Financial Review

Sales and Income

Operating Environment

During fiscal 2013, there was widespread unease about the state of the world economy due to extended financial problems in Europe and financial issues in the United States as well as slowing growth in emerging countries including China. Near the end of the period, economic conditions staged a gradual recovery. The Japanese economy received a boost from the rapid depreciation of the yen in the latter half of the fiscal year. Against the backdrop of the long-term effects of the high yen and concern over the slowing of the worldwide economy, however, the broader domestic economy was restrained during the fiscal year, with recovery remaining slow.

In the electronics industry, in which Tokyo Electron operates, the spread of smartphones gathered momentum, helping to drive the industry. However, sales of PCs and TVs were slow. This worsened the supply-demand balance of memory chips and LCD panels, leading to restrained capital investment by Tokyo Electron's semiconductor and flat panel display (FPD) manufacturing customers.

Corporate Acquisitions

Tokyo Electron made four corporate acquisitions in fiscal 2013: TEL NEXX, Inc. (formerly NEXX Systems, Inc.), TEL FSI, Inc. (formerly FSI International, Inc.), TEL Solar Holding AG (formerly Oerlikon Solar Holding AG), and TEL Magnetic Solutions Ltd. (formerly Magnetic Solutions Ltd.). TEL Solar Holding AG is reflected only in the consolidated balance sheet for fiscal 2013, and will be fully included in all other consolidated financial statements beginning in fiscal 2014. The influence of the other three corporate acquisitions conducted in fiscal 2013 on the financial results of the year under review was minimal.

For additional information concerning these acquisitions, see Note 20 to Consolidated Financial Statements, Business Combinations, on pages 31 to 33.

Sales

Net sales in fiscal 2013 decreased 21.4% year on year to ¥497.3 billion. This was mainly due to significantly reduced sales in mainstay semiconductor production equipment and FPD production equipment, reflecting the influence of the stagnant business environment.

Domestic sales fell 30.8% year on year to ¥118.5 billion, while overseas sales fell 18.0% to ¥378.8 billion. Overseas sales as a share of total consolidated sales came to 76.2%, up 3.3 percentage points from 72.9% in fiscal 2012.

Orders received during the fiscal year under review decreased by 16.7% compared to the previous year, to ¥450.6 billion. The order backlog at the end of March 2013 was ¥180.8 billion, down 16.5% year on year.

Gross Profit, SG&A Expenses and Operating Income

Cost of sales for the period under review decreased 19.7% year on year to ¥338.5 billion, only partially compensating for the decrease in net sales, leading to a cost of sales ratio of 68.1%, a full 1.5 percentage points worse than in fiscal 2012.

As a result, gross profit was down 24.9% year on year to ¥158.8 billion, with the gross profit margin falling to 31.9% from 33.4% in fiscal 2012.

SG&A expenses fell 3.2% year on year to ¥146.2 billion. However, the ratio of SG&A expenses to consolidated net sales increased to 29.4% from 23.9% in fiscal 2012. Meanwhile, in the year under review, group-wide measures were taken to reduce fixed costs by approximately ¥16.0 billion to improve profitability.

Consequently, operating income decreased by 79.2% year on year to ¥12.5 billion, and the operating margin declined from 9.5% to 2.5%.

Research & Development

R&D expenses were down 10.1% year on year to ¥73.2 billion. As Tokyo Electron continues to view R&D as a source of growth, the Company aggressively invested not only in strengthening existing business areas, but also in new areas that are expected to support future growth. As a percentage of net sales, R&D expenses rose from 12.9% to 14.7%.

R&D investment in semiconductor production equipment strengthened new product development in each product category to respond to diversifying technologies. The Company focused on the development of process technology and equipment needed for such next-generation devices as 3D structure devices, advanced packaging technology and low-power-consumption technology responding to demand for lower energy use and environmental friendliness. Other areas of R&D investment included next-generation memory manufacturing technology and development of equipment for next-generation 450mm wafers.

R&D investments in FPD/PV production equipment were concentrated on development of OLED production equipment and further improving the conversion efficiency of thin-film silicon photovoltaic panel production equipment.

In fundamental R&D, development focused on various core technologies aimed at achieving differentiation, including process technologies for further miniaturization and new materials.

