state of oversupply of panel production equipment persisted due to changes in the market environment. Despite our greatest efforts to reduce costs and step up development directed at improving conversion efficiency, the environment has remained severe. TEL made the decision to withdraw from production development and sales of the equipment at the end of March this year after concluding that we could not expect to recover our investment going forwards, and adopted a structure of only supporting equipment that has already been installed. Given these circumstances, net sales from external customers in this segment during the fiscal year were 3,805 million yen (compared to net sales of 83 million yen in the previous fiscal year). Impairment losses totaling 32,789 million yen on goodwill and fixed assets were booked accompanying the revision of the business plan for and the withdrawal from the segment.

Electronic Components and Computer Networks

In the electronic components segment, overall demand was strong for general-purpose ICs owing to growth in demand for components for installation in vehicles in China and elsewhere in the Asian region, in addition to increased demand for components for industrial equipment and the advent of new commercial uses. In the computer networks segment, product sales in the form of new cloud-related commercial applications remained firm, due in part to advancements in cloud computing. Given these circumstances, net sales from external customers in this segment during the fiscal year were 100,726 million yen (up 19.0% compared to the previous fiscal year).

Other

Net sales from external customers in this segment during the fiscal year were 479 million yen (up 7.0% compared to the previous year).

(For reference)
Consolidated

(Millions of yen)

	Year ended March 31, 2013	Year ended March 31, 2014						
		1Q	2Q	First Half	3Q	4Q	Second Half	Full Year
Net Sales	497,299	103,452	151,048	254,500	138,400	219,269	357,670	612,170
Semiconductor Production Equipment	392,026	74,944	119,828	194,773	102,284	181,784	284,068	478,841
Japan	40,278	11,648	21,585	33,233	21,589	21,601	43,191	76,424
U.S.	117,092	15,101	29,715	44,817	24,474	35,071	59,546	104,363
Europe	38,701	5,666	7,909	13,575	3,815	12,244	16,060	29,636
Korea	57,510	11,184	17,679	28,864	14,660	29,877	44,538	73,403
Taiwan	105,386	24,509	31,550	56,059	21,504	52,688	74,192	130,252
China	19,951	4,711	4,924	9,635	12,764	26,496	39,261	48,897
S.E.Asia	13,104	2,123	6,463	8,587	3,474	3,803	7,277	15,865
FPD Production Equipment	20,077	4,906	4,486	9,393	8,813	10,110	18,923	28,317
PV Production Equipment	83	2,062	1,225	3,288	1,196	(679)	517	3,805
Electronic Components & Computer Networks	84,664	21,426	25,359	46,786	26,029	27,910	53,939	100,726
Others	448	111	146	258	76	144	221	479
Operating Income(loss)	12,548	(9,646)	7,824	(1,822)	9,067	24,959	34,027	32,204
Ordinary Income(loss)	16,696	(9,898)	10,487	588	8,502	26,395	34,898	35,487
Net Income(loss)	6,076	(2,976)	5,452	2,476	(38,098)	16,212	(21,885)	(19,408)

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

(iv) Projected Operating Results for the Next Fiscal Year Ending March 31, 2015

We are disclosing provisional estimates for cumulative consolidated operating results through the second quarter because the date on which the business combination with Applied Materials, Inc. will be effected has not yet been determined. TEL assumes that the end of the first half of the consolidated fiscal year may not come depending on the timing of the business combination with Applied Materials, Inc.

Based on the assumption that capital investment in core semiconductor production equipment by semiconductor manufacturers will continue, primarily for mobile devices, TEL's forecasts for consolidated operating results for the first half of the next fiscal year ending March 31, 2015 are as follows.

Consolidated Forecast

(Billions of yen, Y/Y change)

The first half of the fiscal year ending March 31, 2015		
Net Sales	278.0	9.2%
Semiconductor Production Equipment	260.0	33.5%
FPD Production Equipment	16.0	70.3%
PV Production Equipment	2.0	-39.2%
Others	0.0	
Operating Income	18.0	
Ordinary Income	18.0	
Net Income	11.0	344.1%

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

We are not disclosing our earnings forecasts for the full fiscal year since these are linked to the timing of the business combination. However, our forecasts for the second half based on the TEL Group call for 307 billion yen in sales and 48 billion yen in operating income.
We also sold part of the shares that TEL owned in Tokyo Electron Device Ltd. in April of this year. This resulted in reclassification of the company from a consolidated subsidiary to an equity method affiliate of the TEL Group. The Electronic Components and Computer Network segment will be eliminated from the fiscal year ending March 2015, and the equity income for the company will be included in adjustments to segment income or losses disclosed. The year-on-year change of sales will be affected by the elimination of the reporting segment noted above; however, the increase over the previous fiscal year will be 33.8% compared to the sales for the same period in the previous fiscal year are combined according to the segments after the change.

