



CONSOLIDATED FINANCIAL STATEMENTS FY2022

Year Ended March 31, 2022
with Independent Auditor's Report

TOKYO ELECTRON



Consolidated Balance Sheets

Tokyo Electron Limited and Subsidiaries As of March 31, 2022 and 2021

| ASSETS | Millions of yen | | Thousands of U.S. dollars |
|--|--------------------|--------------------|------------------------------|
| | 2022 | 2021 | 2022 |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 335,648 | ¥ 265,993 | \$ 2,742,449 |
| Short-term investments | 35,626 | 45,559 | 291,088 |
| Trade notes and accounts receivable | — | 191,700 | — |
| Notes and accounts receivable - trade, and contract assets | 433,948 | — | 3,545,617 |
| Allowance for doubtful accounts | (160) | (99) | (1,312) |
| Inventories | 473,845 | 415,344 | 3,871,599 |
| Prepaid consumption tax | 110,494 | 82,704 | 902,804 |
| Other current assets | 19,301 | 14,493 | 157,707 |
| Total current assets | 1,408,703 | 1,015,696 | 11,509,953 |
| Property, plant and equipment: | | | |
| Land | 31,052 | 26,929 | 253,716 |
| Buildings | 233,553 | 208,475 | 1,908,272 |
| Machinery and equipment | 225,454 | 197,982 | 1,842,102 |
| Construction in progress | 20,095 | 22,391 | 164,193 |
| Other property, plant and equipment | 7,628 | 6,002 | 62,327 |
| Total property, plant and equipment | 517,784 | 461,780 | 4,230,613 |
| Less: Accumulated depreciation | 294,706 | 264,812 | 2,407,929 |
| Net property, plant and equipment | 223,078 | 196,967 | 1,822,683 |
| Investments and other assets: | | | |
| Investment securities | 144,972 | 105,065 | 1,184,512 |
| Deferred tax assets | 45,654 | 53,128 | 373,023 |
| Net defined benefit assets | 16,186 | 12,021 | 132,251 |
| Intangible assets | 22,540 | 17,163 | 184,167 |
| Other assets | 34,621 | 26,728 | 282,878 |
| Allowance for doubtful accounts | (1,298) | (1,407) | (10,612) |
| Total investments and other assets | 262,676 | 212,699 | 2,146,221 |
| Total assets | ¥ 1,894,457 | ¥ 1,425,364 | \$ 15,478,858 |

See accompanying Notes to Consolidated Financial Statements.

| LIABILITIES AND NET ASSETS | Millions of yen | | Thousands of U.S. dollars |
|---|--------------------|--------------------|------------------------------|
| | 2022 | 2021 | 2022 |
| Current liabilities: | | | |
| Trade notes and accounts payable | ¥ 120,908 | ¥ 90,606 | \$ 987,894 |
| Income taxes payable | 107,193 | 49,272 | 875,833 |
| Customer advances | 102,555 | 81,722 | 837,937 |
| Accrued employees' bonuses | 44,871 | 34,254 | 366,627 |
| Accrued warranty expenses | 26,568 | 14,415 | 217,077 |
| Other current liabilities | 66,482 | 57,389 | 543,201 |
| Total current liabilities | 468,578 | 327,661 | 3,828,571 |
| Non-current liabilities: | | | |
| Net defined benefit liabilities | 62,643 | 62,248 | 511,836 |
| Other liabilities | 16,186 | 10,891 | 132,250 |
| Total non-current liabilities | 78,829 | 73,140 | 644,087 |
| Total liabilities | 547,408 | 400,801 | 4,472,658 |
| Net assets: | | | |
| Shareholders' equity | | | |
| Common stock | 54,961 | 54,961 | 449,066 |
| Authorized: 300,000,000 shares Issued: 157,210,911 and 157,210,911 shares as of March 31, 2022 and 2021, respectively | | | |
| Capital surplus | 78,011 | 78,011 | 637,396 |
| Retained earnings | 1,104,983 | 835,240 | 9,028,379 |
| Treasury stock, at cost 1,461,581 and 1,659,611 shares as of March 31, 2022 and 2021, respectively | (27,418) | (30,744) | (224,025) |
| Accumulated other comprehensive income | | | |
| Net unrealized gains on investment securities | 93,492 | 66,124 | 763,886 |
| Net deferred losses on hedging instruments | (52) | (79) | (429) |
| Foreign currency translation adjustments | 30,640 | 10,441 | 250,354 |
| Accumulated remeasurements of defined benefit plans | 535 | (978) | 4,375 |
| Share subscription rights | 11,895 | 11,585 | 97,196 |
| Total net assets | 1,347,048 | 1,024,562 | 11,006,199 |
| Total liabilities and net assets | ¥ 1,894,457 | ¥ 1,425,364 | \$ 15,478,858 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Tokyo Electron Limited and Subsidiaries Years ended March 31, 2022 and 2021