Other Income (Expenses) and Net Income

During fiscal 2013, Tokyo Electron posted interest and dividend income of ¥1.7 billion and revenue from grants of ¥2.7 billion, but also incurred a net foreign exchange loss of ¥1.5 billion. After including lesser items, other income (expenses), net amounted to an income of ¥5.2 billion.

This contributed to ¥17.8 billion in net income before taxes and minority interests, down 70.7% from the previous fiscal year. Net income totaled ¥6.1 billion, down 83.5%. Net income per share was ¥33.91, compared with ¥205.04 in fiscal 2012.

Comprehensive Income

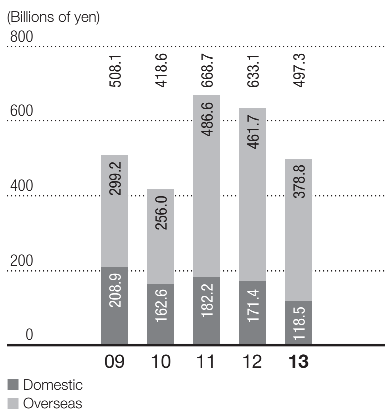
In fiscal 2013, Tokyo Electron posted comprehensive income of ¥15.8 billion, a 57.2% year-on-year decrease. The decrease was due to a significant year-on-year drop in net income, despite an ¥8.8 billion gain on foreign currency translation adjustments due to the yen's rapid depreciation late in the period.

Dividend Policy and Dividends

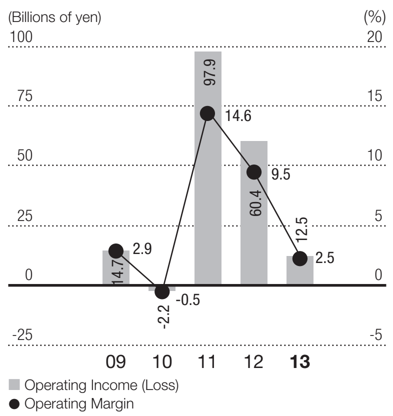
It is the policy of Tokyo Electron to pay dividends on the basis of business performance and earnings results. The dividend payout ratio has been set at approximately 35% of consolidated net income. In fiscal 2013, as Tokyo Electron entered its 50th year, the Company paid annual dividends of ¥51, including a commemorative dividend of ¥20, for a combined ratio of 150.4%.

Sales and Income	2009	2010	2011	2012	2013
			Millions of yen		
Net sales	¥508,082	¥418,637	¥668,722	¥633,091	¥497,300
Gross profit	137,408	108,316	234,758	211,445	158,755
Gross profit margin	27.0%	25.9%	35.1%	33.4%	31.9%
Selling, general and administrative expenses	122,697	110,497	136,888	151,002	146,206
Operating income (loss)	14,711	(2,181)	97,870	60,443	12,549
Operating margin	2.9%	(0.5)%	14.6%	9.5%	2.5%
Income (loss) before income taxes and minority interests	9,637	(7,768)	99,579	60,602	17,767
Net income (loss)	7,543	(9,033)	71,924	36,726	6,076

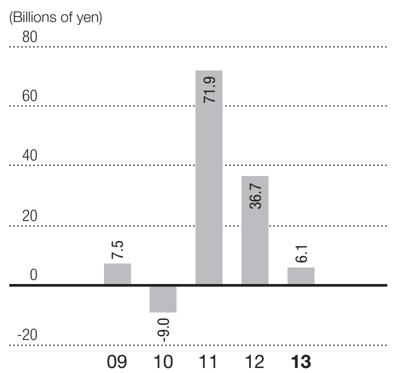
Domestic and Overseas Sales



Operating Income (Loss) and Operating Margin



Net Income (Loss)



Financial Review

Performance by Segment

Semiconductor Production Equipment

Driven by advanced mobile devices such as smartphones and tablets, logic-related semiconductor capital investment was relatively firm. However, against a backdrop of slow PC shipments, memory-related semiconductor capital investment continued to shrink in the fiscal year under review.

