NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Law 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.

U.S. dollar amounts included herein are solely for the convenience of readers and are presented at the rate of ¥82.19 to $1.00, the approximate rate as of March 31, 2012. 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 30 and 32 subsidiaries for the years ended March 31, 2012 and 2011, respectively.

Investments in affiliates in which the Company's ownership is 20% to 50% are accounted for by the equity method.

All significant inter-company accounts, transactions and unrealized profits or losses have been eliminated in consolidation.

The fiscal year-end of all entities is March 31, except for three consolidated foreign subsidiaries, which use a December 31 year-end, and adjustment is made for any significant transactions between the different fiscal year-ends.

(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 and minority interests in the consolidated balance sheets.

(c) Cash equivalents

For purposes of the consolidated statements of cash flows, Tokyo Electron considers all highly-liquid instruments purchased with original maturities of three months or less to be cash equivalents.

(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. Held-to-maturity debt securities are stated mainly at amortized cost. Other securities with market prices are valued at fair market value prevailing at the balance sheet date. The differences between the book and market prices of other securities, net of applicable income taxes, are presented in net assets as a component of accumulated other comprehensive income. Other securities without market value are valued at cost using the weighted-average method.

The cost of sold securities is calculated using the weighted-average method.

(f) Inventories

Inventories other than raw materials are stated at the lower of cost, determined by the specific identification method, or net realizable value, which is defined as selling price less estimated additional manufacturing costs and estimated direct selling expenses. Raw materials are stated at the lower of cost, determined principally by the moving-average method, or net realizable value.

(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 subsequent to March 31, 1998 which are depreciated using the straight-line method, based on the estimated useful lives of assets. Foreign subsidiaries mainly apply the straight-line method over the estimated useful lives of assets.

Estimated useful lives of property, plant and equipment are as follows:

Buildings	2 to 60 years
Machinery and equipment	2 to 17 years

(h) Intangible assets

Intangible assets, which primarily comprise of capitalized costs for computer software and goodwill, are amortized by the straight-line method over their estimated useful lives. Capitalized costs for computer software for internal use are amortized over a period of 2 to 5 years. Goodwill is evaluated on an individual basis and amortized over a period not exceeding 20 years.

(i) Impairment of fixed assets

Tokyo Electron evaluates the carrying value of fixed assets held for use in the business.

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.

(j) 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.

(k) Accrued pension and severance costs

The Company and its domestic subsidiaries provide an accrual for defined benefit employees' pension and severance costs based on the projected benefit obligation and the fair value of pension assets. 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 (four 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 recognized, over a fixed number of years (four 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 statutory auditors 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 statutory auditors after April 1, 2005, and at the general shareholders' meeting in June 2005, it was resolved that the severance pay for directors and statutory auditors until March 31, 2005 would be paid at the termination of their service and the decision regarding the payment amount for each director and statutory auditor was delegated to the board of directors and statutory auditors. As discussed in note 9, the accruals for severance costs for directors and statutory auditors are included in accrued pension and severance costs in the consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(l) Accrued warranty expenses

Tokyo Electron's products are generally subject to warranty, and Tokyo Electron accrues such estimated costs when product revenue is recognized. To prepare for future repairs during warranty periods, estimated after-sale repair expenses over warranty periods are accrued based on the historical ratio of actual repair expenses to corresponding sales.

(m) Leases

Until the year ended March 31, 2008, non-cancelable leases of the Company and its domestic subsidiaries had been primarily accounted for as operating leases (whether such leases were classified as operating or finance leases), except for leases that transfer ownership to the lessee at the end of the lease, which had been accounted for as finance leases.

Effective from the year ended March 31, 2009, the Company and its domestic subsidiaries adopted "Accounting Standard for Lease Transactions" and "Guidance on Accounting Standard for Lease Transactions." As a result, the Company and its domestic subsidiaries capitalized leased assets under finance leases commencing after March 31, 2008 and such leased assets are depreciated using the straight-line method over the period of the lease contract with zero residual value.

(n) Derivatives and hedge accounting

The Company and a domestic subsidiary make use of derivatives in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates. The amount of derivatives is limited to the extent of foreign currency assets, liabilities and actual orders, and the Company and the domestic subsidiary do not trade in derivatives for speculative purposes.

Derivatives are carried at fair value in the consolidated balance sheet with changes in unrealized gain or loss charged or credited to earnings, except for those which meet the criteria for hedge accounting. Unrealized gains or losses on hedging derivatives, net of taxes, are reported in net assets as a component of accumulated other comprehensive income. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(o) Income taxes

Tokyo Electron records deferred tax assets and liabilities on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, which are measured using the enacted tax rates and laws which are expected to be in effect when the differences are expected to reverse.