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.

(2) Qualitative Information on Consolidated Financial Conditions

(i) Financial Conditions

Current assets at the end of the fiscal year were 621,492 million yen, up 99,991 million yen compared to the end of the previous fiscal year. The major factors influencing this result were a 32,578 million yen increase in inventories, a 28,531 million yen increase in trade notes and accounts receivable, and a 21,303 million yen increase in short-term investments included in securities.
Tangible fixed assets fell by 23,353 million yen from the end of the previous consolidated fiscal year to 112,344 million yen as a result of impairment of fixed assets in accordance with the facility restructuring plan.
Intangible fixed assets decreased by 30,362 million yen from the end of the previous consolidated fiscal year to 29,556 million yen as a result of impairment of goodwill and others in conjunction with review of business plans for the PV production equipment business and TEL NEXX, Inc.
Investments and other assets increased by 6,788 million yen from the end of the previous fiscal year, to 65,199 million yen.
As a result, total assets increased by 53,063 million yen compared to the end of the previous fiscal year, to 828,591 million yen.
Current liabilities were up 63,839 million yen compared to the end of the previous fiscal year, to 170,509 million yen. The major factors causing the increase were a 20,915 million yen increase in customer advances, a 17,406 million

yen increase in trade notes and accounts payable and an 11,729 million yen increase in accrued income taxes.

Long-term liabilities were up 3,738 million yen compared to the end of the previous fiscal year, to 67,468 million yen.

Net assets were down 14,513 million yen compared to the end of the previous fiscal year, to 590,613 million yen.

The main factors were a decrease due to a reported net loss of 19,408 million yen, a decrease due to payment of 4,658 million yen in year-end dividends for the previous fiscal year and 4,479 million yen in interim dividends for the current fiscal year, a decrease of 3,190 million yen in retained earnings due to changes in accounting periods at consolidated subsidiaries, an increase of 8,260 million yen due to translation adjustments resulting from the depreciation of the yen, and an increase of 6,981 million yen due to remeasurements of defined benefit plans.

The equity ratio was 69.8%.

(ii) Cash Flow

Cash and cash equivalents at the end of the fiscal year increased by 19,483 million yen compared to the end of the previous fiscal year, to 104,797 million yen. The combined balance including the 163,349 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 268,146 million yen, up 28,016 million yen from the end of the previous fiscal year.

The overall situation regarding cash flow during the fiscal year was as follows.

Cash flow from operating activities decreased by 39,817 million yen compared to the previous fiscal year to 44,449 million yen. The main positive factors included a 46,969 million yen loss on impairment, 24,888 million yen in depreciation and amortization, a 19,083 million yen increase in customer advances, and a 15,605 million yen increase in trade notes and accounts payable. The main negative factors were a loss before income taxes for the current fiscal year of 11,756 million yen, a 32,088 million yen increase in inventories, and a 25,357 million yen increase in trade notes and accounts receivable.

Cash flow from investing activities was negative 19,599 million yen, compared to negative 141,769 million yen in the previous year. This was primarily the result of 9,451 million yen in payments for purchase of tangible fixed assets, and an 8,542 million yen increase in time deposits and short-term investments.

Cash flow from financing activities was negative 186 million yen, compared to negative 10,625 million yen in the previous fiscal year. This was primarily the result of a 7,551 million yen increase in short term loans, a 2,000 million yen increase in long-term loans, and payment of 9,138 million yen in dividends.

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014
Equity ratio (%)	76.5	69.8
Equity ratio at market value (%)	96.2	136.8
Interest-bearing debt to cash flow ratio (times)	0.0	0.3
Interest coverage ratio (times)	1,227.59	529.83

Equity ratio: (Equity / Total assets) x 100

Equity ratio at market value: (Market capitalization / Total assets) x 100

Interest-bearing debt to cash flow ratio: Interest-bearing debt / Cash flow from operating activities

Interest coverage ratio: Cash flow from operating activities / Interest expenses

* All indicators are calculated using financial figures on a consolidated basis.

* Market capitalization is calculated based on the following formula: Closing stock price at fiscal year-end × Number of shares outstanding at fiscal year-end after deduction of treasury stock.

* Cash flow from operating activities corresponds to the cash flow from operating activities in the consolidated statement of cash flow. Interest-bearing debt includes all liabilities for which the Company is paying interest among the liabilities reported on the consolidated balance sheet. Interest expenses correspond to the interest paid in the consolidated statement of cash flow.