Segment net sales to external customers decreased 18.0% year on year to ¥392.0 billion. Segment net sales including intersegment sales or transfers were down 18.0% to ¥392.1 billion. Segment profit fell 45.4% compared to fiscal 2012, to ¥48.6 billion, and the segment profit margin fell from 18.6% in fiscal 2012 to 12.4%.

Orders in this segment dropped 21.7% to ¥342.5 billion. The order backlog as of March 31, 2013 was down 24.9% year on year, to ¥141.6 billion.

For a business overview of this segment, please see page 13.

FPD/PV (Flat Panel Display and Photovoltaic Panel) Production Equipment

Capital investment in small- and medium-sized FPD panels for mobile devices was firm. However, as demand for flat panel TVs in developed countries settled down, capital investment was pushed out, and the FPD production equipment market contracted considerably.

Segment net sales to external customers decreased 71.2% year on year to ¥20.2 billion. Segment net sales including intersegment sales or transfers also decreased 71.2% to ¥20.2 billion. Segment loss totaled ¥6.4 billion, compared with segment profit of ¥2.3 billion in fiscal 2012. FPD production equipment sales made up nearly 100% of segment sales.

Orders in this segment increased 18.1% year on year to ¥22.0 billion. The order backlog as of March 31, 2013 was up 72.0% to ¥24.4 billion.

For a business overview of this segment, please see page 13.

Electronic Components and Computer Networks

In fiscal 2013, demand was weak in the domestic electronic components market for both consumer and industrial electronics. However, the cloud computing market, including data centers, showed underlying notes of expansion.

Segment net sales to external customers decreased 0.2% year on year to ¥84.7 billion. Segment net sales including intersegment sales or transfers were down 1.0% to ¥85.5 billion. Segment profit fell 44.5% compared to fiscal 2012, to ¥1.3 billion, and the segment profit margin fell from 2.7% in fiscal 2012 to 1.5%.

For a business overview of this segment, please see page 13.

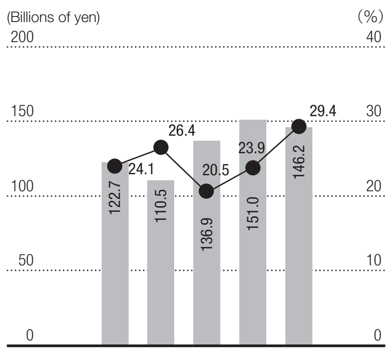
Other

Other sales mainly include group-wide logistics services, facility maintenance and insurance. Net sales to external customers amounted to ¥0.4 billion, almost unchanged from the previous fiscal year.

Millions of yen

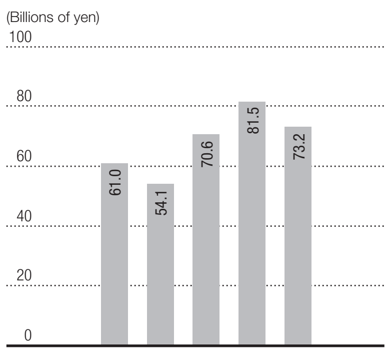
Segment Information 2013:	Reportable Segment: Semiconductor production equipment	FPD/PV production equipment	Electronic components & computer networks	Other	Total	Eliminations and Corporate	Consolidated
Net sales							
Sales to external customers	¥392,027	¥20,160	¥84,665	¥ 448	¥497,300	¥ —	¥497,300
Intersegment sales or transfers	43	—	813	10,613	11,469	(11,469)	—
Total	392,070	20,160	85,478	11,061	508,769	(11,469)	497,300
Segment profit (loss)	48,600	(6,355)	1,283	1,321	44,849	(27,082)	17,767
Segment assets	223,956	49,489	47,557	1,550	322,552	452,976	775,528
Depreciation and amortization	12,330	462	448	78	13,318	13,313	26,631
Amortization of goodwill	1,038	—	103	—	1,141	—	1,141
Capital expenditures, including intangible and other assets	13,464	1,661	482	54	15,661	9,834	25,495