(p) Revenue recognition

Revenue from Semiconductor and FPD (Flat Panel Display)/PV (Photovoltaic cell) production equipment is principally recognized at the time of the customer confirmation of set-up and testing of products. Revenue from such equipment not requiring substantial installation is recognized at the time of shipment. Revenue from other products, such as electronic components, is recognized at the time of shipment. Service revenue from maintenance is recognized ratably over the term of the maintenance contract.

(q) 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.

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.

(r) Research and development expenses

Research and development expenses are charged to earnings as incurred and amounted to ¥81,506 million ($991,678 thousand) and ¥70,568 million for the years ended March 31, 2012 and 2011, 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, 2012.

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

(a) Accounting standards for earnings per share

Effective from April 1, 2011, the Company adopted "Accounting Standard for Earnings Per Share" (Statement No. 2 issued as of June 30, 2010 by the Accounting Standards Board of Japan) and "Guidance on Accounting Standards for Earnings Per Share" (Guidance No. 4 issued as of June 30, 2010 by the Accounting Standards Board of Japan). Based on these new standards, the Company has changed its method of calculating diluted net income per share. Under the new method, for share option rights which vest after a specified period of service, the fair value amount of the share options for service expected to be provided in the future is included in the proceeds assumed to be received when options are exercised.

(b) Accounting standard for accounting changes and error corrections

Effective from April 1, 2011, the Company and its domestic subsidiaries adopted "Accounting Standard for Accounting Changes and Error Corrections" (Statement No. 24 issued by the Accounting Standards Board of Japan) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (Guidance No. 24, issued by the Accounting Standards Board of Japan) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011. The adoption of this standard had no significant impact on the consolidated financial statements.

(c) Accounting standards for asset retirement obligations

Effective from April 1, 2010, the Company and its domestic subsidiaries adopted "Accounting Standards for Asset Retirement Obligations" (Statement No. 18 issued by the Accounting Standards Board of Japan) and "Guidance on Accounting Standards for Assets Retirement Obligations" (Guidance No. 21 issued by the Accounting Standards Board of Japan). The adoption of this standard had no significant impact on the consolidated financial statements.

(d) Accounting standard for disclosures about segments of an enterprise and related information

Effective from the year ended March 31, 2011, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Statement No. 17 issued by the Accounting Standards Board of Japan) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Guidance No. 20 issued by the Accounting Standards Board of Japan). The accounting standard requires the Company to adopt a management approach as the segment reporting method. As a result of the adoption of this standard the Company changed the basis of segmentation and segment measures.

(e) Accounting standard for presentation of comprehensive income

Effective from the year ended March 31, 2011, the Company adopted "Accounting Standard for Presentation of Comprehensive Income" (Statement No. 25 issued by the Accounting Standards Board of Japan). As a result of the adoption of this standard the Company prepared a consolidated statements of comprehensive income from the year ended March 31, 2011.

(f) Accounting standard for consolidated financial statements

Effective from the year ended March 31, 2011, the Company adopted "Partial amendments to the accounting standards of financial statements" (Cabinet office ordinance No. 5) in accordance with "Accounting Standard for Consolidated Financial Statements" (Statement No. 22 issued by Accounting Standards Board of Japan). As a result of the adoption of this standard, the Company added a subtotal of "Income before minority interests" in the consolidated statements of Income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Securities

Other securities as of March 31, 2012 and 2011 are as follows:

	Millions of yen	
2012	Cost	Carrying value
Noncurrent		
Securities with market prices		
Equity securities	**¥ 9,212**	**¥14,699**
Securities without market prices		
Unlisted stock	**485**	**473**
Other	**910**	**910**
Total	**¥10,607**	**¥16,082**

	Millions of yen	
2011	Cost	Carrying value
Current	¥232,058	¥232,058
Noncurrent		
Securities with market prices		
Equity securities	¥ 9,763	¥ 14,445
Securities without market prices		
Unlisted stock	365	370
Other	911	911
Total	¥ 11,039	¥ 15,726

	Thousands of U.S. dollars	
2012	Cost	Carrying value
Noncurrent		
Securities with market prices		
Equity securities	**$112,082**	**$178,842**
Securities without market prices		
Unlisted stock	**5,901**	**5,755**
Other	**11,072**	**11,072**
Total	**$129,055**	**$195,669**

Held-to-maturity securities classified as current assets are ¥211,790 million ($2,576,835 thousand) and nil as of March 31, 2012 and 2011, respectively.