(3) Basic Policy on Profit Allocation and Payment of Dividends for the Current and Next Fiscal Years

The dividend policy of TEL is to link dividend payments to business performance and earnings on an ongoing basis. Its basic policy for returning profits to shareholders is to maintain a payout ratio of around 35% based on consolidated net income.

TEL will effectively use internal capital reserves and concentrate investment in growth areas to raise corporate value through earnings growth, and TEL provides returns directly to shareholders by linking dividend payments to business performance and earnings.

The year-end dividend for the current fiscal year (ended March 2014) will remain at 25 yen per share, unchanged from the figure disclosed on April 30, 2013. While the dividend policy noted above remains unchanged, the dividend for the full fiscal year will be 50 yen per share (a 25 yen interim dividend and a 25 yen year-end dividend), as a special return to shareholders in light of the financial condition of the TEL Group and global financial and economic trends, in addition to the policy on linkage to earnings.

In regard to the dividends for the next fiscal year (ending March 2015), the effective date of the business combination with Applied Materials, Inc. has not yet been determined despite this merger having been announced because it is conditional upon the approval of the General Meeting of Shareholders of both companies as well as approval from the relevant authorities in Japan, the U.S., and other countries subject to competition laws. Given these circumstances, TEL plans to declare a provisional quarterly dividend of 10 yen per share for the first quarter of the fiscal year.

	Dividend per share		
	2Q-end	Year-end	Total
Current fiscal year (ended March, 2014)	25 yen	25 yen	50 yen

2. Management Policy

(1) Basic Management Policy

The basic management policy of the TEL Group is to raise its corporate value through profit-oriented operations by placing the highest priority on customers, enhancing product and technology development capabilities, and invigorating its workforce.

Under this fundamental policy, the TEL Group will engage in the development of vibrant and internationally competitive companies, with high growth potential and profitability that are attractive to investors.

(2) Management Tasks

The Group, one of the world's leading suppliers of semiconductor and flat panel display (FPD) production equipment, engages in dynamic business activities in the electronics industry, a field characterized by rapid technological innovation, with its corporate philosophy that "We strive to contribute to the development of a dream-inspiring society through our leading-edge technologies and reliable service and support".

The markets in which we operate are increasingly dominated by our customers, the semiconductor manufacturers and others. Securing and maintaining a strong position in sectors in which we currently operate and establishing new products and technology are vital tasks for us. We recognize the need to improve competitiveness through technological differentiation, thorough cost reduction, and other means, and regard the following as the priority policies to concentrate on in order to achieve this.

(i) Enhancing Products to Improve Market Position

To acquire and maintain high shares in the markets in which we are already operating, we must further improve the productivity, reliability and processing performance of our products and resolve the issues facing our customers. The TEL Group will strive to strengthen our technical competitiveness and improve our market position in each of our product areas, including etching system, cleaning system, coater/developer, and wafer deposition system.

We will continue to expand our business and intensify development of 3-D transistor and NAND flash memory and a multiple patterning technology, which will be important in the future, particularly in regard to etching system, where market growth is anticipated.

In our cleaning system business, we have made progress with the adoption of the wet wafer cleaning process we have been concentrating on in new mass production by customers in Japan, Taiwan, and South Korea, consequently recording historical highs in sales and profits in our cleaning business on a six-month basis this fiscal year. Moreover, the number of processing steps is expected to increase in the future as miniaturization progresses, and we will strive to expand the business by releasing new products with high performance and high yields in our dry cleaning system line.

In our FPD production equipment business, the first machine was shipped from our Kunshan factory in China in August. We will utilize this factory to improve profitability in the future, while meeting the needs of our Chinese customers also.

(ii) Technological Innovation for Continuous Growth

The TEL Group is the global leader in process development using multiple patterning, and we are concentrating on process development with a focus on costs to avoid an increase in patterning costs. TEL also leads other companies in the development of cleaning technology that addresses pattern collapse in increasingly fine patterns due to miniaturization, and in thin film deposition technology with good tracking. At the same time, it is focusing on the rapid establishment of equipment technology through an alliance involving industry, academia, and government in the mass production of MRAM (magnetic memory), which is attracting attention as the next generation of memory. TEL is also actively incorporating the knowledge of research institutes inside and outside of Japan as we work on developing next-generation device technology.

We are also developing equipment that will dramatically improve yield in the organic EL manufacturing process by incorporating the inkjet printing method with the goal of creating energy-saving displays, and released a new inkjet printing system for manufacturing OLED panels, in March of this year.

TEL will continue with R&D in the future as well, striving to achieve efficiency and strategic concentration of resources with an eye on promising technology.

(iii) Pursuit of the Best Solutions

Amid increasing market domination by our customer base, the TEL Group is working to strengthen our partnership with each customer through such means as putting into place a system for development and evaluation that is near to the customer to ascertain future needs at an early stage, while also enhancing operations and services to enable us to offer the best solution early on.