Selling, General and Administrative Expenses and Ratio to Net Sales

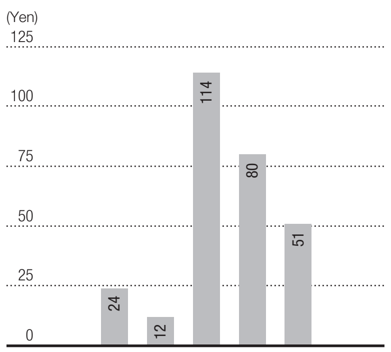


■ Selling, General and Administrative Expenses
● Ratio to Net Sales

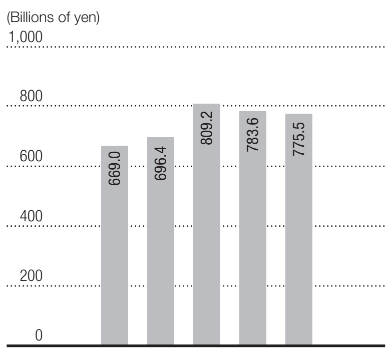
R&D Expenses



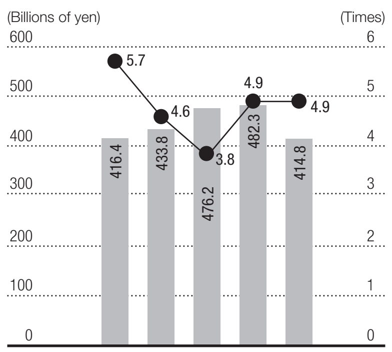
Cash Dividends per Share



Total Assets

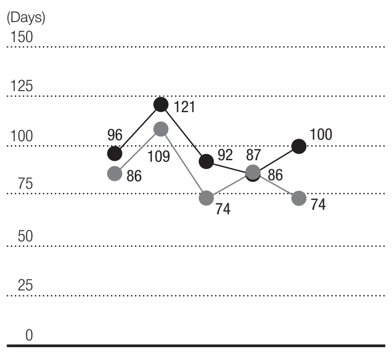


Working Capital and Current Ratio



■ Working Capital
● Current Ratio

Receivable Turnover and Inventory Turnover



● Receivable Turnover
● Inventory Turnover

Financial Review

Financial Position and Cash Flows

Assets, Liabilities and Net Assets

■ Assets

Current assets decreased by ¥85.5 billion from the end of the previous fiscal year, to ¥521.5 billion, reflecting decreases of ¥49.8 billion in trade notes and accounts receivable, ¥13.8 billion in inventories, and ¥7.5 billion in liquidity on hand (cash, cash equivalents and short-term investments). The turnover period for trade notes and accounts receivable decreased from 87 days in fiscal 2012 to 74 days in fiscal 2013, and the inventory turnover period increased from 86 days in fiscal 2012, to 100 days in fiscal 2013.

Net property, plant and equipment increased by ¥8.8 billion year on year, to ¥135.7 billion, due in part to ¥21.8 billion in fixed asset acquisitions and ¥26.6 billion in depreciation and amortization.

Investments and other assets increased ¥68.7 billion to ¥118.3 billion, mainly due to an increase of ¥38.4 billion in goodwill and an increase of ¥16.8 billion in intangible assets resulting from the acquisition of four overseas companies. As a result, total assets as of March 31, 2013 stood at ¥775.5 billion, down ¥8.1 billion year on year.

■ Liabilities and Net Assets

Current liabilities decreased by ¥18.1 billion from the end of fiscal 2012, to ¥106.7 billion. This reflected decreases of ¥10.7 billion in trade notes and accounts payable and ¥7.4 billion in customer advances. The balance of interest-bearing debt as of March 31, 2013 was ¥3.8 billion, compared with ¥4.4 billion at the end of the previous fiscal year. The debt/equity ratio declined to 0.6%, 0.2 percentage points lower than at the end of March 2012.

Non-current liabilities increased ¥3.5 billion year-on-year to ¥63.7 billion, mainly as a result of a ¥2.0 billion increase in accrued pension and severance costs. Total liabilities stood at ¥170.4 billion, down ¥14.6 billion compared with the end of fiscal 2012.