Reconciliation of held-to-maturity securities as of March 31, 2012 and Other securities as of March 31, 2011 to the amounts of short-term investments in the consolidated balance sheets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Held-to-maturity (current)	**¥ 211,790**	¥ —	**$ 2,576,835**
Other securities (current)	**—**	232,058	**—**
Deposits and low-risk financial instruments with original maturities of three months or less	**(132,790)**	(142,058)	**(1,615,647)**
Deposits with original maturities of more than three months	**9,849**	30,000	**119,832**
Short-term investments	**¥ 88,849**	¥ 120,000	**$ 1,081,020**

Loss on devaluation of investment securities were ¥817 million ($9,940 thousand) and ¥74 million for the years ended March 31, 2012 and 2011, respectively.

Net gain on sale of investment securities was ¥38 million ($462 thousand) and ¥91 million for the years ended March 31, 2012 and 2011, respectively.

5. Inventories

Inventories as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Finished products	**¥101,790**	¥111,918	**$1,238,472**
Work in process, raw materials and supplies	**47,680**	57,007	**580,119**
Total	**¥149,470**	¥168,925	**$1,818,591**

The amounts of change in inventory provision included in cost of sales in the consolidated statements of income for the years ended March 31, 2012 and 2011 were an increase of ¥1,115 million ($13,566 thousand) and ¥1,202 million, respectively.

6. Impairment of Property, Plant and Equipment and Intangible Assets

For assessing fixed asset impairment, the Company generally groups fixed assets used for normal operations at a business unit level for which profits are reasonably controllable. Also, the Company assesses the recoverability of individual assets not used in normal operations or that are idle.

7. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2012 and 2011.

8. Short-term Borrowings

Short-term borrowings represent 365-day notes issued by Tokyo Electron to banks and bore interest at an average annual rate of 0.40% and 0.39% as of March 31, 2012 and 2011, respectively.

As of March 31, 2012, Tokyo Electron has unused lines of credit amounting to ¥150,248 million ($1,828,057 thousand).

9. Accrued Pension and Severance Costs

The Company and its domestic subsidiaries have defined benefit plans (cash balance plan and noncontributory retirement and severance benefit plans) covering substantially all their employees who meet eligibility requirements. The benefits under the plans are based on length of service and certain other factors.

The cash balance plan provides for pension or lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause. Under the cash balance plan, each participant has an account which is credited yearly based on the current rate of pay and market-related interest rate. The noncontributory plans provide for lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause. Certain foreign subsidiaries have noncontributory retirement and severance benefit plans that provide for pension or lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause.

The funded status of the defined benefit plans, a substantial portion of which consists of domestic benefit plans, as of March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Benefit obligation	**¥(94,369)**	¥(89,350)	**$(1,148,181)**
Fair value of plan assets	**45,139**	41,282	**549,203**
Funded status	**(49,230)**	(48,068)	**(598,978)**
Unrecognized actuarial difference	**(1,809)**	(90)	**(22,010)**
Unrecognized prior service cost	**–**	25	**–**
Net amount recognized	**(51,039)**	(48,133)	**(620,988)**
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid pension and severance costs (Note 1)	**3,607**	4,097	**43,886**
Accrued pension and severance costs (Note 2)	**(54,646)**	(52,230)	**(664,874)**
Net amount recognized	**¥(51,039)**	¥(48,133)	**$ (620,988)**

Notes: 1. The prepaid pension and severance costs as of March 31, 2012 and 2011 is included in other assets in the consolidated balance sheets.
2. The provision for accrued pension and severance costs for directors and statutory auditors (¥620 million ($7,544 thousand) as of March 31, 2012 and ¥596 million as of March 31, 2011) is not included.

Net periodic pension cost of the plans is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Service cost	**¥5,597**	¥5,474	**$68,099**
Interest cost	**1,768**	1,666	**21,511**
Expected return on plan assets	**(814)**	(767)	**(9,904)**
Amortization of actuarial difference	**401**	286	**4,879**
Amortization of prior service cost	**25**	100	**304**
Net pension cost	**¥6,977**	¥6,759	**$84,889**

Significant assumptions of domestic pension plans used to determine the above amounts are as follows:

	2012 and 2011
Allocation method of benefit obligation	**Straight-line method**
Discount rate	**2.00%**
Expected rate of return on plan assets	**2.00%**
Amortization period of actuarial difference	**4 years**
Amortization period of prior service cost	**4 years**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Income Taxes

