Consolidated Balance Sheets

Tokyo Electron Limited and Subsidiaries As of March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
ASSETS	2021	2020	2021
Current assets:			
Cash and cash equivalents	¥ 265,993	¥ 247,959	$ 2,402,611
Short-term investments	45,559	90,447	411,524
Trade notes and accounts receivable	191,700	150,134	1,731,556
Allowance for doubtful accounts	(99)	(105)	(896)
Inventories	415,344	392,064	3,751,640
Prepaid consumption tax	82,704	69,034	747,033
Other current assets	14,493	12,949	130,915
Total current assets	1,015,696	962,484	9,174,386
Property, plant and equipment:			
Land	26,929	26,298	243,245
Buildings	208,475	179,379	1,883,073
Machinery and equipment	197,982	173,505	1,788,295
Construction in progress	22,391	29,413	202,253
Other property, plant and equipment	6,002	4,139	54,218
Total property, plant and equipment	461,780	412,736	4,171,084
Less: Accumulated depreciation	264,812	237,156	2,391,951
Net property, plant and equipment	196,967	175,580	1,779,133
Investments and other assets:			
Investment securities	105,065	38,374	949,011
Deferred tax assets	53,128	64,729	479,892
Net defined benefit assets	12,021	5,837	108,581
Intangible assets	17,163	10,921	155,033
Other assets	26,728	21,980	241,431
Allowance for doubtful accounts	(1,407)	(1,413)	(12,716)
Total investments and other assets	212,699	140,431	1,921,233
Total assets	¥1,425,364	¥1,278,495	$12,874,753

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars
LIABILITIES AND NET ASSETS	2021	2020	2021
Current liabilities:			
Trade notes and accounts payable	¥ 90,606	¥ 95,938	$ 818,413
Income taxes payable	49,272	52,654	445,058
Customer advances	81,722	135,326	738,169
Accrued employees' bonuses	34,254	29,139	309,410
Accrued warranty expenses	14,415	14,534	130,209
Other current liabilities	57,389	54,986	518,372
Total current liabilities	327,661	382,578	2,959,633
Non-current liabilities:			
Net defined benefit liabilities	62,248	60,745	562,262
Other liabilities	10,891	5,478	98,382
Total non-current liabilities	73,140	66,224	660,644
Total liabilities	400,801	448,802	3,620,278
Net assets:			
Shareholders' equity			
Common stock Authorized: 300,000,000 shares Issued: 157,210,911 and 157,210,911 shares as of March 31, 2021 and 2020, respectively	54,961	54,961	496,442
Capital surplus	78,011	78,011	704,642
Retained earnings	835,240	702,990	7,544,401
Treasury stock, at cost 1,659,611 and 1,685,556 shares as of March 31, 2021 and 2020, respectively	(30,744)	(29,310)	(277,701)
Accumulated other comprehensive income			
Net unrealized gains on investment securities	66,124	20,126	597,281
Net deferred losses on hedging instruments	(79)	(52)	(714)
Foreign currency translation adjustments	10,441	(4,111)	94,310
Accumulated remeasurements of defined benefit plans	(978)	(3,313)	(8,836)
Share subscription rights	11,585	10,391	104,648
Total net assets	1,024,562	829,692	9,254,475
Total liabilities and net assets	¥ 1,425,364	¥ 1,278,495	$ 12,874,753

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Tokyo Electron Limited and Subsidiaries Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net sales	¥ 1,399,102	¥ 1,127,286	$ 12,637,546
Cost of sales	834,157	675,344	7,534,615
Gross profit	564,945	451,941	5,102,930
Selling, general and administrative expenses	244,259	214,649	2,206,302
Operating income	320,685	237,292	2,896,628
Other income (expenses):			
Interest and dividend income	1,300	1,920	11,742
Share of profit of associates accounted for using the equity method	1,110	794	10,027
Revenue from grants	1,130	1,330	10,214
Gain on sales of property, plant and equipment	24	34	221
Gain (loss) on change in equity	(7)	136	(63)
Foreign exchange gain (loss), net	(3,147)	2,539	(28,428)
Commission for purchases of treasury stock	—	(174)	—
Additional payment of customs duty	—	(173)	—
Loss on sales and disposal of property, plant and equipment	(1,354)	(483)	(12,234)
Provision for loss on liquidation of subsidiaries and associates	(3,327)	—	(30,053)
Other, net	622	1,408	5,624
Income before income taxes	317,038	244,626	2,863,679
Income taxes:			
Current	82,568	65,177	745,806
Deferred	(8,471)	(5,757)	(76,520)
Net income	242,941	185,206	2,194,393
Net income attributable to owners of parent	¥ 242,941	¥ 185,206	$ 2,194,393
	Yen		U.S. dollars
Per share of common stock:			
Net income — basic	¥ 1,562.20	¥ 1,170.57	$ 14.11
Net income — diluted	1,553.29	1,164.02	14.03
Net assets	6,512.18	5,267.96	58.82
Cash dividends	781.00	588.00	7.05

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Tokyo Electron Limited and Subsidiaries Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net income	¥ 242,941	¥ 185,206	$ 2,194,393
Other comprehensive income (loss):			
Net unrealized gains on investment securities	45,982	7,099	415,345
Net deferred gains on hedging instruments	32	6	294
Foreign currency translation adjustments	14,536	(8,461)	131,299
Remeasurements of defined benefit plans	2,266	3,278	20,474
Share of other comprehensive income of associates accounted for using the equity method	41	(45)	375
Total other comprehensive income (loss)	62,860	1,878	567,789
Comprehensive income	305,801	187,084	2,762,183
Total comprehensive income attributable to:			
Owners of parent	305,801	187,084	2,762,183

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Tokyo Electron Limited and Subsidiaries Years ended March 31, 2021 and 2020

Millions of yen

	Shareholders' equity				Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on investment securities	Net deferred losses on hedging instruments	Foreign currency translation adjustments	Accumulated remeasurements of defined benefit plans	Share subscription rights	Total net assets
Balance as of March 31, 2019	¥ 54,961	¥ 78,011	¥ 748,827	¥(11,821)	¥ 13,024	¥(34)	¥ 4,366	¥(6,585)	¥ 7,368	¥ 888,117
Cash dividends	—	—	(95,513)	—	—	—	—	—	—	(95,513)
Net income attributable to owners of parent	—	—	185,206	—	—	—	—	—	—	185,206
Purchase of treasury stock	—	—	—	(154,096)	—	—	—	—	—	(154,096)
Disposal of treasury stock	—	—	(1,616)	2,684	—	—	—	—	—	1,067
Cancellation of treasury stock	—	—	(133,922)	133,922	—	—	—	—	—	—
Others	—	—	10	—	—	—	—	—	—	10
Net changes except for shareholders' equity	—	—	—	—	7,102	(17)	(8,478)	3,271	3,022	4,900
Balance as of March 31, 2020	¥ 54,961	¥ 78,011	¥ 702,990	¥(29,310)	¥ 20,126	¥(52)	¥(4,111)	¥(3,313)	¥ 10,391	¥ 829,692
Cash dividends	—	—	(109,542)	—	—	—	—	—	—	(109,542)
Net income attributable to owners of parent	—	—	242,941	—	—	—	—	—	—	242,941
Purchase of treasury stock	—	—	—	(4,339)	—	—	—	—	—	(4,339)
Disposal of treasury stock	—	—	(1,149)	2,906	—	—	—	—	—	1,757
Net changes except for shareholders' equity	—	—	—	—	45,998	(26)	14,553	2,335	1,194	64,054
Balance as of March 31, 2021	¥ 54,961	¥ 78,011	¥ 835,240	¥(30,744)	¥ 66,124	¥(79)	¥ 10,441	¥(978)	¥ 11,585	¥ 1,024,562