Net assets came to ¥605.1 billion, up ¥6.5 billion from the end of fiscal 2012. This was mainly because of the ¥9.3 billion in dividends paid, exceeding net income of ¥6.1 billion and resulting in a ¥3.3 billion decrease in retained earnings, as well as an ¥8.7 billion decrease in loss on foreign currency translation adjustments due to the devaluation of the yen. As a result, the equity ratio rose 1.6 percentage points from 74.9% at the end of March 2012 to 76.5% at the end of March 2013. ROE dropped to 1.0% from 6.3% in fiscal 2012.

Capital Expenditures[1] and Depreciation and Amortization[2]

Capital expenditures were ¥21.8 billion in fiscal 2013, a 44.9% year-on-year decrease, as a number of investments for future development and manufacturing site expansions were completed in fiscal 2012.

Tokyo Electron purchased evaluation equipment, mainly for areas of high growth potential in the semiconductor production equipment and FPD/PV production equipment businesses. The Company also invested in development and evaluation equipment for its new research and development sites that began operations in fiscal 2013, Technology Center Tsukuba, and the process development center in Hwaseong, South Korea.

Depreciation and amortization increased 10.1% to ¥26.6 billion.

1. Capital expenditures represent only the gross increase in property, plant and equipment.
2. Depreciation and amortization does not include amortization of goodwill or losses on impairment.

Cash Flows

Cash flows from operating activities totaled ¥84.3 billion, up ¥54.6 billion from fiscal 2012. Major contributors were ¥17.8 billion in income before income taxes and minority interests, a ¥57.5 billion decrease in trade notes and accounts receivable, ¥26.6 billion in depreciation and amortization, and a ¥20.3 billion decrease in inventories. Major negative factors included a ¥15.5 billion decrease in notes and accounts payable and a ¥12.5 billion decrease in customer advances.

Net cash used in investing activities was ¥141.8 billion, a considerable increase from ¥8.4 billion in the previous fiscal year. This included ¥66.1 billion outflow from a net increase in short-term investments; ¥19.0 billion used in the payment for purchase of property, plant and equipment; and ¥55.1 billion used in four corporate acquisitions by cash.

Cash used in financing activities came to ¥10.6 billion, compared with ¥27.3 billion in fiscal 2012, due mainly to ¥9.3 billion in dividends paid.

The balance of cash and cash equivalents at the end of March 2013 stood at ¥85.3 billion, a decrease of ¥73.5 billion from the end of fiscal 2012. Total liquidity on hand, which consists of cash, cash equivalents and short-term investments, decreased by ¥7.5 billion year on year, to ¥240.1 billion at the end of March 2013.

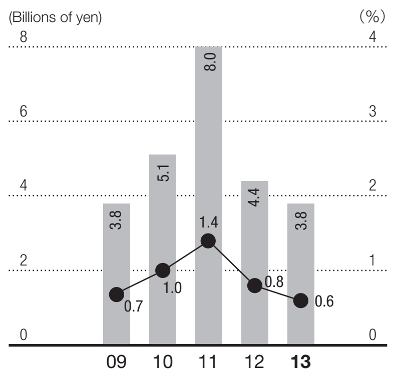
Millions of yen

Financial Position	2009	2010	2011	2012	2013
Total current assets	¥505,687	¥552,939	¥644,231	¥607,051	**¥521,501**
Net property, plant and equipment	99,906	92,128	112,552	126,885	**135,698**
Total investments and other assets	63,405	51,285	52,422	49,675	**118,329**
Total assets	668,998	696,352	809,205	783,611	**775,528**
Total current liabilities	89,272	119,162	168,038	124,794	**106,670**
Total liabilities	139,733	172,982	224,403	185,008	**170,401**
Total net assets (Total shareholders' equity)	529,265	523,370	584,802	598,603	**605,127**

Millions of yen

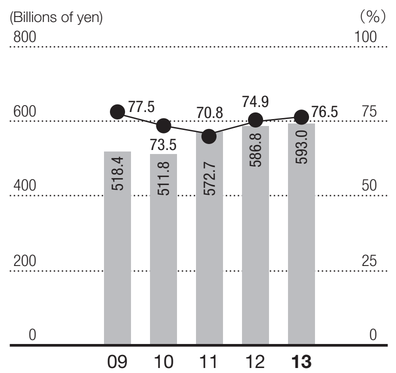
Cash Flows	2009	2010	2011	2012	2013
Cash flows from operating activities	¥ 81,030	¥ 48,285	¥ 83,239	¥ 29,712	**¥ 84,267**
Cash flows from investing activities	(160,622)	9,613	(35,882)	(8,352)	**(141,769)**
Cash flows from financing activities	(46,016)	(288)	(5,237)	(27,335)	**(10,625)**
Cash and cash equivalents at end of year	65,883	123,940	165,051	158,776	**85,314**