Significant components of the deferred tax assets and liabilities of Tokyo Electron as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets			
Accrued pension and severance costs	**¥ 19,538**	¥21,172	**$ 237,717**
Tax credit for research and development	**12,564**	5,910	**152,865**
Elimination of unrealized profit in inventories	**9,161**	10,309	**111,461**
Devaluation of inventories	**4,749**	4,716	**57,781**
Accrued warranty expenses	**2,971**	2,795	**36,148**
Accrued employees' bonuses	**2,954**	4,471	**35,941**
Net operating loss carryforwards	**1,609**	1,475	**19,577**
Allowance for doubtful accounts	**1,035**	690	**12,593**
Other	**6,994**	11,768	**85,095**
Total gross deferred tax assets	**61,575**	63,306	**749,178**
Less valuation allowance	**(15,134)**	(9,031)	**(184,134)**
Total deferred tax assets	**46,441**	54,275	**565,044**
Deferred tax liabilities			
Undistributed earnings of foreign subsidiaries	**(3,760)**	(3,087)	**(45,748)**
Net unrealized gains on investment securities	**(1,981)**	(1,916)	**(24,103)**
Prepaid pension and severance costs	**(1,200)**	(1,635)	**(14,600)**
Reserves under Special Taxation Measures Law	**(1,084)**	(8)	**(13,189)**
Other	**(748)**	(1,524)	**9,100**
Total deferred tax liabilities	**(8,773)**	(8,170)	**(106,740)**
Net deferred tax assets	**¥ 37,668**	¥46,105	**$ 458,304**

Net deferred tax assets are included in the consolidated balance sheets as of March 31, 2012 and 2011 as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current assets	**¥23,546**	¥27,610	**$286,482**
Investments and other assets	**17,585**	20,728	**213,955**
Other current liabilities	**(1)**	(1)	**(12)**
Other liabilities	**(3,462)**	(2,232)	**(42,122)**

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

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. 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 deferred tax assets are deductible, management believes Tokyo Electron will realize the benefits of these deferred tax assets, net of valuation allowance, as of March 31, 2012 and 2011.

The Company is subject to corporate tax, inhabitants' tax and a deductible enterprise tax, which in the aggregate resulted in a statutory income tax rate of approximately 40.69% for the years ended March 31, 2012 and 2011. On December 2, 2011, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 38.01% for years beginning on or after April 1, 2012 and 35.64% for years beginning on or after April 1, 2015. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2012 to March 31, 2015 and on or after April 1, 2015 are 38.01% and 35.64%, respectively, as of March 31, 2012. Due to these changes in statutory income tax rates, net deferred tax assets decreased by ¥3,310 million ($40,273 thousand) as of March 31, 2012 and deferred income tax expense recognized for the year ended March 31, 2012 increased by ¥3,587 million ($43,643 thousand).

Significant components of the difference between the statutory and effective tax rates for the years ended March 31, 2012 and 2011 are as follows:

	2012	2011
Statutory tax rate in Japan	**40.69 %**	40.69 %
Adjustments:		
Effect of enacted changes in Japanese tax rates on net deferred tax assets	**5.92**	–
Tax credit for research and development	**(5.20)**	(7.22)
Difference in statutory tax rates of subsidiaries	**(4.04)**	(2.26)
Others, net	**1.28**	(4.33)
Effective tax rate	**38.65 %**	26.88 %

11. Net Assets

Net assets comprises four subsections, which are shareholders' equity, accumulated other comprehensive income, share subscription rights and minority 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 maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the general shareholders' meeting on June 23, 2006, in accordance with Japanese laws and regulations, the Company altered its articles to 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.

At the board of directors' meeting held on May 15, 2012, the distribution of cash dividends amounting to ¥4,837 million ($58,851 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2012 since they are recognized in the period in which they are resolved at the board of directors' meeting.

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12. Other Comprehensive Income (loss)

Other comprehensive income for the year ended March 31, 2012 is as follows:

	Millions of yen 2012	Thousands of U.S. dollars 2012
Net unrealized gains on investment securities		
Unrealized gains arising during the year	¥ 302	$ 3,674
Reclassification adjustments	531	6,461
Sub-total, before tax	833	10,135
Tax expense	(64)	(779)
Sub-total, net of tax	769	9,356
Net deferred losses on hedging instruments		
Deferred losses arising during the year	(9)	(109)
Reclassification adjustments	(101)	(1,229)
Sub-total, before tax	(110)	(1,338)
Tax benefit	41	499
Sub-total, net of tax	(69)	(839)
Foreign currency translation adjustments		
Adjustments during the year	(925)	(11,254)
Reclassification adjustments	–	–
Sub-total, before tax	(925)	(11,254)
Tax (expense) or benefit	–	–
Sub-total, net of tax	(925)	(11,254)
Total other comprehensive income (loss)	¥(225)	$ (2,737)

Tax effects and amounts reclassified to net income in the period that were recognized in other comprehensive income in the current or previous periods (reclassification adjustments) are required to be disclosed effective from the year ended March 31, 2012.

13. 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 with restriction on exercise up to two or three years after the date of grant, and have an exercise period of eight to twenty years from the date of grant.

Options to purchase 234,200 shares of the Company were authorized and granted at an exercise price of ¥1 for the year ended March 31, 2012. The options under the plans have an exercise period of twenty years from the date of grant, with restriction on exercise up to three years after the date of grant. No options to purchase shares of the Company were authorized and granted for the year ended March 31, 2011.