We will also provide the best solutions for back-end processes such as testing systems and wafer-level packaging through proposals that integrate multiple products to make use of the strengths of the TEL Group with its extensive product line-up.

In addition to marketing and sale of the latest equipment, we are also working to build a system that will enable the effective and efficient provision of products and services and expand our business by utilizing information on TEL equipment in operation around the world and knowledge accumulated in the field in our field solutions business, involving the relocation, upgrading, improvement of performance, and parts business for equipment sold previously.

(iv) Measures to Fulfill our Corporate Social Responsibility

Based on our “Safety First” principle, the TEL Group believes in ensuring that all individuals involved in our business activities can work safely, use equipment safely, and maintain health, and we view this as an important part of our corporate social responsibility.

Based on the policy of “solving environmental problems with technology”, TEL is also engaged in efforts born of our desire to contribute to reduced power consumption during the operation of equipment, efficient operation of equipment and systems in general, and overall energy savings in the operation of customer plants in order to achieve energy efficiency in the use of our equipment and peripheral equipment and thereby reduce the overall burden a customer’s plant places on the environment.

TEL is also engaged in efforts to reduce the environmental burden of group business activities and logistics also through such means as introducing solar power generation equipment into main plants.
It is TEL's desire to build a relationship of trust with citizens and the many different stakeholders in local communities through communication in order to remain a good company solidly rooted in the local community as we grow along with society.
TEL is also making greater efforts in addressing corporate social responsibility (CSR), a subject of heightened interest in recent years, by enacting a policy on CSR while also strengthening our organizational functions for practical implementation.

(v) Efforts Directed at Business Integration with Applied Materials, Inc.

The TEL Group has established an integration management office for the business combination with Applied Materials, Inc., and concrete discussions regarding and preparatory work for the business combination will take place within this office. We will diligently work on preparations for the listing of the ordinary shares of the combined holding company on the Tokyo Stock Exchange (TSE), discussing this with TSE, JASDEC (Japan Securities Depository Center, Inc.) and other relevant parties. Moreover, we anticipate that the combined holding company will not be a constituent stock of the Tokyo Stock Price Index (TOPIX) after relisting in light of the current guidelines for calculation because it will be a foreign corporation, however we will continue to work to ensure liquidity on the TSE so that the shares of the combined holding company are attractive to various investors in Japan.

In addition to the key policies noted above, human resources are the source of our growth and we will continue to allocate human resources in positions and with responsibilities commensurate to their abilities and performance. We will be proactive in further improving skill development programs, and will tie this into a dramatic leap forward for the TEL Group. TEL will also put a system into place that provides fair evaluation and compensation according to the degree of contribution, and will succeed in making this a company filled with dreams and dynamism.

The TEL Group will strive to increase corporate value in the future as well, by making our customers the first priority, improving our capabilities in developing products and technology, strengthening international competitiveness, and endeavoring to stimulate employees, based on earnings-oriented management.

Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2013	As of March 31, 2014
ASSETS		
Current assets		
Cash and deposit	49,632	56,345
Trade notes and accounts receivable	100,500	129,032
Securities	190,497	211,800
Merchandise and finished goods	87,397	114,289
Work in process	33,402	38,074
Raw materials and supplies	14,898	15,912
Deferred income taxes	15,669	25,173
Others	30,682	32,365
Allowance for doubtful accounts	(1,179)	(1,502)
Total current assets	521,501	621,492
Long-term assets		
Tangible fixed assets		
Buildings and structures	163,857	151,633
Accumulated depreciation	(92,009)	(93,185)
Buildings and structures, net	71,847	58,448
Machinery and carriers	108,360	97,055
Accumulated depreciation	(81,233)	(76,255)
Machinery and carriers, net	27,126	20,800
Land	25,030	25,112
Others	37,781	34,989
Accumulated depreciation	(26,087)	(27,005)
Others, net	11,693	7,983
Total tangible fixed assets	135,697	112,344
Intangible fixed assets		
Goodwill	38,372	9,400
Others	21,545	20,155
Total intangible fixed assets	59,918	29,556
Investments and other assets		
Investment securities	18,669	20,026
Net defined benefit asset	-	8,904
Deferred income taxes	23,205	23,223
Others	18,647	14,911
Allowance for doubtful accounts	(2,112)	(1,866)
Total investments and other assets	58,410	65,199
Total long-term assets	254,026	207,099
Total assets	775,527	828,591

(Millions of yen)