Interest-Bearing Debt, D/E Ratio



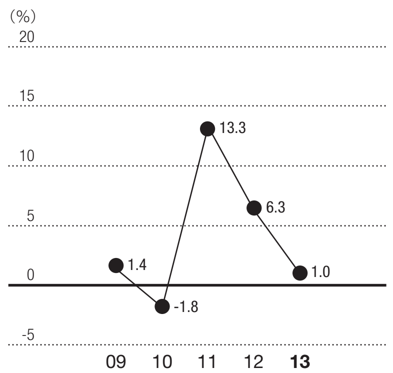
■ Interest-Bearing Debt
● Debt-to-Equity Ratio

Equity and Equity Ratio

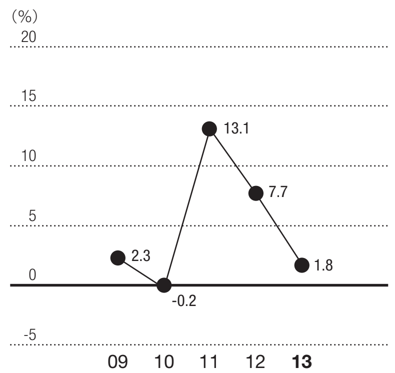


■ Equity
● Equity Ratio

ROE

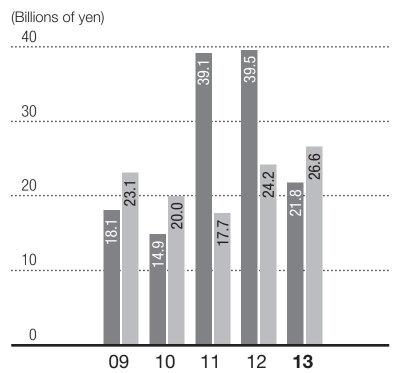


ROA



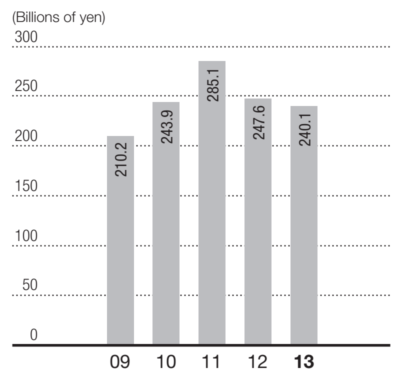
ROA = (Operating income + Interest and dividend income) / Average total assets x 100

Capital Expenditures and Depreciation and Amortization



■ Capital Expenditures
■ Depreciation and Amortization

Total Liquidity on Hand



Total liquidity on hand = Cash and cash equivalents + Short-term investments

Financial Review

BUSINESS-RELATED AND OTHER RISKS

The following risks may have a material impact on Tokyo Electron's business performance, stock price, or financial position.

(1) Impact From Changes in the Semiconductor Market

Tokyo Electron has achieved a high profit margin by concentrating resources in high-tech fields, including semiconductor production equipment, where technological innovation is rapid but Tokyo Electron can effectively use its strengths. Although technological change is responsible for the semiconductor market's rapid growth, Tokyo Electron has actively undertaken structural reforms to be able to generate profits under any circumstances, including when the market contracts temporarily due to imbalance of supply and demand. However, order cancellations, excess capacity and personnel and increased inventories resulting from an unexpectedly large market contraction, losses from bad debts resulting from the worsening of a customer's financial position, and supply shortages resulting from the worsening of a supplier's management situation, could adversely affect Tokyo Electron's business performance considerably.