Shareholders of Tokyo Electron Device Limited, a domestic listed subsidiary, have approved annual stock option plans for directors and selected employees since the year ended March 31, 2005.

A summary of stock options outstanding and exercisable as of March 31, 2012 and 2011 is as follows:

Tokyo Electron Limited	2012 Number of shares	2012 Weighted-average exercise price Yen	2012 Weighted-average exercise price U.S. dollars	2011 Number of shares	2011 Weighted-average exercise price Yen
Outstanding at the beginning of year	1,296,800	¥ 5,086	$ 61.88	1,779,100	¥ 5,720
Granted	234,200	1	0.01	–	–
Exercised	111,100	1	0.01	67,100	1
Expired (forfeited)	586,600	6,786	82.56	415,200	8,625
Outstanding at the end of year	833,300	3,139	38.19	1,296,800	5,086
Exercisable at the end of year	599,100	4,365	53.11	1,120,500	5,886

Tokyo Electron Device Limited	2012 Number of shares	2012 Weighted-average exercise price Yen	2012 Weighted-average exercise price U.S. dollars	2011 Number of shares	2011 Weighted-average exercise price Yen
Outstanding at the beginning of year	650	¥308,698	$3,755.91	650	¥308,698
Granted	–	–	–	–	–
Exercised	–	–	–	–	–
Expired (forfeited)	–	–	–	–	–
Outstanding at the end of year	650	308,698	3,755.91	650	308,698
Exercisable at the end of year	650	308,698	3,755.91	650	308,698

14. Leases

As mentioned in note 2 (m), effective from the year ended March 31, 2009, the Company and its domestic subsidiaries adopted "Accounting Standard for Lease Transactions" and "Guidance on Accounting Standard for Lease Transactions." As permitted under the standards, finance leases which commenced on or before March 31, 2008 continue to be accounted for as operating leases. Pro forma information of leased property acquired on or before March 31, 2008 including acquisition cost, accumulated depreciation, obligation under finance leases, and depreciation expense of finance leases that do not transfer ownership of leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2012 and 2011, are as follows:

Leased assets not recorded in the consolidated balance sheets:

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Acquisition cost	¥286	¥947	$3,480
Accumulated depreciation	216	690	2,628
Net leased property	¥ 70	¥257	$ 852

Future minimum lease payments:

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Due within one year	¥48	¥139	$584
Due over one year	22	118	268
Total	¥70	¥257	$852

Lease payments relating to finance leases accounted for as operating leases amounted to ¥97 million ($1,180 thousand) and ¥158 million, which approximated the corresponding depreciation on the respective leased property computed by the straight-line method over the lease terms, for the years ended March 31, 2012 and 2011, respectively.

Future minimum lease payments on non-cancelable operating leases:

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Due within one year	¥2,013	¥1,984	$24,492
Due over one year	2,905	4,361	35,345
Total	¥4,918	¥6,345	$59,837

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. 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, and obtains funds by utilizing bank-loans or liquidating trade-receivables.

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 time deposits and low risk financial instruments and the Company and its listed subsidiary 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.

Short-term borrowings and 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 16 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, 2012 and 2011, are set out below. Fair value of financial instruments which is practically difficult to estimate are excluded (see note 4).

	Millions of yen	
2012:	Carrying amount	Estimated fair value [1]
Assets		
Cash and cash equivalents	**¥158,776**	**¥158,776**
Short-term investments	**88,849**	**88,638**
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥1,376 million)	**148,930**	**148,930**
Investment securities	**14,699**	**14,699**
Liabilities		
Short-term borrowings	**4,403**	**4,403**
Trade notes and accounts payable	**58,243**	**58,243**
Derivatives (see note 16)		
Hedge accounting not applied	**(400)**	**(400)**
Hedge accounting applied	**(153)**	**(153)**

	Millions of yen	
2011:	Carrying amount	Estimated fair value [1]
Assets		
Cash and cash equivalents	¥165,051	¥165,051
Short-term investments	120,000	120,000
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥1,154 million)	135,231	135,231
Investment securities	14,445	14,445
Liabilities		
Short-term borrowings	7,996	7,996
Trade notes and accounts payable	63,766	63,766
Derivatives (see note 16)		
Hedge accounting not applied	327	327
Hedge accounting applied	(44)	(44)

	Thousands of U.S. dollars	
2012:	Carrying amount	Estimated fair value [1]
Assets		
Cash and cash equivalents	**$1,931,817**	**$1,931,817**
Short-term investments	**1,081,020**	**1,078,452**
Trade notes and accounts receivable, net of allowance for doubtful accounts ($16,742 thousand)	**1,812,021**	**1,812,021**
Investment securities	**178,842**	**178,842**
Liabilities		
Short-term borrowings	**53,572**	**53,572**
Trade notes and accounts payable	**708,639**	**708,639**
Derivatives (see note 16)		
Hedge accounting not applied	**(4,866)**	**(4,866)**
Hedge accounting applied	**(1,862)**	**(1,862)**

Receivables and payables derived from derivative transactions are stated on a net basis. The figures in parentheses represent net payables.