Thousands of U.S. dollars

	Shareholders' equity				Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on investment securities	Net deferred losses on hedging instruments	Foreign currency translation adjustments	Accumulated remeasurements of defined benefit plans	Share subscription rights	Total net assets
Balance as of March 31, 2020	$ 496,442	$ 704,642	$ 6,349,840	$(264,753)	$ 181,798	$(477)	$(37,141)	$(29,927)	$ 93,860	$ 7,494,285
Cash dividends	—	—	(989,453)	—	—	—	—	—	—	(989,453)
Net income attributable to owners of parent	—	—	2,194,393	—	—	—	—	—	—	2,194,393
Purchase of treasury stock	—	—	—	(39,201)	—	—	—	—	—	(39,201)
Disposal of treasury stock	—	—	(10,379)	26,252	—	—	—	—	—	15,873
Net changes except for shareholders' equity	—	—	—	—	415,482	(236)	131,452	21,091	10,787	578,577
Balance as of March 31, 2021	$ 496,442	$ 704,642	$ 7,544,401	$(277,701)	$ 597,281	$(714)	$ 94,310	$(8,836)	$ 104,648	$ 9,254,475

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Tokyo Electron Limited and Subsidiaries Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash flows from operating activities:			
Income before income taxes	¥ 317,038	¥ 244,626	$ 2,863,679
Depreciation and amortization	33,843	29,107	305,696
Amortization of goodwill	199	196	1,802
Increase (decrease) in accrued employees' bonuses	4,612	(3,802)	41,659
Provision for loss on liquidation of subsidiaries and associates	3,327	—	30,053
Interest and dividend income	(1,300)	(1,920)	(11,742)
Increase in trade notes and accounts receivable	(37,736)	(5,370)	(340,856)
Increase in inventories	(17,226)	(44,065)	(155,597)
Increase (decrease) in trade notes and accounts payable	(8,255)	22,337	(74,571)
Increase in prepaid consumption tax	(13,549)	(19,508)	(122,390)
Increase (decrease) in accrued consumption tax	(5,699)	6,140	(51,484)
Increase (decrease) in customer advances	(54,851)	58,630	(495,455)
Other, net	11,590	6,308	104,688
Subtotal	231,990	292,679	2,095,481
Receipts from interest and dividends	1,669	2,326	15,083
Income taxes paid	(87,772)	(41,888)	(792,814)
Net cash provided by operating activities	145,888	253,117	1,317,749
Cash flows from investing activities:			
Payment for purchases of short-term investments	(45,568)	(100,449)	(411,602)
Proceeds from maturities of short-term investments	90,506	170,000	817,507
Payment for purchases of property, plant and equipment	(53,806)	(49,369)	(486,012)
Payment for acquisition of intangible assets	(7,124)	(3,383)	(64,353)
Other, net	(2,281)	(845)	(20,609)
Net cash provided by (used in) investing activities	(18,274)	15,951	(165,070)
Cash flows from financing activities:			
Payment for purchases of treasury stock	(4,339)	(154,096)	(39,201)
Dividends paid	(109,542)	(95,513)	(989,453)
Other, net	(643)	(764)	(5,809)
Net cash used in financing activities	(114,525)	(250,374)	(1,034,464)
Effect of exchange rate changes on cash and cash equivalents	4,946	(3,369)	44,679
Net increase in cash and cash equivalents	18,033	15,324	162,893
Cash and cash equivalents at beginning of year	247,959	232,634	2,239,717
Cash and cash equivalents at end of year	¥ 265,993	¥ 247,959	$ 2,402,611

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2021 and 2020

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, 2021 and 2020 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 ¥110.71 to $1.00, the approximate rate as of March 31, 2021. 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 27 and 29 subsidiaries as of March 31, 2021 and 2020, respectively. All significant inter-company transactions and account balances have been eliminated through consolidation procedures.

There are 9 affiliates accounted for using the equity method as of March 31, 2021 and 2020.

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 (loss) 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, 2021 and 2020. 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 (loss) in the consolidated balance sheets. 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 selling price, 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 20 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) Accrued employees' bonuses

The provision for accrued employees' bonuses is provided based on the estimated payments to be made in respect of the fiscal year.

(m) 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 defined benefit liabilities in the consolidated balance sheets.

(n) 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.

(o) Derivatives and hedge accounting

The Company and certain subsidiaries (hereinafter "the Group") 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 or forecasted transactions, and the Group does not trade in derivatives for speculative purposes.

Derivatives are carried at fair value in the consolidated balance sheets 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) in the consolidated balance sheets. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(p) 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.

(q) 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 for maintenance is recognized ratably over the term of the maintenance contract.

(r) Research and development expenses

Research and development expenses are charged to earnings as incurred and amounted to ¥136,648 million ($1,234,295 thousand) and ¥120,268 million for the years ended March 31, 2021 and 2020, respectively.

(s) 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, 2021.

Tokyo Electron adopted "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) for the consolidated financial statements for the fiscal year ended March 31, 2021 and, therefore, Significant Accounting Estimates is presented as note 3. below. The note does not include information for the prior consolidated fiscal year in accordance with the transitional provision set out in paragraph 11 of the Accounting Standard.

3. Significant Accounting Estimates

1. Valuation of inventories

(1) Carrying amounts in the consolidated financial statements as of March 31, 2021

¥415,344 million ($3,751,640 thousand)

(2) Information on the nature of significant accounting estimates for identified items

Inventories are principally stated at cost on the consolidated balance sheet. When the net selling price for inventory decreases below its cost at the end of the fiscal year, the Company writes down inventories in an amount equal to the difference between the cost of the inventory and the net selling price.

Inventories aged over a certain holding period are classified based on the use and salability and are then systematically written down according to their classification.

The carrying amount of inventories to be disposed of is written down to the estimated disposal value.

The valuation of inventories is based on forecasts of future demand and prospects of market environment. The semiconductor industry, where Tokyo Electron operates, is influenced by the short-term unbalance between supply and demand, and the market could undergo significant fluctuations. Unforeseen rapid contraction of the semiconductor market could lead to additional write downs of inventories in the consolidated financial statements for the next fiscal year.

2. Accrued warranty expenses

(1) Carrying amounts in the consolidated financial statements as of March 31, 2021

¥14,415 million ($130,209 thousand)

(2) Information on the nature of significant accounting estimates for identified items

The Company accrues estimated warranty costs. Estimated after-sale repair expenses over warranty periods are accrued based on the historical ratio of actual repair expenses to corresponding sales.

Tokyo Electron's products are based on the integration of numerous leading-edge technologies. The occurrence of unforeseen defects could lead to additional after-sale repair expenses in the consolidated financial statements for the next fiscal year.