| | Millions of yen | | Thousands of U.S. dollars |
|---|-------------------|-------------------|------------------------------|
| | 2022 | 2021 | 2022 |
| Net sales | ¥2,003,805 | ¥1,399,102 | \$16,372,300 |
| Cost of sales | 1,091,983 | 834,157 | 8,922,161 |
| Gross profit | 911,822 | 564,945 | 7,450,139 |
| Selling, general and administrative expenses | 312,551 | 244,259 | 2,553,733 |
| Operating income | 599,271 | 320,685 | 4,896,405 |
| Other income (expenses): | | | |
| Interest and dividend income | 1,576 | 1,300 | 12,881 |
| Share of profit of associates accounted for using the equity method | 1,721 | 1,110 | 14,064 |
| Revenue from grants | 492 | 1,130 | 4,021 |
| Gain on sales of property, plant and equipment | 71 | 24 | 582 |
| Foreign exchange loss, net | (2,447) | (3,147) | (19,995) |
| Additional payment of value-added tax | (4,577) | — | (37,396) |
| Loss on sales and disposal of property, plant and equipment | (406) | (1,354) | (3,321) |
| Provision for loss on liquidation of subsidiaries and associates | — | (3,327) | — |
| Other, net | 996 | 615 | 8,143 |
| Income before income taxes | 596,698 | 317,038 | 4,875,384 |
| Income taxes: | | | |
| Current | 162,708 | 82,568 | 1,329,424 |
| Deferred | (3,086) | (8,471) | (25,216) |
| Net income | 437,076 | 242,941 | 3,571,176 |
| Net income attributable to owners of parent | ¥437,076 | ¥242,941 | \$3,571,176 |
| | Yen | | U.S. dollars |
| Per share of common stock: | | | |
| Net income — basic | ¥2,807.84 | ¥1,562.20 | \$22.94 |
| Net income — diluted | 2,793.89 | 1,553.29 | 22.83 |
| Net assets | 8,572.45 | 6,512.18 | 70.04 |
| Cash dividends | 1,403.00 | 781.00 | 11.46 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Tokyo Electron Limited and Subsidiaries Years ended March 31, 2022 and 2021

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-----------------|------------------------------|
| | 2022 | 2021 | 2022 |
| Net income | ¥437,076 | ¥242,941 | \$3,571,176 |
| Other comprehensive income: | | | |
| Net unrealized gains on investment securities | 27,374 | 45,982 | 223,665 |
| Net deferred gains on hedging instruments | — | 32 | — |
| Foreign currency translation adjustments | 20,066 | 14,536 | 163,957 |
| Remeasurements of defined benefit plans | 1,594 | 2,266 | 13,031 |
| Share of other comprehensive income of associates accounted for using the equity method | 70 | 41 | 579 |
| Total other comprehensive income | 49,107 | 62,860 | 401,234 |
| Comprehensive income | 486,183 | 305,801 | 3,972,410 |
| Total comprehensive income attributable to: | | | |
| Owners of parent | ¥486,183 | ¥305,801 | \$3,972,410 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Tokyo Electron Limited and Subsidiaries Years ended March 31, 2022 and 2021