Note: 1. Fair value calculation of financial instruments

Cash and cash equivalents, trade notes and accounts receivable, short-term investments, short-term borrowings 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 4 for further information by classification of investment securities.

Derivatives

See note 16 for detailed discussion on derivative financial instruments.

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

	Millions of yen	
2012:	*Within 1 year*	*After 1 through 5 years*
Cash and cash equivalents	***¥158,776***	***¥ –***
Short-term investments	***88,849***	***–***
Trade notes and accounts receivable	***150,306***	***–***

	Millions of yen	
2011:	*Within 1 year*	*After 1 through 5 years*
Cash and cash equivalents	*¥165,051*	*¥ –*
Short-term investments	*120,000*	*–*
Trade notes and accounts receivable	*136,385*	*–*

	Thousands of U.S. dollars	
2012:	*Within 1 year*	*After 1 through 5 years*
Cash and cash equivalents	***$1,931,817***	***$ –***
Short-term investments	***1,081,020***	***–***
Trade notes and accounts receivable	***1,828,763***	***–***

3. Repayment schedule of short-term borrowings and capital lease obligations is as follows:

	Millions of yen		
2012:	*Within 1 year*	*After 1 through 2 years*	*After 2 through 5 years*
Short-term borrowings	***¥4,403***	***¥ –***	***¥ –***
Capital lease obligations	***335***	***267***	***42***

	Millions of yen		
2011:	*Within 1 year*	*After 1 through 2 years*	*After 2 through 5 years*
Short-term borrowings	*¥7,996*	*¥ –*	*¥ –*
Capital lease obligations	*127*	*103*	*64*

	Thousands of U.S. dollars		
2012:	*Within 1 year*	*After 1 through 2 years*	*After 2 through 5 years*
Short-term borrowings	***$53,572***	***$ –***	***$ –***
Capital lease obligations	***4,076***	***3,249***	***511***

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Derivative Financial Instruments

Tokyo Electron is subject to risk from adverse fluctuations in foreign currency exchange rates in its operating and financing activities. The Company and its listed domestic subsidiary enter into forward foreign exchange contracts in order to hedge such risks, but do not enter into such transactions for speculative purposes. The Company and its domestic subsidiary implement a ratio analysis of the total cumulative cash flow fluctuations to assess effectiveness of hedging. Execution and management of all derivative transactions are conducted pursuant to the internal management rule for derivatives and the assessment of effectiveness of hedging activities is reported on a semi-annual basis to the Corporate Director in charge of Finance.

The estimated fair values of the derivative financial instruments as of March 31, 2012 and 2011 are as follows:

1. Derivative financial instruments not designated as hedging instruments

	Millions of yen		
2012:	Contract Amount	Fair value	Unrealized gains (losses)
Sell U.S. dollars	**¥ 9,874**	**¥(464)**	**¥(464)**
Sell Korean won	**701**	**23**	**23**
Buy U.S. dollars	**5,804**	**41**	**41**
Total	**¥16,379**	**¥(400)**	**¥(400)**

	Millions of yen		
2011:	Contract amount	Fair value	Unrealized gains (losses)
Sell U.S. dollars	¥ 7,405	¥ (72)	¥ (72)
Sell Korean won	1,235	350	350
Buy U.S. dollars	4,763	49	49
Total	¥13,403	¥327	¥327

	Thousands of U.S. dollars		
2012:	Contract amount	Fair value	Unrealized gains (losses)
Sell U.S. dollars	**$120,136**	**$(5,645)**	**$(5,645)**
Sell Korean won	**8,529**	**280**	**280**
Buy U.S. dollars	**70,617**	**499**	**499**
Total	**$199,282**	**$(4,866)**	**$(4,866)**

Note: The fair values are based on the quoted forward foreign exchange rates.