4. Change in Accounting Policies and Adoption of New Accounting Standards

Year ended March 31, 2020

Certain consolidated overseas subsidiaries adopted IFRS 16 "Leases" from the beginning of the fiscal year ended March 31, 2020, and recognize all leases as a lessee in principle as assets and liabilities on the balance sheets.

Tokyo Electron elected to use the transitional approach to recognize the cumulative effect of initially applying this standard at the date of initial application. Right-of-use assets were recognized at the same value as lease liabilities and, therefore, there was no impact on retained earnings at the beginning of the fiscal year ended March 31, 2020.

The effect of this change on the consolidated financial statements is immaterial.

5. Additional Information

Transactions of Delivering the Company's Own Stock to Employees, etc. through Trusts

Tokyo Electron introduced stock delivering schemes (hereinafter "the Schemes") from the fiscal year ended March 31, 2019 as a common global incentive plan. The purpose of the Schemes is to encourage the directors of the Company and its subsidiaries (excluding outside directors), executive officers and senior and mid-level employees to contribute to improving medium-term business performance, as well as to share a shareholder perspective by holding Company shares and raising awareness towards enhancing corporate value.

For the Company's outside directors, the Company has introduced non-performance-linked stock-based compensation from the fiscal year ended March 31, 2021 as a system that is more consistent with their expected role of advising management from the perspective of increasing corporate value over the medium- to long-term, in addition to management supervision. In accordance with that objective, the Company partially modified the Schemes and the Company's outside directors are now within the scope.

Tokyo Electron adopted the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc. through Trusts" (PITF No. 30, March 26, 2015) for the accounting treatment of the Schemes.

1. Executive compensation BIP (Board Incentive Plan) Trust

(1) Overview of the transactions

The Executive compensation BIP Trust which the Company established acquires the Company's shares, and delivers and provides shares of the Company and monetary compensation corresponding to the cash conversion value of the Company's shares to the directors of the Company and its subsidiaries in accordance with the share delivery rules.

(2) The Company's shares held by the trust

Tokyo Electron recorded the Company's shares held by the trust in "Treasury stock, at cost" under "Net assets" at the book value in the trust (excluding ancillary expenses). The book value and the number of such treasury shares were ¥1,744 million ($15,757 thousand) and 80,538 shares, respectively, as of March 31, 2021, and were ¥1,154 million and 60,538 shares, respectively, as of March 31, 2020.

2. Share-delivering ESOP (Employee Stock Ownership Plan) Trust

(1) Overview of the transactions

The Share-delivering ESOP Trust which the Company established acquires the Company's shares, and delivers and provides shares of the Company and monetary compensation corresponding to the cash conversion value of the Company's shares to the general managers, senior employees and mid-class employees of the Company and its subsidiaries based on their position and attainment of performance targets in accordance with the share delivery rules.

(2) The Company's shares held by the trust

Tokyo Electron recorded the Company's shares held by the trust in "Treasury stock, at cost" under "Net assets" at the book value in the trust (excluding ancillary expenses). The book value and the number of such treasury shares were ¥11,507 million ($103,944 thousand) and 534,699 shares, respectively, as of March 31, 2021, and were ¥7,840 million and 411,492 shares, respectively, as of March 31, 2020.

6. Accounting Standards Issued but Not yet Adopted

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020 (hereinafter, "Statement No.29"))

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021 (hereinafter, "Guidance No.30"))

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(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, ASC Topic 606 published by FASB) in May 2014. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 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 standard 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 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 domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019 (hereinafter, "Statement No.30"))

"Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)

"Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) have provided similar detailed guidance for fair value measurement (IFRS 13 "Fair Value Measurement" published by IASB, ASC Topic 820 "Fair Value Measurement" published by FASB).

Considering the above circumstances, the Accounting Standard Board of Japan (ASBJ) issued Statement No.30 and the other standards above to enhance consistency between Japanese accounting standards and international accounting standards regarding guidance for fair value of financial instruments and required disclosures.

ASBJ's basic policy in developing the new fair value measurement standards is to basically incorporate all principles of IFRS 13 in light of improving the international comparability of financial statements by using a unified measuring method, and then provide other treatments for individual items 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 domestic subsidiaries have not determined the effects of these new standards on the consolidated financial statements yet.

7. Securities

Other securities as of March 31, 2021 and 2020 are as follows:

2021:	Millions of yen Cost	Millions of yen Carrying value
Non-current		
Securities with carrying value exceeding acquisition cost		
Equity securities	¥8,123	¥103,607
Securities with carrying value not exceeding acquisition cost		
Equity securities	1,051	1,037
Other	274	274
Total	¥9,449	¥104,920

2020:	Millions of yen Cost	Millions of yen Carrying value
Non-current		
Securities with carrying value exceeding acquisition cost		
Equity securities	¥7,991	¥37,013
Securities with carrying value not exceeding acquisition cost		
Equity securities	1,053	1,031
Other	330	330
Total	¥9,375	¥38,374

2021:	Thousands of U.S. dollars Cost	Thousands of U.S. dollars Carrying value
Non-current		
Securities with carrying value exceeding acquisition cost		
Equity securities	$73,372	$935,845
Securities with carrying value not exceeding acquisition cost		
Equity securities	9,494	9,375
Other	2,483	2,483
Total	$85,350	$947,704

Held-to-maturity securities classified as current assets are ¥125,014 million ($1,129,207 thousand) and ¥188,500 million as of March 31, 2021 and 2020, respectively.

Reconciliation of held-to-maturity securities as of March 31, 2021 and 2020 to the amounts of short-term investments in the consolidated balance sheets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Held-to-maturity (current)	¥125,014	¥188,500	$1,129,207
Deposits and low-risk financial instruments with original maturities of three months or less	(80,000)	(108,500)	(722,608)
Deposits with original maturities of more than three months	545	10,447	4,925
Short-term investments	¥45,559	¥90,447	$411,524

For the years ended March 31, 2021 and 2020, there was no Net loss on devaluation of investment securities.

For the year ended March 31, 2021 and 2020, the Company sold available-for-sale securities and the amounts were immaterial.

8. Inventories

Inventories as of March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Finished products	¥269,772	¥267,625	$2,436,749
Work in process, raw materials and supplies	145,571	124,439	1,314,891
Total	¥415,344	¥392,064	$3,751,640

The amounts of change in inventory provision included in cost of sales in the consolidated statements of income for the years ended March 31, 2021 and 2020 were an increase of ¥3,223 million ($29,112 thousand) and an increase of ¥2,290 million, respectively.

9. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2021 and 2020.

10. Short-term Borrowings

There are no short-term borrowings classified as current liabilities as of March 31, 2021 and 2020.

As of March 31, 2021 and 2020, Tokyo Electron had unused lines of credit amounting to ¥276,952 million ($2,501,604 thousand) and ¥126,929 million, respectively.

11. 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, and provide a defined contribution plan as defined contribution plans for their employees. Further, certain consolidated overseas subsidiaries provide defined benefit plans and defined contribution plans for their employees.