	As of March 31, 2013	As of March 31, 2014
LIABILITIES		
Current liabilities		
Trade notes and accounts payable	36,261	53,667
Short-term borrowings	3,756	11,531
Income taxes payable	2,285	14,014
Accrued employees' bonuses	6,829	8,584
Accrued warranty expenses	8,344	10,072
Others	49,192	72,639
Total current liabilities	106,670	170,509
Long-term liabilities		
Deferred tax liabilities	4,817	9,279
Accrued pension and severance costs	56,643	-
Net defined benefit liability	-	53,448
Others	2,269	4,740
Total long-term liabilities	63,730	67,468
Total liabilities	170,400	237,978
NET ASSETS		
Shareholders' equity		
Common stock	54,961	54,961
Capital surplus	78,023	78,023
Retained earnings	467,920	436,174
Treasury stock	(9,588)	(9,478)
Total shareholders' equity	591,315	559,679
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,214	5,592
Deferred gains or losses on hedges	(14)	60
Translation adjustments	(2,483)	5,777
Remeasurements of defined benefit plans	-	6,981
Total accumulated other comprehensive income	1,716	18,411
Subscription rights to shares	1,374	1,643
Minority interests	10,720	10,878
Total net assets	605,127	590,613
Total liabilities and net assets	775,527	828,591

Consolidated Statement of Income

(Millions of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Net sales	497,299	612,170
Cost of sales	338,545	410,277
Gross profit	158,754	201,892
Selling, general & administrative expenses		
Salaries and allowances	24,619	28,140
Research and development expenses	73,248	78,663
Others	48,338	62,882
Total selling, general & administrative expenses	146,206	169,687
Operating income (loss)	12,548	32,204
Non-operating income		
Interest income	1,392	1,343
Dividend revenue	266	1,818
Revenue from grants	2,671	1,154
Others	1,794	1,157
Total non-operating income	6,125	5,473
Non-operating expenses		
Foreign currency translation loss	1,520	1,229
Loss on revaluation of investment securities	153	230
Others	303	731
Total non-operating expenses	1,977	2,191
Ordinary income (loss)	16,696	35,487
Unusual or infrequent profit		
Gain on sale of fixed assets	943	433
Reversal of allowance for doubtful accounts	558	-
Gain on sale of investment securities	-	74
Others	-	18
Total unusual or infrequent profit	1,501	526
Unusual or infrequent loss		
Loss on impairment	6	46,969
Loss on liquidation of subsidiaries and affiliates	134	-
Reorganization costs	132	-
Others	158	800
Total unusual or infrequent loss	431	47,769
Income (loss) before income taxes	17,766	(11,756)
Provision for income taxes and enterprise taxes	6,254	15,994
Prior year's corporate tax	2,194	-
Deferred income taxes	2,958	(8,537)
Total income taxes	11,408	7,456
Income (loss) before minority interests	6,358	(19,213)
Minority interests	282	195
Net income (loss)	6,076	(19,408)

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Income (loss) before minority interests	6,358	(19,213)
Other comprehensive income		
Valuation difference on available-for-sale securities	651	1,365
Deferred gains or losses on hedges	55	91
Translation adjustments	8,760	6,867
Total other comprehensive income	9,467	8,324
Comprehensive income	15,826	(10,888)
(Breakdown)		
Comprehensive income attributable to owners	15,425	(11,150)
Comprehensive income attributable to minority interests	400	261

Consolidated Statements of Changes in Net Assets

Year ended March 31, 2013 (Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	54,961	78,023	471,186	(9,747)	594,422
Changes of items during the period					
Cash dividends			(9,316)		(9,316)
Net income (loss)			6,076		6,076
Purchase of treasury stock				(15)	(15)
Disposal of treasury stock			(24)	173	148
Net change except shareholders' equity					
Total changes of items during the period	-	-	(3,265)	158	(3,106)
Balance at end of period	54,961	78,023	467,920	(9,588)	591,315

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustments	Total accumulated other comprehensive income			
Balance at beginning of period	3,575	(51)	(11,157)	(7,633)	1,156	10,656	598,602
Changes of items during the period							
Cash dividends							(9,316)
Net income (loss)							6,076
Purchase of treasury stock							(15)
Disposal of treasury stock							148
Net change except shareholders' equity	638	36	8,674	9,349	217	63	9,631
Total changes of items during the period	638	36	8,674	9,349	217	63	6,524
Balance at end of period	4,214	(14)	(2,483)	1,716	1,374	10,720	605,127

Consolidated Statements of Changes in Net Assets

Year ended March 31, 2014 (Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	54,961	78,023	467,920	(9,588)	591,315
Increase (decrease) from changes in accounting periods at consolidated subsidiaries			(3,190)		(3,190)
Changes of items during the period					
Cash dividends			(9,138)		(9,138)
Net income (loss)			(19,408)		(19,408)
Purchase of treasury stock				(29)	(29)
Disposal of treasury stock			(8)	139	131
Net change except shareholders' equity					
Total changes of items during the period	-	-	(28,555)	110	(28,445)
Balance at end of period	54,961	78,023	436,174	(9,478)	559,679