2. Derivative financial instruments designated as hedging instruments

	Millions of yen		Thousands of U.S. dollars	
2012: Hedge accounting	Contract Amount	Fair value	Contract Amount	Fair value
Sell U.S. dollars	**¥ 6,879**	**¥(181)**	**$ 83,696**	**$(2,203)**
Sell Korean won	**85**	**(7)**	**1,034**	**(85)**
Sell Chinese yuan	**192**	**1**	**2,336**	**12**
Buy U.S. dollars	**4,325**	**17**	**52,622**	**207**
Buy EURO	**195**	**17**	**2,373**	**207**
Total	**¥11,676**	**¥(153)**	**$142,061**	**$(1,862)**

	Millions of yen	
2011: Hedge accounting	Contract Amount	Fair value
Sell U.S. dollars	¥ 6,411	¥(54)
Sell Korean won	37	11
Buy U.S. dollars	4,099	(1)
Total	¥10,547	¥(44)

The contract amounts of forward foreign exchange contracts, entered into to hedge receivables and payables denominated in foreign currencies that have been translated by the corresponding contracted rates, are as follows:

	Contract amount		
	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Sell U.S. dollars	**¥ 58**	¥ 90	**$ 705**
Sell Chinese yuan	**9,854**	–	**119,893**
Buy U.S. dollars	**65**	62	**791**
Total	**¥9,977**	¥152	**$121,389**

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.

17. Other Income (Expenses)

Reversal of allowance for doubtful accounts of ¥1,892 million for the year ended March 31, 2011 is related to the subsequent collection of specific accounts receivable.

Expenses for plant relocation of ¥1,839 million were recognized as a result of the transfer of etch system business for the year ended March 31, 2011.

Loss from natural disasters of ¥936 million ($11,388 thousand) and ¥1,114 million for the years ended March 31, 2012 and 2011, respectively, represents losses relating to the Great East Japan Earthquake which occurred on March 11, 2011, which mainly consists of repair costs for damaged facilities and fixed costs during the inactive period and repair costs for damaged facilities.

Loss on business restructuring of ¥849 million ($10,330 thousand) for the year ended March 31, 2012 consists of devaluation of inventories, loss on impairment of property, plant and equipment and loss on disposal of inventories and property, plant and equipment.

18. 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 its 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)," "Flat Panel Display and Photovoltaic Cell (FPD/PV) Production Equipment," and "Electronic Components and Computer Networks."

Products of the SPE segment consist of coaters/developers, plasma etch systems, thermal processing systems, single wafer deposition systems, cleaning systems used in wafer processing, wafer probers used in the wafer testing process and other semiconductor production equipment. The SPE segment principally develops, manufactures, services and distributes such products.

Products of the FPD/PV Production Equipment segment consist of coaters/developers, plasma etch/ash system used in the manufacture of flat panel displays, and plasma CVD systems used in the manufacture of thin film silicon PV cells. The FPD/PV segment principally develops, manufactures, services and distributes such products.

The Electronic Components and Computer Networks segment principally designs, develops, procures, and distributes semiconductor products centering on integrated circuits (IC), other electronic components, computer networks and software.

Basis of measurement of reportable segment net sales, segment profit, 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 based on 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Information about reportable segment net sales, segment profit, segment assets and other items

Reportable segment information as of and for the year ended March 31, 2012 and 2011 are as follows:

	Millions of yen						
	Reportable Segment						
2012:	Semiconductor production equipment	FPD/PV production equipment	Electronic components & computer networks	Other	Total	Eliminations and Corporate	Consolidated
Net sales							
Sales to external customers	**¥477,873**	**¥69,889**	**¥84,868**	**¥ 461**	**¥633,091**	**¥ –**	**¥633,091**
Intersegment sales or transfers	**–**	**–**	**1,432**	**14,565**	**15,997**	**(15,997)**	**–**
Total	**477,873**	**69,889**	**86,300**	**15,026**	**649,088**	**(15,997)**	**633,091**
Segment profit	**89,020**	**2,271**	**2,312**	**1,827**	**95,430**	**(34,828)**	**60,602**
Segment assets	**262,789**	**21,295**	**46,391**	**1,927**	**332,402**	**451,209**	**783,611**
Depreciation and amortization	**11,282**	**687**	**570**	**170**	**12,709**	**11,489**	**24,198**
Capital expenditures, including intangible and other assets	**13,518**	**672**	**407**	**36**	**14,633**	**28,572**	**43,205**

	Millions of yen						
	Reportable Segment						
2011:	Semiconductor production equipment	FPD/PV production equipment	Electronic components & computer networks	Other	Total	Eliminations and Corporate	Consolidated
Net sales							
Sales to external customers	¥511,332	¥66,721	¥90,216	¥ 453	¥668,772	¥ –	¥668,722
Intersegment sales or transfers	0	–	1,100	14,908	16,008	(16,008)	–
Total	511,332	66,721	91,316	15,361	684,730	(16,008)	668,722
Segment profit	120,846	6,641	2,907	1,916	132,310	(32,731)	99,579
Segment assets	239,707	42,812	50,255	2,094	334,868	474,337	809,205
Depreciation and amortization	7,369	543	456	354	8,722	8,985	17,707
Capital expenditures, including intangible and other assets	13,182	553	774	28	14,537	26,723	41,260