Defined benefit plans

(1) Movement of defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at April 1, 2020 and 2019	¥118,729	¥118,461	$1,072,434
Service cost	6,179	6,160	55,813
Interest cost	814	596	7,355
Actuarial gain (loss)	1,834	(2,528)	16,574
Benefits paid	(4,498)	(3,531)	(40,632)
Foreign currency exchange rate changes	830	(618)	7,503
Other	322	189	2,911
Balance at March 31, 2021 and 2020	¥124,212	¥118,729	$1,121,960

(2) Movement of plan assets

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at April 1, 2020 and 2019	¥63,931	¥60,925	$577,467
Expected return on plan assets	1,335	1,266	12,058
Actuarial gain (loss)	4,404	(1,551)	39,787
Employer contributions	5,042	5,046	45,546
Benefits paid	(1,434)	(1,130)	(12,957)
Foreign currency exchange rate changes	844	(608)	7,624
Other	(28)	(16)	(252)
Balance at March 31, 2021 and 2020	¥74,095	¥63,931	$669,275

(3) Reconciliation from defined benefit obligations and plan assets to net defined benefit liabilities (assets)

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Funded defined benefit obligations	¥63,053	¥58,536	$569,536
Plan assets	(74,095)	(63,931)	(669,275)
Funded status	(11,042)	(5,395)	(99,738)
Unfunded defined benefit obligations	61,158	60,193	552,424
Net defined benefit liabilities at March 31, 2021 and 2020	¥50,116	¥54,797	$452,685
Net defined benefit liabilities	62,137	60,635	561,266
Net defined benefit assets	(12,021)	(5,837)	(108,581)
Net defined benefit liabilities at March 31, 2021 and 2020	¥50,116	¥54,797	$452,685

Note: The provision for accrued pension and severance costs for directors and audit & supervisory board members of ¥110 million ($995 thousand) and ¥110 million as of March 31, 2021 and 2020 is not included.

(4) Defined benefit costs

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost	¥6,179	¥6,160	$55,813
Interest cost	814	596	7,355
Expected return on plan assets	(1,335)	(1,266)	(12,058)
Net actuarial gain amortization	676	3,104	6,106
Prior service cost amortization	338	338	3,058
Other	522	410	4,721
Total defined benefit costs for the years ended March 31, 2021 and 2020	¥7,195	¥9,344	$64,995

(5) Remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Prior service cost	¥338	¥338	$3,058
Actuarial gain	2,997	4,322	27,073
Total	¥3,335	¥4,660	$30,131

(6) Accumulated remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Prior service cost that is yet to be recognized (before tax)	¥(338)	¥(677)	$(3,058)
Net actuarial loss that is yet to be recognized (before tax)	(885)	(3,882)	(7,994)
Total	¥(1,223)	¥(4,559)	$(11,052)

(7) Plan assets

1. Plan assets comprise:

	2021	2020
Bonds	30%	31%
Life insurance company general account	29	29
Equity securities	14	12
Alternative investments (Note)	13	15
Cash and cash equivalents	1	1
Other	13	12
Total	100%	100%

Note: Alternative investments mainly consist of hedge funds, real estate, insurance-linked securities and infrastructure.

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, 2021 and 2020 are as follows:

	2021	2020
Discount rate	0.50%	0.55%
Long-term expected rate of return	2.00%	2.00%

The expected rates of salary increase for the years ended March 31, 2021 and 2020 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, 2019.

Defined contribution plans

The contributions of the Company and its subsidiaries to the defined contribution plans are ¥2,873 million ($25,954 thousand) and ¥2,570 million for the years ended March 31, 2021 and 2020, respectively.

12. Income Taxes

Significant components of the deferred tax assets and liabilities as of March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred tax assets			
Elimination of unrealized profit in inventories	¥32,723	¥30,607	$295,574
Net defined benefit liabilities	19,305	18,843	174,381
Devaluation of inventories	8,792	7,543	79,419
Software	7,522	3,732	67,945
Accrued employees' bonuses	7,480	6,616	67,566
Net operating loss carryforwards	5,260	9,168	47,513
Accrued warranty expenses	4,023	4,069	36,343
Other	19,091	14,641	172,444
Total gross deferred tax assets	104,199	95,221	941,189
Less valuation allowance	(4,762)	(8,392)	(43,017)
Total deferred tax assets	99,436	86,828	898,171
Deferred tax liabilities			
Net unrealized gains on investment securities	(29,164)	(8,886)	(263,433)
Undistributed earnings of subsidiaries	(10,570)	(8,165)	(95,483)
Other	(6,590)	(5,081)	(59,527)
Total deferred tax liabilities	(46,326)	(22,134)	(418,445)
Net deferred tax assets	¥53,110	¥64,694	$479,726

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 carryforwards 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 carryforwards 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, 2021 and 2020.

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

The Company and its domestic subsidiaries calculated the amounts of deferred tax assets and deferred tax liabilities based on the Income Tax Act prior to amendment regarding the transition to group tax sharing system established in "Act for Partial Amendment of the Income Tax Act, etc. " (Act No.8 of 2020) and the items for which the single tax payment system was amended in line with the transition to group tax sharing system, in accordance with the treatment specified by paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No.39, March 31, 2020) instead of the provision of paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018).

Significant components of the difference between the statutory and effective tax rates for the years ended March 31, 2021 and 2020 are as follows:

	2021	2020
Statutory tax rate in Japan	30.62%	30.62%
Adjustments:		
Tax credits	(7.52)	(5.96)
Difference in statutory tax rates of subsidiaries	(1.14)	(1.52)
Undistributed earnings of subsidiaries	0.74	0.25
Others, net	0.67	0.90
Effective tax rate	23.37%	24.29%

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 13, 2021, the distribution of cash dividends amounting to ¥65,746 million ($593,858 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2021 since they are recognized in the period in which they are resolved at the board of directors' meeting. The dividends of ¥65,746 million include ¥259 million ($2,339 thousand) related to treasury stock held by the BIP/ESOP Trusts.

14. Other Comprehensive Income

Other comprehensive income for the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net unrealized gains on investment securities			
Net unrealized gains arising during the year	¥66,262	¥10,339	$598,521
Reclassification adjustments	0	(102)	0
Sub-total, before tax	66,262	10,236	598,521
Tax expense	(20,279)	(3,136)	(183,176)
Sub-total, net of tax	45,982	7,099	415,345
Net deferred gains on hedging instruments			
Net deferred gains arising during the year	47	9	425
Reclassification adjustments	—	—	—
Sub-total, before tax	47	9	425
Tax expense	(14)	(3)	(130)
Sub-total, net of tax	32	6	294
Foreign currency translation adjustments			
Adjustments during the year	13,448	(8,495)	121,473
Reclassification adjustments	69	33	623
Sub-total, before tax	13,517	(8,461)	122,097
Tax expense	1,018	—	9,202
Sub-total, net of tax	14,536	(8,461)	131,299
Remeasurements of defined benefit plans			
Adjustments during the year	2,321	1,217	20,967
Reclassification adjustments	1,014	3,443	9,164
Sub-total, before tax	3,335	4,660	30,131
Tax expense	(1,069)	(1,382)	(9,657)
Sub-total, net of tax	2,266	3,278	20,474
Share of other comprehensive income of associates accounted for using the equity method			
Adjustments during the year	41	(45)	375
Total other comprehensive income	¥62,860	¥1,878	$567,789

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 130,800 shares and 360,400 shares of the Company were authorized and granted at exercise prices of ¥1 ($0.01) and ¥1 for the years ended March 31, 2021 and 2020, respectively.