| | Millions of yen | | | | | | | | | |
|--|----------------------|-----------------|-------------------|----------------|---|--|--|---|---------------------------|------------------|
| | Shareholders' equity | | | | Accumulated other comprehensive income | | | | Share subscription rights | Total net assets |
| | 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 | | |
| 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 |
| Cumulative effects of changes in accounting policies | — | — | (753) | — | — | — | — | — | — | (753) |
| Restated balance | 54,961 | 78,011 | 834,486 | (30,744) | 66,124 | (79) | 10,441 | (978) | 11,585 | 1,023,809 |
| Cash dividends | — | — | (166,252) | — | — | — | — | — | — | (166,252) |
| Net income attributable to owners of parent | — | — | 437,076 | — | — | — | — | — | — | 437,076 |
| Purchase of treasury stock | — | — | — | (15) | — | — | — | — | — | (15) |
| Disposal of treasury stock | — | — | (327) | 3,341 | — | — | — | — | — | 3,014 |
| Net changes except for shareholders' equity | — | — | — | — | 27,367 | 26 | 20,199 | 1,513 | 310 | 49,417 |
| Balance as of March 31, 2022 | ¥ 54,961 | ¥ 78,011 | ¥ 1,104,983 | ¥(27,418) | ¥ 93,492 | ¥(52) | ¥ 30,640 | ¥ 535 | ¥ 11,895 | ¥ 1,347,048 |

| | Thousands of U.S. dollars | | | | | | | | | |
|--|---------------------------|-----------------|-------------------|----------------|---|--|--|---|---------------------------|------------------|
| | Shareholders' equity | | | | Accumulated other comprehensive income | | | | Share subscription rights | Total net assets |
| | 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 | | |
| Balance as of March 31, 2021 | \$ 449,066 | \$ 637,396 | \$ 6,824,419 | \$(251,199) | \$ 540,280 | \$(645) | \$ 85,310 | \$(7,993) | \$ 94,661 | \$ 8,371,296 |
| Cumulative effects of changes in accounting policies | — | — | (6,159) | — | — | — | — | — | — | (6,159) |
| Restated balance | 449,066 | 637,396 | 6,818,259 | (251,199) | 540,280 | (645) | 85,310 | (7,993) | 94,661 | 8,365,137 |
| Cash dividends | — | — | (1,358,383) | — | — | — | — | — | — | (1,358,383) |
| Net income attributable to owners of parent | — | — | 3,571,176 | — | — | — | — | — | — | 3,571,176 |
| Purchase of treasury stock | — | — | — | (126) | — | — | — | — | — | (126) |
| Disposal of treasury stock | — | — | (2,673) | 27,300 | — | — | — | — | — | 24,626 |
| Net changes except for shareholders' equity | — | — | — | — | 223,605 | 216 | 165,044 | 12,368 | 2,534 | 403,769 |
| Balance as of March 31, 2022 | \$ 449,066 | \$ 637,396 | \$ 9,028,379 | \$(224,025) | \$ 763,886 | \$(429) | \$ 250,354 | \$ 4,375 | \$ 97,196 | \$ 11,006,199 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Tokyo Electron Limited and Subsidiaries Years ended March 31, 2022 and 2021