	Accumulated other comprehensive income					Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	4,214	(14)	(2,483)	-	1,716	1,374	10,720	605,127
Increase (decrease) from changes in accounting periods at consolidated subsidiaries								(3,190)
Changes of items during the period								
Cash dividends								(9,138)
Net income (loss)								(19,408)
Purchase of treasury stock								(29)
Disposal of treasury stock								131
Net change except shareholders' equity	1,378	74	8,260	6,981	16,695	269	157	17,122
Total changes of items during the period	1,378	74	8,260	6,981	16,695	269	157	(11,323)
Balance at end of period	5,592	60	5,777	6,981	18,411	1,643	10,878	590,613

Consolidated Cash Flow

(Millions of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Cash flow from operating activities		
Income (loss) before income taxes	17,766	(11,756)
Depreciation and amortization	26,630	24,888
Loss on impairment	6	46,969
Amortization of goodwill	1,141	4,262
Increase (decrease) in accrued pension and severance costs	1,864	-
Increase (decrease) in net defined benefit liability	-	2,885
Increase (decrease) in accrued employees' bonuses	(2,750)	1,396
Increase (decrease) in accrued warranty expenses	(2,918)	1,255
Interest and dividend revenue	(1,659)	(3,161)
Decrease (increase) in trade notes and accounts receivable	57,549	(25,357)
Decrease (increase) in inventories	20,278	(32,088)
Increase (decrease) in accounts payable	(15,481)	15,605
Decrease (increase) in prepaid consumption tax	2,862	(2,912)
Increase (decrease) in accrued consumption tax	596	1,122
Increase (decrease) in customer advances	(12,455)	19,083
Others	(3,011)	860
Subtotal	90,420	43,052
Receipts from interest and dividends	1,586	3,222
Interest paid	(68)	(83)
Income taxes paid or refund (paid)	(7,671)	(1,741)
Net cash generated by operating activities	84,266	44,449
Cash flow from investing activities		
Payment into time deposits	(15,056)	(98)
Proceeds from time deposits	15,000	9,871
Payment for purchase of short-term investments	(177,000)	(192,515)
Proceeds from redemption of short-term investments	111,000	174,200
Payment for purchase of tangible fixed assets	(19,012)	(9,451)
Payment for purchase of intangible fixed assets	(1,234)	(1,640)
consolidation	(55,079)	-
Payments for transfer of business	(1,097)	-
Others	710	35
Net cash used in investing activities	(141,769)	(19,599)
Cash flow from financing activities		
Net increase (decrease) in short-term borrowings	(646)	7,551
Proceeds from long-term borrowings	-	2,000
Net decrease (increase) in treasury stock	(15)	(29)
Dividends paid	(9,316)	(9,138)
Others	(646)	(569)
Net cash generated by financing activities	(10,625)	(186)
Effect of exchange rate changes on cash and cash equivalents	(5,334)	(3,973)
Net increase (decrease) in cash and cash equivalents	(73,462)	20,690
Cash and cash equivalents at beginning of period	158,776	85,313
Increase (decrease) in cash and cash equivalents from changes in accounting periods at consolidated subsidiaries	-	(1,206)
Cash and cash equivalents at end of period	85,313	104,797

Note: 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 current fiscal year (the year ended March 31, 2014), we are posting a loss on impairment of the following asset groups.

(i) Loss on impairment of goodwill and long-term assets for consolidated subsidiary TEL Solar Holding AG

Location	Purpose	Accounting treatment	Loss on impairment (Millions of yen)
Trubbach, St. Gallen, Switzerland	Plant	Goodwil, machinery and equipment, etc.	32,789

Regarding the goodwill posted at the time we acquired TEL Solar Holding AG, a consolidated subsidiary in the PV production equipment business, given that sales have been trending below initial plans due to significant deterioration of the business environment, we implemented an impairment test. And as a result, we wrote down this goodwill to a recoverable value and are posting this reduced value as an unusual or infrequent loss. The recoverable value was gauged based on value in use. We set this value at zero as we cannot foresee the forecast of future cash flow.

We also decreased the book value of the machinery, equipment, etc. possessed by TEL Solar Holding AG and its consolidated subsidiary to a recoverable value and posting the reduced value as an unusual or infrequent loss. The recoverable value was gauged in accordance with the net selling price. However, given that we believe it will be difficult to transfer or sell this machinery, equipment, etc. to another party, we value the net selling price at zero.

(ii) Loss on impairment of goodwill for consolidated subsidiary TEL NEXX, Inc.