A summary of stock options outstanding and exercisable as of March 31, 2021 and 2020 is as follows:

	2021			2020	
	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	866,900	¥1	$0.01	688,700	¥1
Granted	130,800	1	0.01	360,400	1
Exercised	169,600	1	0.01	182,200	1
Expired (forfeited)	—	—	—	—	—
Outstanding at the end of year	828,100	1	0.01	866,900	1
Exercisable at the end of year	117,000	1	0.01	141,900	1

Amounts expensed related to stock options

The amounts expensed related to stock options for the years ended March 31, 2021 and 2020, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Selling, general and administrative expenses	¥2,884	¥4,059	$26,056

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, 2021 was ¥22,054 ($199.21) per unit, which was evaluated as follows:

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

	16th Stock Acquisition Rights
Volatility (Note 1)	36.18%
Expected residual period (Note 2)	5.49 years
Expected dividends (Note 3)	¥ 673 ($6.08) per share
Risk-free interest rate (Note 4)	(0.12)%

Notes: 1. Calculated based on the stock price performance for the period corresponding to the expected residual period (from December 2014 to June 2020).
2. Calculated based on past actual results and forecast of the exercise of stock options.
3. Based on the dividends paid for the years ended March 31, 2020 and 2019.
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
	2021	2020	2021
Due within one year	¥4,601	¥3,915	$41,563
Due over one year	10,051	7,608	90,792
Total	¥14,653	¥11,523	$132,356

Note: Certain consolidated overseas subsidiaries adopt IFRS 16 "Leases". Accordingly, leases as a lessee are not included in the amounts above, since they are now recorded on the balance sheets in principle.

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 non-performance 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, 2021 and 2020 are set out below. Fair value of financial instruments which is practically difficult to estimate are excluded.

	Millions of yen	
2021:	Carrying amount	Estimated fair value[1]
Assets		
Cash and cash equivalents	¥265,993	¥265,993
Short-term investments	45,559	45,562
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥99 million)	191,601	191,601
Investment securities	103,781	103,781
Liabilities		
Trade notes and accounts payable	90,606	90,606
Derivatives (see note 18)		
Hedge accounting not applied	600	600
Hedge accounting applied	—	—

	Millions of yen	
2020:	Carrying amount	Estimated fair value[1]
Assets		
Cash and cash equivalents	¥247,959	¥247,959
Short-term investments	90,447	90,162
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥105 million)	150,029	150,029
Investment securities	37,030	37,030
Liabilities		
Trade notes and accounts payable	95,938	95,938
Derivatives (see note 18)		
Hedge accounting not applied	125	125
Hedge accounting applied	(47)	(47)

	Thousands of U.S. dollars	
2021:	Carrying amount	Estimated fair value[1]
Assets		
Cash and cash equivalents	$2,402,611	$2,402,611
Short-term investments	411,524	411,544
Trade notes and accounts receivable, net of allowance for doubtful accounts ($896 thousand)	1,730,659	1,730,659
Investment securities	937,417	937,413
Liabilities		
Trade notes and accounts payable	818,413	818,413
Derivatives (see note 18)		
Hedge accounting not applied	5,424	5,424
Hedge accounting applied	—	—

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 7 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
	2021	2020	2021
	Reported amount in balance sheet		
Unlisted stocks	¥1,008	¥1,014	$9,110
Other	274	330	2,483
Total	¥1,283	¥1,344	$11,594

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

	Millions of yen	
2021:	Within 1 year	After 1 through 5 years
Cash and cash equivalents	¥265,993	¥—
Short-term investments	45,559	—
Trade notes and accounts receivable	191,700	—
Investment securities	—	144

	Millions of yen	
2020:	Within 1 year	After 1 through 5 years
Cash and cash equivalents	¥247,959	¥—
Short-term investments	90,447	—
Trade notes and accounts receivable	150,134	—

	Thousands of U.S. dollars	
2021:	Within 1 year	After 1 through 5 years
Cash and cash equivalents	$2,402,611	$—
Short-term investments	411,524	—
Trade notes and accounts receivable	1,731,556	—
Investment securities	—	1,307

18. Derivative Financial Instruments

Tokyo Electron and certain subsidiaries are subject to risk from adverse fluctuations in foreign currency exchange rates in its operating and financing activities. The Group enters into forward foreign exchange contracts in order to hedge such risks, but do not enter into such transactions for speculative purposes. The Group 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 Group 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, 2021 and 2020 are as follows:

1. Derivative financial instruments not designated as hedging instruments

	Millions of yen		
2021:	Contract amount	Fair value	Gains (losses)
Buy U.S. dollars	¥12,449	¥551	¥551
Buy Chinese yuan	2,931	48	48
Buy Singapore dollars	328	0	0
Buy EURO	77	0	0
Total	¥15,786	¥600	¥600

	Millions of yen		
2020:	Contract amount	Fair value	Gains (losses)
Sell U.S. dollars	¥668	¥(8)	¥(8)
Sell EURO	525	(0)	(0)
Sell Swiss francs	61	0	0
Buy U.S. dollars	21,973	162	162
Buy Chinese yuan	2,105	(28)	(28)
Buy GBP	334	(1)	(1)
Buy Singapore dollars	303	0	0
Buy Taiwan dollars	45	1	1
Total	¥26,018	¥125	¥125

	Thousands of U.S. dollars		
2021:	Contract amount	Fair value	Gains (losses)
Buy U.S. dollars	$112,449	$4,978	$4,978
Buy Chinese yuan	26,478	438	438
Buy Singapore dollars	2,966	5	5
Buy EURO	702	0	0
Total	$142,596	$5,424	$5,424

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:

	Millions of yen			Thousands of U.S. dollars		
2021:	Contract amount	Contract amount due after 1 year	Fair value	Contract amount	Contract amount due after 1 year	Fair value
Monetary assets and liabilities in foreign currency (Note)						
Sell U.S. dollars	1,804	—	—	16,299	—	—
Total	¥1,804	¥—	¥—	$16,299	$—	$—

	Millions of yen		
2020:	Contract amount	Contract amount due after 1 year	Fair value
Future transactions denominated in a foreign currency			
Sell U.S. dollars	¥4,281	¥—	¥(47)
Monetary assets and liabilities in foreign currency (Note)			
Sell U.S. dollars	1,818	—	—
Total	¥6,100	¥—	¥(47)

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, such as wafer bonders/debonders. The SPE segment principally develops, manufactures, and sells such products, and provides services on them.