| | Millions of yen | | Thousands of U.S. dollars |
|--|------------------|------------------|---------------------------|
| | 2022 | 2021 | 2022 |
| Cash flows from operating activities: | | | |
| Income before income taxes | ¥ 596,698 | ¥ 317,038 | \$ 4,875,384 |
| Depreciation and amortization | 36,727 | 33,843 | 300,081 |
| Amortization of goodwill | 206 | 199 | 1,687 |
| Increase in accrued employees' bonuses | 9,540 | 4,612 | 77,953 |
| Increase (decrease) in accrued warranty expenses | 9,614 | (176) | 78,558 |
| Provision for loss on liquidation of subsidiaries and associates | — | 3,327 | — |
| Increase in trade notes and accounts receivable | — | (37,736) | — |
| Increase in notes and accounts receivable - trade, and contract assets | (195,543) | — | (1,597,709) |
| Increase in inventories | (100,309) | (17,226) | (819,588) |
| Increase (decrease) in trade notes and accounts payable | 18,892 | (8,255) | 154,365 |
| Increase in prepaid consumption tax | (27,675) | (13,549) | (226,123) |
| Increase (decrease) in accrued consumption tax | 311 | (5,699) | 2,544 |
| Increase (decrease) in customer advances | 32,031 | (54,851) | 261,712 |
| Other, net | 6,758 | 10,466 | 55,221 |
| Subtotal | 387,252 | 231,990 | 3,164,089 |
| Receipts from interest and dividends | 2,232 | 1,669 | 18,242 |
| Income taxes paid | (106,098) | (87,772) | (866,887) |
| Net cash provided by operating activities | 283,387 | 145,888 | 2,315,443 |
| Cash flows from investing activities: | | | |
| Payment for purchases of short-term investments | (35,641) | (45,568) | (291,215) |
| Proceeds from maturities of short-term investments | 45,618 | 90,506 | 372,734 |
| Payment for purchases of property, plant and equipment | (56,153) | (53,806) | (458,809) |
| Payment for acquisition of intangible assets | (8,950) | (7,124) | (73,131) |
| Other, net | (504) | (2,281) | (4,125) |
| Net cash used in investing activities | (55,632) | (18,274) | (454,548) |
| Cash flows from financing activities: | | | |
| Payment for purchases of treasury stock | (15) | (4,339) | (126) |
| Dividends paid | (166,252) | (109,542) | (1,358,383) |
| Other, net | (988) | (643) | (8,073) |
| Net cash used in financing activities | (167,256) | (114,525) | (1,366,582) |
| Effect of exchange rate changes on cash and cash equivalents | 9,156 | 4,946 | 74,812 |
| Net increase in cash and cash equivalents | 69,655 | 18,033 | 569,124 |
| Cash and cash equivalents at beginning of year | 265,993 | 247,959 | 2,173,324 |
| Cash and cash equivalents at end of year | ¥ 335,648 | ¥ 265,993 | \$ 2,742,449 |

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2022 and 2021

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, 2022 and 2021 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 ¥122.39 to \$1.00, the approximate rate as of March 31, 2022. 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 26 and 27 subsidiaries as of March 31, 2022 and 2021, respectively. All significant inter-company transactions and account balances have been eliminated through consolidation procedures.

There is 1 affiliate accounted for using the equity method as of March 31, 2022 and 2021.

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 and currency option 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, 2022 and 2021. 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 Company and its domestic subsidiaries provide an allowance for doubtful accounts 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. Overseas subsidiaries provide an allowance for doubtful accounts based on 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. 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 actual demands, 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 and currency option contracts are translated at the corresponding 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

Nature of main performance obligations in the principal business
Tokyo Electron principally develops, manufactures, and sells semiconductor production equipment and flat panel display (FPD) production equipment, and provides field solution services

such as spare parts, services and modifications for installed equipment, and sales of used equipment. Regarding sales of equipment, transfer of goods, provision of set-up services, sales of spare parts, and provision of modifications and maintenance services are identified as major performance obligations.

Timing of satisfaction of performance obligations
(Timing of revenue recognition)

Regarding sales of semiconductor and FPD production equipment, revenue for the transfer of goods and provision of set-up services is principally recognized when goods are delivered to customers and provision of set-up services is completed. Regarding sales of spare parts, revenue is recognized when spare parts are delivered to customers. Regarding modifications, revenue is principally recognized when modifications are completed. Regarding maintenance services, revenue is principally recognized over the term of the contracts with customers.

(r) Research and development expenses

Research and development expenses are charged to earnings as incurred and amounted to ¥158,256 million (\$1,293,048 thousand) and ¥136,648 million for the years ended March 31, 2022 and 2021, 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, 2022.

3. Significant Accounting Estimates

1. Valuation of inventories

(1) Carrying amounts in the consolidated financial statements ¥473,845 million (\$3,871,599 thousand) and ¥415,344 million as of March 31, 2022 and 2021, respectively.