Location	Purpose	Accounting treatment	Loss on impairment (Millions of yen)
Billerica, Massachusetts, U. S. A.	Plant	Goodwill, etc.	5,009

Regarding the goodwill and other items posted at the time we acquired the consolidated subsidiary TEL NEXX, 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.

(iii) Loss on impairment of long-term assets in line with plans to restructure business locations

Location	Purpose	Accounting treatment	Loss on impairment (Millions of yen)
Tsukuba, Ibaraki (Technology Center Tsukuba)	R&D center	Buildings and structures, machinery and equipment, etc.	4,648
Sendai, Miyagi (Technology Center Sendai)	R&D center	Buildings and structures, land, etc.	3,355
Others	-	Buildings and structures, etc.	292

There is no expectation for future use of the aforementioned asset groups given the decision by management to restructure the facility or handle otherwise, we reduced book value to a recoverable value and are posting the reduced amount as an unusual or infrequent loss.
We note that the recoverable value is gauged in accordance with the net selling price.
The value of land, buildings and structures were calculated based on the real estate judgement value, which was based on a rational assessment by a third party, the value of machinery, equipment and others excluding land, buildings and structures, we value the net selling price at zero given the difficulty of transfer or sale to another party.

(iv) Others
In the others grouping, we are posting 873 million yen on unusual or infrequent loss as a loss on impairment.

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, FPD (Flat Panel Display) Production Equipment, PV (Photovoltaic Panel) Production Equipment, and Electronic Components and Computer Networks.

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.

The PV Production Equipment segment consists of photovoltaic panel production equipment used in the manufacturing of thin film silicon photovoltaic panels, and we are engaged in the development, manufacturing, sales and provision of maintenance services, etc. for such products. Also, we have scaled down our business structure of the PV production equipment, by halting development, production, and sales activities for this business and limit operations to support for equipment already delivered as of the end of March, 2014.

The Electronic Components and Computer Networks segment consists of semiconductor products centering on integrated circuits (IC), other electronic components, computer networks and software, etc., and we are engaged in the design, development, procurement, and sales, etc. for such products.

(ii) Items Related to Changes in Reportable Segments

With the acquisition of TEL Solar Holding AG as a consolidated subsidiary, from the first quarter of the current fiscal year, the reportable segment has been divided from FPD/PV Production Equipment to FPD Production Equipment, and PV Production Equipment.

(iii) Ways of estimating net sales, profits or losses, assets, and other amounts in reportable segment

Accounting method used in each reportable segment is almost the same as the method used to prepare consolidated financial statements. Inter-segment revenues or transfers are based on prevailing market prices. Moreover, shared assets have not been allotted to each reportable segments, but associated costs have been distributed among them according to rational standards.

(iv) Net sales, profits or losses, assets, and other amounts in reportable segment

Year ended March 31, 2014 (Millions of yen)

	Reportable Segment			
	Semiconductor Production Equipment	FPD Production Equipment	PV Production Equipment	Electronic Components & Computer Networks
Sales to external customers	478,841	28,317	3,805	100,726
Inter-segment sales or transfers	34	-	-	1,074
Net sales	478,876	28,317	3,805	101,801
Segment income (loss)	74,284	(36)	(46,426)	722
Segment assets	273,142	21,251	2,145	57,464
Depreciation and amortization	10,113	235	10	476
Amortization of goodwill	1,473	-	2,685	102
Loss on impairment	5,009	-	32,789	-
Increase in the amount of tangible fixed assets and intangible fixed assets	8,109	102	856	825

	Others *1	Total Segment	Eliminations *2	Consolidated Total *3
Sales to external customers	479	612,170	-	612,170
Inter-segment sales or transfers	11,759	12,868	(12,868)	-
Net sales	12,238	625,039	(12,868)	612,170
Segment income (loss)	1,267	29,810	(41,566)	(11,756)
Segment assets	1,870	355,874	472,717	828,591
Depreciation and amortization	48	10,883	14,004	24,888
Amortization of goodwill	-	4,262	-	4,262
Loss on impairment	-	37,798	9,170	46,969
Increase in the amount of tangible fixed assets and intangible fixed assets	40	9,935	5,108	15,043

Notes:

*1 The "Others" segment is all other businesses which are not included in the reported business segments, such as the transportation of products of the Tokyo Electron Group companies, equipment leasing and insurance, etc.