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Thousands of U.S. dollars						
	Reportable Segment						
2012:	Semiconductor production equipment	FPD/PV production equipment	Electronic components & computer networks	Other	Total	Eliminations and Corporate	Consolidated
Net sales							
Sales to external customers	**$5,814,247**	**$850,335**	**$1,032,583**	**$ 5,609**	**$7,702,774**	**$ –**	**$7,702,774**
Intersegment sales or transfers	**–**	**–**	**17,423**	**177,211**	**194,634**	**(194,634)**	**–**
Total	**5,814,247**	**850,335**	**1,050,006**	**182,820**	**7,897,408**	**(194,634)**	**7,702,774**
Segment profit	**1,083,100**	**27,631**	**28,130**	**22,229**	**1,161,090**	**(423,750)**	**737,340**
Segment assets	**3,197,335**	**259,095**	**564,436**	**23,446**	**4,044,312**	**5,489,828**	**9,534,140**
Depreciation and amortization	**137,267**	**8,359**	**6,935**	**2,068**	**154,629**	**139,786**	**294,415**
Capital expenditures, including intangible and other assets	**164,473**	**8,176**	**4,952**	**438**	**178,039**	**347,633**	**525,672**

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

2. (1) "Eliminations and Corporate" segment profit totaling ¥34,828 million ($423,750 thousand) and ¥32,731 million for the years ended March 31, 2012 and 2011, respectively, includes corporate expenses not allocated to any reportable segments. The corporate expenses mainly consist of research and development costs of ¥26,071 million ($317,204) and ¥22,719 million for the years ended March 31, 2012 and 2011, respectively, pertaining to fundamental research and element research, not allocated to any of the reportable segments.

(2) "Eliminations and Corporate" segment assets totaling ¥451,209 million ($5,489,828 thousand) and ¥474,337 million as of March 31, 2012 and 2011, respectively, consist mainly of cash and cash equivalents, short-term investments and buildings not allocated to any of the reportable segments.

3. "Eliminations and Corporate" capital expenditures totaling ¥28,572 million ($347,633 thousand) and ¥26,723 million for the years ended March 31, 2012 and 2011, respectively, consist mainly of capital expenditures for buildings not allocated to any of the reportable segments.

4. Reported segment profit is reconciled to Income before income taxes and minority interests in the consolidated statements of income.

Other Information

(1) Domestic and overseas net sales by destination for the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
Net sales	**2012**	2011	**2012**
Japan	**¥171,364**	¥182,165	**$2,084,974**
United States of America	**114,951**	103,013	**1,398,601**
Korea	**114,218**	106,374	**1,389,682**
Taiwan	**86,882**	169,276	**1,057,087**
Other	**145,676**	107,894	**1,772,430**
Total	**¥633,091**	¥668,722	**$7,702,774**

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

(2) Net property, plant and equipment by location as of March 31, 2012 and 2011 are as follows:

	Millions of yen			Thousands of U.S. dollars		
2012:	Japan	Other	Total	Japan	Other	Total
Property, plant and equipment	**¥107,874**	**¥19,011**	**¥126,885**	**$1,312,495**	**$231,306**	**$1,543,801**

	Millions of yen		
2011:	Japan	Other	Total
Property, plant and equipment	¥ 97,775	¥14,777	¥112,552

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) Major customer information

Net sales to external customers that represent 10 percent or more of the company's total net sales are as follows:

Name of customer	Related reportable segment	Millions of yen 2012	Thousands of U.S. dollars 2012
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD/PV production equipment	**¥116,919**	**$1,422,545**
Intel Corporation	Semiconductor production equipment	**90,399**	**1,099,878**

Name of customer	Related reportable segment	Millions of yen 2011
Samsung Electronics Co., Ltd.	Semiconductor production equipment and FPD/PV production equipment	¥101,074

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

19. Subsequent Event

Grant of stock options under stock option plans

On May 15, 2012, the Company's board of directors decided to submit a resolution to the shareholders' meeting for approval of the issuance of stock subscription rights to directors and selected employees of Tokyo Electron. The issuance of stock subscription rights is intended to enable the grant of stock options. Under these stock option plans, option to purchase up to 53,800 shares of the Company at an exercise price of ¥1 ($0.01), will be granted to directors of the Company as of March 31, 2012 (excluding outside directors and directors who resigned on June 22, 2012), and options to purchase up to 77,000 shares of the Company at an exercise price of ¥1 ($0.01), will be granted to certain executive officers of the Company as of March 31, 2012, certain directors of the Company who resigned on June 22, 2012, certain directors and executive officers of domestic subsidiaries and certain chairmen, presidents, and vice chairmen of overseas subsidiaries as of March 31, 2012, who were determined by a resolution at a board of directors meeting subsequent to the approval of grant at the general meeting of shareholders. This grant of stock options was approved at the annual general meeting of the shareholders of the Company on June 22, 2012.