(2) Information on the nature of significant accounting estimates

Inventories are principally stated at cost on the consolidated balance sheets. 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 expected 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 for the 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 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 ¥26,568 million (\$217,077 thousand) and ¥14,415 million as of March 31, 2022 and 2021, respectively.

(2) Information on the nature of significant accounting estimates

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. Changes in Accounting Policies and Adoption of New Accounting Standards

Year ended March 31, 2022

Application of Accounting Standard for Revenue Recognition

From the beginning of this fiscal year, The Company and its consolidated domestic subsidiaries apply "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and recognizes revenue based on the amounts expected to be received in exchange for the promised goods or services as the control of such goods or services are transferred to customers.

Regarding sales of semiconductor and FPD production equipment, goods and set-up services to be transferred were previously identified as a single performance obligation and revenue was recorded at the time of the confirmation of set-up in principle. Going forward, performance obligations related to goods and set-up services to be transferred for equipment are separately identified and revenue is recognized when each performance obligation is satisfied, which is when equipment is delivered to customers and services related to setting up equipment are completed.

In addition, in cases where a series of transactions for sales of equipment are transacted with the same customer, there can be special prices such as corresponding to total purchase quantities. For such series of transactions with special prices, revenue was previously recognized based on the price for each order. However, on the grounds that the sales prices of transactions fluctuates based on future purchase quantities, the accounting method is changed to treat those special prices as variable consideration, and include it in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The application of such changes in accounting policies follows the transitional treatment prescribed in the proviso of paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of this fiscal year, was added to or deducted from the beginning balance of retained earnings of this fiscal year.

In addition, "Trade notes and accounts receivable" presented under "Current assets" in the consolidated balance sheets for the prior consolidated fiscal year was included in "Notes and accounts receivable - trade, and contract assets" from this fiscal year. In accordance with the transitional treatment prescribed in the paragraph 89-2 of the Accounting Standard for Revenue Recognition, figures for the prior consolidated fiscal year have not been restated in accordance with the new approach to presentation.

As a result, in comparison with the method prior to the application of the Accounting Standard for Revenue Recognition, the consolidated balance sheet as of March 31, 2022 changed, mainly including an increase of ¥176,527 million in notes and accounts receivable - trade, and contract assets, a decrease of ¥118,589 million in inventories, and a decrease of ¥47,472 million in customer advances. In the consolidated statement of income for the year ended March 31, 2022, net sales increased by ¥195,058 million, cost of sales increased by ¥88,084 million, and each of operating income and income before income taxes increased by ¥106,974 million, accordingly.

The consolidated statement of cash flows for the year ended March 31, 2022 changed, mainly including an increase of ¥106,974 million in income before income taxes, an increase of ¥69,043 million in increase in inventories, a decrease of ¥139,564 million in increase in notes and accounts receivable - trade, and contract assets, and a decrease of ¥35,234 million in increase (decrease) in customer advances.

Due to the reflection of the cumulative effect on net assets as of April 1, 2021, the beginning balance of retained earnings in the consolidated statement of changes in net assets decreased by ¥753 million.

In addition, the effect on per share information of this fiscal year is described in Note 20.

Furthermore, in accordance with the transitional treatment prescribed in paragraph 89-3 of the Accounting Standard for Revenue Recognition, Note 18. does not include information for the prior fiscal year.

Application of Accounting Standard for Fair Value Measurement

From the beginning of this fiscal year, Tokyo Electron applies "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019). In accordance with the transitional treatment prescribed in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), new accounting policies prescribed by the Accounting Standard for Fair Value Measurement are adopted prospectively. There is no effect from this change on the consolidated financial statements.

The breakdown of fair value of financial instruments by level is stated in Note 16. In accordance with the transitional treatment prescribed in paragraph 7-4 of "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019), the Note does not include information for the prior fiscal year.

5. Additional Information

Transactions for Delivery of the Company's Own Stock to Employees and others through Trusts

Tokyo Electron introduced stock delivery 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's outside directors are now within the scope.