(2) Impact From Concentration of Transactions on Particular Customers

Tokyo Electron has been successful at increasing transactions with the leading semiconductor manufacturers worldwide, including those in Japan, through the provision of products featuring outstanding, cutting-edge technology and of services offering a high level of customer satisfaction. However, Tokyo Electron's sales may from time to time be temporarily concentrated on particular customers due to the timing of large capital investments of major semiconductor manufacturers. The resulting escalation in sales competition could adversely affect Tokyo Electron's business performance.

(3) Impact From Research and Development

Through ongoing and proactive R&D investment and activities in cutting-edge technologies—miniaturization, vacuum, plasma, thermal processing, coating/developing, cleaning, wafer-transfer and clean technologies—Tokyo Electron has created advanced technologies. At the same time, by quickly bringing to market new products incorporating these technologies, Tokyo Electron has successfully captured a high market share in each of the product fields it has entered and generated a high profit margin. However, delays in the launch of new products and other factors could adversely affect Tokyo Electron's business performance.

(4) Safety-related Impact

Tokyo Electron's basic philosophy is to always bear in mind safety and health in the execution of business activities, including development, manufacturing, sales, services and management. In accordance with this philosophy, Tokyo Electron works actively and continuously to improve the safety of its products and to eliminate any harmful impact on health. However, harm to customers, order cancellations or other circumstances resulting from safety or other problems related to Tokyo Electron's products could adversely affect Tokyo Electron's business performance.

(5) Impact From Quality Issues

Tokyo Electron actively develops outstanding, cutting-edge technologies for incorporation in new products that are brought quickly to market. At the same time, Tokyo Electron works to establish a quality assurance system, efforts that include obtaining ISO 9001 certification, as well as to establish a world-class service system. These actions have resulted in a large number of customers adopting Tokyo Electron's products. However, because Tokyo Electron's products are based on cutting-edge technologies, and due to other factors, many of the technologies developed are in unfamiliar fields. The occurrence of unforeseen defects or other issues could adversely affect Tokyo Electron's business performance.

(6) Impact of Intellectual Property Rights

In order to distinguish its products and make them more competitive, Tokyo Electron has promoted its R&D strategy for the early development of cutting-edge technologies together with its business and intellectual property strategies. This approach has enabled Tokyo Electron to obtain sole possession of many proprietary technologies that have been instrumental to the Company's ability to capture a high market share and generate high profit margins in each of its product fields. Tokyo Electron's products incorporate and optimize many of these proprietary cutting-edge technologies. There may be cases in which, by avoiding the use of third-party technologies and intellectual property rights, Tokyo Electron's business performance could be adversely affected.

(7) Impact of Fluctuating Foreign Exchange Rates

Success in the development of overseas operations has increased the share of sales generated overseas. As a rule, Tokyo Electron conducts export transactions on a yen basis to avert exposure to foreign currency risks. However, some exports are denominated in foreign currencies. In these cases, Tokyo Electron hedges foreign currency risk by using a forward foreign exchange contract when an order is received or by other means. However, foreign exchange rate risks can arise from fluctuations in prices due to sudden foreign exchange movements, which could have an indirect adverse effect on Tokyo Electron's business performance.

(8) Influence of Corporate Acquisitions

As part of its business strategy, Tokyo Electron conducts corporate acquisitions in order to expand into new business areas, secure new technologies and business platforms, and strengthen the competitiveness of existing businesses. The Company conducts due diligence and carefully deliberates each specific acquisition. However, in the event that the results following an acquisition do not meet expectations, Tokyo Electron's business performance could be adversely affected.

(9) Other Risks

Tokyo Electron is actively engaged in reforming its corporate structure so that it can generate profits even when markets contract. These reforms have entailed creating new high-growth and high-return businesses and pursuing higher earnings from existing businesses. At the same time, Tokyo Electron has promoted activities to preserve the environment and worked to restructure its compliance, risk management and information security management systems. However, as long as it conducts business activities, as with peer companies or companies in different industries, Tokyo Electron is subject to the effect of many other factors. These include the world and regional economic environments, natural disasters, war, terrorism, infectious diseases and other unavoidable occurrences, financial or stock markets, government or other regulations, supply chains, market conditions for products and real estate, the ability to recruit personnel in Japan and overseas, competition over standardization, and loss of key personnel. Any of these factors could adversely affect Tokyo Electron's business performance.