Products of the FPD production equipment segment consist of coater/developers, etch/ash systems used in the manufacture of flat panel displays and inkjet printing systems used in the manufacture of OLED displays. The FPD production equipment segment principally develops, manufactures, and sells such products, and provides 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, 2021 and 2020 is as follows:

	Millions of yen					
	Reportable Segment					
2021:	Semiconductor production equipment	FPD production equipment	Other	Total	Adjustments	Consolidated
Net sales						
Sales to external customers	¥1,315,200	¥83,772	¥129	¥1,399,102	¥—	¥1,399,102
Intersegment sales or transfers	—	—	21,952	21,952	(21,952)	—
Total	1,315,200	83,772	22,082	1,421,055	(21,952)	1,399,102
Segment profit	362,526	8,823	534	371,884	(54,846)	317,038
Segment assets	626,957	29,405	3,276	659,638	765,725	1,425,364
Depreciation and amortization	17,919	1,492	199	19,611	14,231	33,843
Amortization of goodwill	199	—	—	199	—	199
Capital expenditures, including intangible assets	23,485	1,256	107	24,849	39,913	64,762

	Millions of yen					
	Reportable Segment					
2020:	Semiconductor production equipment	FPD production equipment	Other	Total	Adjustments	Consolidated
Net sales						
Sales to external customers	¥1,060,997	¥66,092	¥197	¥1,127,286	¥ —	¥1,127,286
Intersegment sales or transfers	—	—	19,292	19,292	(19,292)	—
Total	1,060,997	66,092	19,489	1,146,578	(19,292)	1,127,286
Segment profit	270,496	10,589	852	281,937	(37,310)	244,626
Segment assets	538,532	42,215	2,864	583,612	694,882	1,278,495
Depreciation and amortization	16,072	1,242	194	17,509	11,598	29,107
Amortization of goodwill	196	—	—	196	—	196
Capital expenditures, including intangible assets	21,082	4,035	284	25,403	33,312	58,715

	Thousands of U.S. dollars					
	Reportable Segment					
2021:	Semiconductor production equipment	FPD production equipment	Other	Total	Adjustments	Consolidated
Net sales						
Sales to external customers	$11,879,691	$756,682	$1,172	$12,637,546	$ —	$12,637,546
Intersegment sales or transfers	—	—	198,292	198,292	(198,292)	—
Total	11,879,691	756,682	199,464	12,835,838	(198,292)	12,637,546
Segment profit	3,274,560	79,696	4,831	3,359,088	(495,408)	2,863,679
Segment assets	5,663,057	265,604	29,594	5,958,256	6,916,497	12,874,753
Depreciation and amortization	161,864	13,481	1,800	177,145	128,550	305,696
Amortization of goodwill	1,802	—	—	1,802	—	1,802
Capital expenditures, including intangible assets	212,132	11,351	971	224,455	360,521	584,977

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) "Adjustments" for segment profit totaling ¥(54,846) million ($(495,408) thousand) and ¥(37,310) million for the years ended March 31, 2021 and 2020, respectively, mainly consists of research and development costs of ¥(21,669) million ($(195,732) thousand) and ¥(19,796) million for the years ended March 31, 2021 and 2020, respectively, pertaining to the Company's fundamental research and element research, provision for loss on liquidation of subsidiaries and associates of ¥(3,327) million ($(30,053) thousand) for the year ended March 31, 2021 and other general and administrative costs that do not belong to the reportable segments.

(2) "Adjustments" for segment assets totaling ¥ 765,725 million ($ 6,916,497 thousand) and ¥694,882 million as of March 31, 2021 and 2020, respectively, mainly consist of cash and cash equivalents, short-term investments and buildings not allocated to any of the reportable segments.

(3) "Adjustments" for capital expenditures totaling ¥ 39,913 million ($ 360,521 thousand) and ¥33,312 million for the years ended March 31, 2021 and 2020, respectively, mainly consist of capital expenditures for buildings not allocated to any of the reportable segments.

Other information

(1) Domestic and overseas net sales by destination for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen							
2021:	Japan	North America	Europe	South Korea	Taiwan	China	Other	Total
Net sales	¥197,566	¥152,073	¥63,502	¥285,261	¥249,766	¥398,491	¥52,439	¥1,399,102

Notes: 1. Sales are classified in countries or regions based on location of customers.
2. Net sales of North America include sales in the U.S.A. of ¥151,659 million.

	Millions of yen							
2020:	Japan	North America	Europe	South Korea	Taiwan	China	Other	Total
Net sales	¥161,812	¥205,804	¥58,899	¥154,801	¥261,116	¥249,234	¥35,617	¥1,127,286

Notes: 1. Sales are classified in countries or regions based on location of customers.
2. Net sales of North America include sales in the U.S.A. of ¥205,783 million.

	Thousands of U.S. dollars							
2021:	Japan	North America	Europe	South Korea	Taiwan	China	Other	Total
Net sales	$1,784,543	$1,373,624	$573,593	$2,576,656	$2,256,042	$3,599,415	$473,669	$12,637,546

Note: Net sales of North America include sales in the U.S.A. of $1,369,877 thousand.

(2) Net property, plant and equipment by location as of March 31, 2021 and 2020 are as follows:

	Millions of yen		
2021:	Japan	Other	Total
Property, plant and equipment	¥155,637	¥41,330	¥196,967

	Millions of yen		
2020:	Japan	Other	Total
Property, plant and equipment	¥139,098	¥36,481	¥175,580

	Thousands of U.S. dollars		
2021:	Japan	Other	Total
Property, plant and equipment	$1,405,813	$373,319	$1,779,133

(3) Major customer information

Net sales to external customers that represent 10 percent or more of net sales are as follows:

		Millions of yen	Thousands of U.S. dollars
Name of customer	Related reportable segment	2021	2021
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD production equipment	¥256,656	$2,318,276
Intel Corporation	Semiconductor production equipment	193,706	1,749,671
Taiwan Semiconductor Manufacturing Company Ltd.	Semiconductor production equipment	164,340	1,484,426

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

		Millions of yen
Name of customer	Related reportable segment	2020
Intel Corporation	Semiconductor production equipment	¥230,340
Taiwan Semiconductor Manufacturing Company Ltd.	Semiconductor production equipment	187,890
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD production equipment	120,127

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

Information about reportable segment goodwill

Reportable segment information about amortization of goodwill for the years ended March 31, 2021 and 2020, and unamortized balances as of March 31, 2021 and 2020 are as follows:

	Millions of yen		
2021:	Semiconductor production equipment	FPD production equipment	Total
Amortization of goodwill	¥199	¥—	¥199
Goodwill	733	—	733

	Millions of yen		
2020:	Semiconductor production equipment	FPD production equipment	Total
Amortization of goodwill	¥196	¥—	¥196
Goodwill	910	—	910

	Thousands of U.S. dollars		
2021:	Semiconductor production equipment	FPD production equipment	Total
Amortization of goodwill	$1,802	$—	$1,802
Goodwill	6,621	—	6,621

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, 2021 and 2020 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net income per share of common stock - Basic			
Net income attributable to owners of parent	¥242,941	¥185,206	$2,194,393
Less components not pertaining to holders of common stock	—	—	—
Net income pertaining to holders of common stock	¥242,941	¥185,206	$2,194,393
Weighted-average number of shares of common stock outstanding (thousands)	155,511	158,219	
Net income per share of common stock - Diluted			
Adjustment of net income attributable to owners of parent	—	—	—
Increase in number of common stock (Thousands of share)	892	889	
Increase in number of share subscription rights (Thousands of share)	892	889	

Note: The shares of the Company held by "Executive compensation BIP Trust" and "Share-delivering ESOP Trust", which are recorded in "Treasury stock, at cost" under shareholders' equity, are included in the treasury stock which is deducted in calculating the per-share information.
The number of treasury shares deducted in the calculation of net assets per share was 615 thousand shares and 472 thousand shares as of March 31, 2021 and 2020, respectively, and the average number of treasury shares deducted in the calculation of net income per share and fully diluted net income per share was 568 thousand shares and 398 thousand shares for the fiscal years ended March 31, 2021 and 2020, respectively.