Tokyo Electron adopted the "Practical Solution on Transactions for Delivery of the Company's Own Stock to Employees, and others 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 (\$14,254 thousand) and 80,538 shares, respectively, as of March 31, 2022, and were ¥1,744 million and 80,538 shares, respectively, as of March 31, 2021.

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 ¥11,409 million (\$93,223 thousand) and 529,991 shares, respectively, as of March 31, 2022, and were ¥11,507 million and 534,699 shares, respectively, as of March 31, 2021.

6. Securities

Other securities as of March 31, 2022 and 2021 are as follows:

| 2022: | Millions of yen | |
|---|-----------------|----------------|
| | Cost | Carrying value |
| Non-current | | |
| Securities with carrying value exceeding acquisition cost | | |
| Equity securities | ¥7,904 | ¥142,831 |
| Securities with carrying value not exceeding acquisition cost | | |
| Equity securities | 2,023 | 1,991 |
| Total | ¥9,927 | ¥144,822 |

| 2021: | Millions of yen | |
|---|-----------------|----------------|
| | Cost | 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 |

| 2022: | Thousands of U.S. dollars | |
|---|---------------------------|----------------|
| | Cost | Carrying value |
| Non-current | | |
| Securities with carrying value exceeding acquisition cost | | |
| Equity securities | \$64,582 | \$1,167,017 |
| Securities with carrying value not exceeding acquisition cost | | |
| Equity securities | 16,532 | 16,272 |
| Total | \$81,115 | \$1,183,289 |

Held-to-maturity securities classified as current assets are ¥97,000 million (\$792,550 thousand) and ¥125,014 million as of March 31, 2022 and 2021, respectively.

Reconciliation of held-to-maturity securities as of March 31, 2022 and 2021 to the amounts of short-term investments in the consolidated balance sheets are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
| | 2022 | 2021 | 2022 |
| Held-to-maturity (current) | ¥97,000 | ¥125,014 | \$792,550 |
| Deposits and low-risk financial instruments with original maturities of three months or less | (62,000) | (80,000) | (506,577) |
| Deposits with original maturities of more than three months | 626 | 545 | 5,115 |
| Short-term investments | ¥35,626 | ¥45,559 | \$291,088 |

Net loss on devaluation of investment securities was immaterial and none for the years ended March 31, 2022 and 2021, respectively.

For the year ended March 31, 2022 and 2021, the Company sold available-for-sale securities and the amounts were immaterial.

7. Inventories

Inventories as of March 31, 2022 and 2021 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2022 | 2021 | 2022 |
| Finished products | ¥183,512 | ¥269,772 | \$1,499,408 |
| Work in process, raw materials and supplies | 290,332 | 145,571 | 2,372,190 |
| Total | ¥473,845 | ¥415,344 | \$3,871,599 |

The amounts of change in inventory provision included in cost of sales in the consolidated statements of income for the years ended March 31, 2022 and 2021 were an increase of ¥308 million (\$2,518 thousand) and ¥3,223 million, respectively.

8. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2022 and 2021.

9. Short-term Borrowings

There are no short-term borrowings classified as current liabilities as of March 31, 2022 and 2021.

As of March 31, 2022 and 2021, Tokyo Electron had unused lines of credit amounting to ¥276,988 million (\$2,263,166 thousand) and ¥276,952 million, respectively.

10. 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 |
|--|-----------------|----------|---------------------------|
| | 2022 | 2021 | 2022 |
| Balance at April 1, 2021 and 2020 | ¥124,212 | ¥118,729 | \$1,014,889 |
| Service cost | 6,463 | 6,179 | 52,814 |
| Interest cost | 842 | 814 | 6,887 |
| Actuarial gain (loss) | (484) | 1,834 | (3,955) |
| Benefits paid | (5,075) | (4,498) | (41,469) |
| Foreign currency exchange rate changes | 530 | 830 | 4,332 |
| Other | 149 | 322 | 1,224 |
| Balance at March 31, 2022 and 2021 | ¥126,639 | ¥124,212 | \$1,034,722 |