*2 a) The eliminations of segment income or loss amounting to 41,566 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 19,735 million yen, pertaining to fundamental research and element research conducted by the company not related to any of the reportable segments, and 9,170 million yen in loss on impairment relating to buildings and structures that became idle as a result of facility restructuring.

b) The main constituents of the eliminations of segment assets worth 472,717 million yen are cash, savings, securities, buildings and structures, etc. unallocated to each reportable segment.

c) The main constituents of the eliminations of loss on impairment worth 9,170 million yen are related primarily to buildings and structures, etc. that became idle as a result of facility restructuring.

d) The main constituent of the eliminations of tangible fixed assets and intangible fixed assets worth 5,108 million yen is capital investments in buildings, structures, machinery and carriers unallocated to each reportable segment.

*3 Segment income or loss is adjusted against net loss before taxes in consolidated income statement.

(v) Impairment loss on fixed assets in reportable segments

Refer to (iv) Net sales, profits or losses, assets, and other amounts in reportable segment.

(vi) Amortization and un-depreciated balance of goodwill in reportable segments

Year ended March 31, 2014 (Millions of yen)

	Semiconductor Production Equipment	FPD Production Equipment	PV Production Equipment	Electronic Components & Computer Networks	Total Segment
Amortization of goodwill	1,473	-	2,685	102	4,262
Balance at end of period	9,091	-	-	308	9,400

(vii) Income related to negative goodwill in reportable segments

None

Material subsequent events

Change in the scope of consolidation as result of subsidiary

The Board of Directors adopted a resolution on March 26, 2014 to sell a portion of TEL's holdings of shares of Tokyo Electron Device Limited (TED) (listed on the first section of the Tokyo Stock Exchange), a consolidated subsidiary of TEL, and TED changed from a consolidated subsidiary to an equity-method affiliate effective April 15, 2014. In accordance with this change, TED's financial results will be reflected in TEL's consolidated statement of income pursuant to investment profit or loss on equity method as of the fiscal year started April 1, 2014.

(i) Reasons for change

In the midst of a rapidly changing business landscape for the Tokyo Electron Group, the group has spent considerable effort investigating future growth strategies for both TEL and TED as we look to develop our businesses going forward. As a result, TEL has sold a portion of its shares in TED in order to improve the value of both our enterprises. This enables us to plan for a greater concentration of management resources in our core equipment business, and for TED to actively drive its development business and overseas expansion in addition to existing sales of electronic components and computer network related products while becoming even more independent and building its own growth strategies for the future.

(ii) Method of change

Of the 5,875,300 ordinary shares of TED stock that TEL held as of the end of the consolidated fiscal year, TED purchased 636,000 shares through a share repurchase and 1,484,000 shares were sold through an underwritten offering (Daiwa Securities Co. Ltd. and Nomura Securities Co., Ltd.).

(iii) Change date

April 15, 2014 (the date of transfer of the TED shares sold through an underwritten offering)

(iv) Overview of subsidiary changed (Tokyo Electron Device Limited)

(1)Company Name	Tokyo Electron Device Limited
(2)Address	1-4, Kinko-cho, Kanagawa-ku, Yokohama City, Kanagawa, Japan
(3)Representative Director	Yasuyuki Kuriki, President, Representative Director
(4)Business Operation	Electronic Components, Computer Network
(5)Capital Stock	2,495,750,000 yen (as of March 31, 2014)
(6)Established	March 3, 1986

(v) Number of shares sold and sale price

Number of shares sold	2,120,000 shares
Sale price	2,731 million yen

(vi) Voting rights (number of shares held) and proportion of voting rights of all shareholders before and after change

	Status	Number of voting rights (number of shares held)	Proportion of voting rights of all shareholders
Before change (as of March 31, 2014)	Consolidated subsidiary	58,753 (5,875,300 shares)	55.43%
After change	Equity method affiliate	37,553 (3,755,300 shares)	37.69%

Note:

1. The proportion of voting rights of all shareholders before the change was calculated on the basis of 105,985 voting rights of all shareholders as of March 31, 2014.

2. The percentage of total voting rights was calculated based on 99,625 units, which is a reduction of 6,360 units from the 105,985 total voting rights as of March 31 2014, as a result of the repurchase of 636,000 shares by TED.

3. The proportion of voting rights of all shareholders was truncated to two decimal places.

4. With respect to the underwritten offering, 222,600 shares of additional offering (Over Allotment) was conducted, and exercise of the Green Shoe Option which was given to the underwriter may further reduce the number of voting rights (number of shares held) by a maximum of 2,226 (222,600 shares) after the change. In that case, the proportion of voting rights of all shareholders will be 35.45%.

Changes in Reportable Segments

The TEL Group “Electronic Components and Computer Networks” segment was handled by TED and its subsidiaries, and in conjunction with the change of the company from a consolidated subsidiary to an equity-method affiliate, this reportable segment will be eliminated effective the following consolidated fiscal year and investment profit or loss on equity method relating to Tokyo Electron Device will be included in segment income adjustment amounts.