Business-Related and Other Risks

The following are recognized as the main risks that may have a critical impact on Tokyo Electron's financial condition, operating results or cash flow. This is not a comprehensive list of all risks pertaining to us and there are also risks which are not listed.

(1) Market changes

The semiconductor market is expected to further grow in the medium to long term due to continuing technological innovation amid an accelerating transition to a data-driven society backed by the spread of information and communication technology applications such as IoT, AI and 5G; progress in digital transformation (DX); and response to sustainability transformation (SX). However, a wide range of factors—including the global economy, demand for end products, trade and tariff policies, and geopolitical factors—can cause short-term supply and demand to become unbalanced and generate significant fluctuations in market size. Rapid contraction of the semiconductor market could lead to results such as overproduction, increases in dead inventory or losses from bad debts resulting from the worsening of a customer's financial position. On the other hand, a rapid increase in demand that we cannot respond to could lead to situations such as an inability to provide products to customers in a timely manner resulting in lost opportunities. Both of these circumstances can adversely affect our business performance.

To respond to such market fluctuations, we constantly work to appropriately adjust our capital investment, personnel, inventory plans and other aspects of our businesses based on understanding of the latest market conditions through periodically reviewing the market environment and orders received at Board of Directors and other important meetings.

In addition, a large portion of our sales are to major, leading-edge semiconductor manufacturers. As such, our performance tends to be impacted by changes in capital investment by these major customers.

We have established an Account Sales Division, which works in close coordination with major customers and quickly grasps trends in their capital investment outlook, as well as a Global Sales Division, which responds to a wide range of customer needs from around the world and cultivates new customers emerging in step with growth in semiconductor demand. Through such efforts, we strive to strengthen and expand our sales framework and customer base.)

(2) Geopolitics

We undertake businesses in various countries and regions, and a high proportion of sales comes from overseas. Amid growing international attention on semiconductors, countries and regions are seen to be embarking on measures—including the domestication of semiconductor-related businesses, prioritization of domestically manufactured products, tightening of export controls and strengthened environmental regulations—from perspectives such as industrial policy, national security and environmental policy. Our business performance may therefore be affected if our business activities are restricted as a result of those measures.

We grasp the implementation moves of regulations regarding import and export of products and technological development by carefully watching policy and diplomatic trends of countries, anticipating the impacts when policies and regulations are introduced and considering countermeasures. At the same time, in addition to the early identification of risks, we also strive to take fast and appropriate response when risks occur, including communicating our opinions to the policy-making authorities through means such as public comments for the healthy development of the semiconductor industry.

(3) Research and Development

Through ongoing R&D investment in leading-edge technologies, we quickly bring to market new products incorporating such technologies, succeeding in capturing high market share in each product category and achieving a high profit margin. However, delays in the launch of new products that meet customers' technological needs, the mismatch of newly developed products with such needs, or the launch of new technologies or products by competitors before our launches could negatively affect the competitiveness of our products, impede the recovery of R&D costs or otherwise affect our business performance.

We have established a Corporate Innovation Division, which develops innovative technology and makes groundbreaking technology proposals that integrate the products and technologies of each development division as part of a Group-wide development framework. In addition, we have in place a system that constantly provides highly competitive Next-generation products that meet future needs ahead of our competitors through initiatives such as conducting joint research with global research institutions and sharing technology roadmaps spanning multiple technology generations with leading-edge customers.

(4) Procurement, Production and Supply

Our key production sites are located in Japan, and we supply products to customers in and outside Japan. As such, earthquakes, floods or other natural disasters, acts of terrorism, unavoidable events like infectious disease outbreaks or other such accidents occurring in Japan could cause interruptions in production that, if not promptly resolved, could delay the supply of products to customers. Furthermore, the stable supply of components and such provided by suppliers is indispensable to stable production. Therefore, in addition to the risk of disasters, accidents or other similar events, delays in component procurement due to the worsening of a supplier's business conditions, demand that exceeds supply capabilities arising from the expansion of the semiconductor market or similar factors could result in delays in the supply of products to customers and affect our business performance.

We formulate and periodically review business continuity plans (BCPs) and undertakes measures such as establishing alternate production capabilities, developing multiple sources of important parts, seismically reinforcing its plants, and maintaining backups of information systems. In addition, we also seek to procure components early and level production by sharing forecasts with suppliers that consider our customers' investment plans as well as semiconductor demand projections. Through these and other measures, we strive to maintain stable product supply.

(5) Safety

Our business performance may be affected if problems related to the safety of our products occur, including damage to customers, order cancellations, liability for damages or decline in our credibility.

Our "Safety First" approach entails the constant consideration of safety and health in the execution of business activities, including development, manufacturing, sales, services and management. In accordance with this approach, we work continuously to improve the safety of our products. Measures to this end include thoroughgoing safety design at the product development phase, promotion of safety training and maintaining an accident reporting system.

(6) Quality

Our products are based on the integration of numerous leading-edge technologies. The occurrence of defects could lead to recalls, liability for damages based on quality responsibility, additional costs related to implementing defect countermeasures, decline in our credibility, or otherwise affect our business performance.

Based on a uniform Group-wide quality control policy, we provide quality training for our employees and suppliers and strive to constantly maintain a quality assurance system, including ISO 9001 certification, as well as a world-class service system. In development, we introduce collaboration with sales and service departments from the initial stages of product development and design to solve technological issues. Furthermore, we mitigate and address risks such as by using simulation technology for thorough validation. When defects occur, we investigate the root of the problem and take thoroughgoing measures to prevent recurrences and the occurrence of similar defects. Similarly, in managing the quality of procured components, we constantly monitor the state of supplier quality and conduct audits, improvement support and other measures.

(7) Laws and Regulations

We operate globally and are therefore subject to the various laws and regulations of the countries and regions where we do business, including those regarding imports and exports, the environment, competition, labor, corruption, bribery and transfer pricing taxation. We strive to ensure compliance with such laws and regulations. However, violations of such laws or regulations could result in consequences such as diminished public confidence in us, fines, liability for damages or restrictions on business activities. Furthermore, national security policies of countries and unanticipated future legal amendments or tightening of regulations could, if not appropriately responded to, result in liability for costs related to such response or restrictions on business activities, or otherwise affect our business performance.

We have built a system for monitoring compliance activities at each of the key sites in and outside Japan under the direction of a Chief Compliance Officer. We conduct compliance assessments by external experts, report the identified issues to the CEO, Board of Directors and Audit & Supervisory Board, and carry out swift and effective measures as well as further enhancement of systems.

(8) Intellectual Property Rights

Our products are based on the integration of numerous leading-edge technologies. Obtaining and legally protecting our intellectual property rights and preventing infringements of such rights by third parties are crucial to differentiating and reinforcing the competitiveness of our products. Infringements by us of the intellectual property rights of third parties could lead to restrictions on the production and sale of our products or liability for damages, or otherwise affect our business performance.

By advancing R&D strategy, business strategy and intellectual property strategy in an integrated manner, we strive to build an appropriate intellectual property portfolio and obtain exclusive rights to numerous proprietary technologies to capture high market share and achieve high profit margins in each of our product fields.

(9) Information Security

In the course of its business activities, we may obtain, hold and utilize confidential information, customer information and personal information. Incidents—such as the breach of information and service disruption—caused by unauthorized access or operation due to cyberattacks and other causes, human errors, natural disasters or other reasons could result in diminished public confidence in us, liability for damages or other consequences which may otherwise affect our business performance.

Together with seeking organizational reinforcement such as by creating a dedicated department centered on the Information Security Committee, we are building an information security system based on global standards, by conducting security assessments by external experts. In addition, beside technological aspects such as the introduction of an anomaly detection system in preparation for the occurrence of incidents, we are also taking measures from operational aspects, such as establishing globally standardized rules and regulations for information management and guidelines for response during the occurrence of incidents.

(10) Human Resources

Securing and developing diverse human resources in and outside Japan and the practice of diversity and inclusion are crucial to the continued innovation and growth of our global businesses. The inability to recruit and retain the necessary human resources on an ongoing basis or the inability to create an environment where human resources with diverse values and expertise can apply their individualities can lead to diminished product development capability or customer support quality. This may result in not being able to realize an organization with competitive advantage or other such consequences that may affect our business performance.

Business-Related and Other Risks

We believe that our employees are the source of ongoing value creation and that increasing employee engagement is one of the most important factors in increasing corporate value. Specifically, we undertake measures such as the sharing of direction by top management through regular employee meetings, the building of plans to continuously develop next-generation human resources, the visualization of employee career paths, and the provision of attractive remuneration and benefits. We are also advancing ongoing measures to improve work environments as well as health and productivity management, including steps to prevent excessively long work hours and workplace harassment.

(11) Environmental Issues

Globally, there are growing requests from society, including our stakeholders, related to sustainability. Given this, difficulties in adequately responding to requirements accompanying the transition to a carbon-free society—including the climate change policies and environmental laws and regulations of countries, industry standards of conduct, technological innovation and customer needs—could result in costs for additional responses such as new product development, specification change and modifications, reduced product competitiveness, diminished public confidence in us or other consequences that may otherwise affect our business performance.

Together with striving to comply with environmental laws and regulations and industry standards of conduct, we set our own industry-leading medium- to long-term environmental goals and work to reduce greenhouse gas emissions from the use of our products. We also seek to increase the ratio of renewable energy usage and reduce energy consumption at our plants and offices. In addition, we work to protect the global environment through our business activities by such means as providing technologies to reduce semiconductor power consumption, promoting used equipment and parts businesses, reducing equipment size, increasing productivity by improving throughput, reviewing packaging and promoting modal shifts.

(12) The Novel Coronavirus (COVID-19)

The spread of COVID-19 could affect our business continuity, including our manufacturing and sales activities. In addition, restrictions on the worldwide movement of people and things, the deterioration of global economic conditions, and other such impacts from the spread of COVID-19 could affect our business performance.

Centered on the Emergency Task Force headed by the CEO, we are implementing related countermeasures, including restricting travel to high infection-risk countries and regions, taking steps to maintain supply chains, and thorough infection prevention measures at our plants and offices.

(13) Other Risks

Our businesses are influenced by many factors, including the global and regional political conditions, economic conditions, financial and stock markets, commodity and real estate markets, foreign exchange rates, the success or failure of corporate acquisitions, major lawsuits, and competition over standardization. We expect that such factors will sometimes affect our business performance and take the necessary measures to counter such risks.

Independent Auditor's Report

To the Board of Directors of Tokyo Electron Limited:

Opinion

We have audited the accompanying consolidated financial statements of Tokyo Electron Limited ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of the valuation of inventories in the semiconductor production equipment business

The key audit matter	How the matter was addressed in our audit
In the consolidated balance sheet for the current fiscal year, the Company recognized Inventories of ¥415,344 million, which represented approximately 29% of total assets in the consolidated financial statements. Most of the inventories belonged to the semiconductor production equipment business. As described in Note 3 "Significant Accounting Estimates, 1. Valuation of inventories" to the consolidated financial statements, inventories are measured in principle at the lower of either the acquisition cost or the net selling price at the end of the fiscal year. However, inventories aged over a certain holding period are classified based on the use and salability and are then systematically written down according to their classification. In addition, the carrying amount of inventories to be disposed of is written down to the estimated disposal value. The valuation of inventories aged over a certain holding period and the identification of finished goods and work in process inventories to be disposed of are based on management's forecasts of future demand and prospects of market environment. Among the markets in which the Group participate, the semiconductor market is susceptible to significant fluctuations due to a short-term imbalance between supply and demand, which could result in an unforeseen rapid market contraction. Therefore, the forecasts of future demand and prospects of market environment involve uncertainty and management's judgment thereon may have a significant effect on the valuation of inventories. We, therefore, determined that our assessment of the reasonableness of the Company's valuation of inventories in the semiconductor production equipment business was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	The primary procedures we performed to assess whether the Company's valuation of inventories in the semiconductor production equipment business was reasonable included the following: (1) Internal control testing We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the valuation of inventories. In this assessment, we focused our testing on controls designed to determine the rates of write-down for each holding period on the carrying amount of inventories aged over a certain holding period and to identify finished goods and work in process inventories to be disposed of in a comprehensive manner. (2) Assessment of whether the valuation of inventories aged over a certain holding period was reasonable The rates of write-down by holding period adopted by management in applying the method that writes down the carrying amount of inventories on a systematic basis according to their holding periods were determined based on management's forecasts of future demand and prospects of market environment. In order to assess the reasonableness of assumptions underlying the rates of write-down determined by management, we: • evaluated the rates of write-down by holding period determined by management by referencing published demand forecasts for semiconductor production equipment and the customers' capital investment plans; and • compared the amount of the write-down of inventories aged over a certain holding period, calculated using the rates of write-down by holding period determined by management, with our own estimate of the write-down of those inventories. (3) Assessment of whether finished goods and work in process inventories to be disposed of were identified in a comprehensive manner Among finished goods and work in process inventories aged over a certain holding period, we assessed the accuracy of management's sales forecasts by comparing the past forecast for a selection of finished goods and work in process inventories held for a long period with actual sales results and examining the causes of variances between the two. In order to assess the reasonableness of assumptions related to sales forecasts adopted by management in identifying finished goods and work in process inventories to be disposed of, we primarily: • evaluated the basis for management judgment on its sales forecasts for finished goods and work in process inventories held for a long period by inquiring of management and inspecting relevant documents.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

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Michitaka Shishido
Designated Engagement Partner
Certified Public Accountant

/S/ 西野 聡人 (SEAL)
Akira Nishino
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/S/ 鈴木 紳 (SEAL)
Shin Suzuki
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 17, 2021

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.