(2) Movement of plan assets

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|---------------------------|
| | 2022 | 2021 | 2022 |
| Balance at April 1, 2021 and 2020 | ¥74,095 | ¥63,931 | \$605,404 |
| Expected return on plan assets | 1,577 | 1,335 | 12,887 |
| Actuarial gain (loss) | 605 | 4,404 | 4,946 |
| Employer contributions | 5,211 | 5,042 | 42,577 |
| Benefits paid | (1,719) | (1,434) | (14,045) |
| Foreign currency exchange rate changes | 522 | 844 | 4,268 |
| Other | — | (28) | — |
| Balance at March 31, 2022 and 2021 | ¥80,292 | ¥74,095 | \$656,038 |

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

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
| | 2022 | 2021 | 2022 |
| Funded defined benefit obligations | ¥65,330 | ¥63,053 | \$533,790 |
| Plan assets | (80,292) | (74,095) | (656,038) |
| Funded status | (14,961) | (11,042) | (122,248) |
| Unfunded defined benefit obligations | 61,309 | 61,158 | 500,932 |
| Net defined benefit liabilities at March 31, 2022 and 2021 | ¥46,347 | ¥50,116 | \$378,684 |
| Net defined benefit liabilities | 62,533 | 62,137 | 510,935 |
| Net defined benefit assets | (16,186) | (12,021) | (132,251) |
| Net defined benefit liabilities at March 31, 2022 and 2021 | ¥46,347 | ¥50,116 | \$378,684 |

Note: The provision for accrued pension and severance costs for directors and audit & supervisory board members of ¥110 million (\$900 thousand) and ¥110 million as of March 31, 2022 and 2021 is not included.

(4) Defined benefit costs

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2022 | 2021 | 2022 |
| Service cost | ¥6,463 | ¥6,179 | \$52,814 |
| Interest cost | 842 | 814 | 6,887 |
| Expected return on plan assets | (1,577) | (1,335) | (12,887) |
| Net actuarial gain amortization | 952 | 676 | 7,783 |
| Prior service cost amortization | 338 | 338 | 2,766 |
| Other | 329 | 522 | 2,690 |
| Total defined benefit costs for the years ended March 31, 2022 and 2021 | ¥7,350 | ¥7,195 | \$60,054 |

(5) Remeasurements of defined benefit plans

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------------|-----------------|--------|---------------------------|
| | 2022 | 2021 | 2022 |
| Prior service cost (before tax) | ¥338 | ¥338 | \$2,766 |
| Actuarial gain (before tax) | 1,917 | 2,997 | 15,667 |
| Total | ¥2,256 | ¥3,335 | \$18,433 |

(6) Accumulated remeasurements of defined benefit plans

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2022 | 2021 | 2022 |
| Prior service cost that is yet to be recognized (before tax) | ¥— | ¥(338) | \$— |
| Net actuarial gain (loss) that is yet to be recognized (before tax) | 1,032 | (885) | 8,435 |
| Total | ¥1,032 | ¥(1,223) | \$8,435 |

(7) Plan assets

1. Plan assets comprise:

| | 2022 | 2021 |
|--|------|------|
| Life insurance company general account | 31% | 29% |
| Alternative investments (Note) | 25 | 13 |
| Bonds | 14 | 30 |
| Equity securities | 14 | 14 |
| Cash and cash equivalents | 5 | 1 |
| Other | 11 | 13 |
| Total | 100% | 100% |

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

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, 2022 and 2021 are as follows:

| | 2022 | 2021 |
|-----------------------------------|-------|-------|
| Discount rate | 0.54% | 0.50% |
| Long-term expected rate of return | 2.00% | 2.00% |

The expected rates of salary increase for the years ended March 31, 2022 and 2021 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 ¥3,123 million (\$25,520 thousand) and ¥2,873 million for the years ended March 31, 2022 and 2021, respectively.

11. Income Taxes

Significant components of the deferred tax assets and liabilities as of March 31, 2022 and 2021 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2022 | 2021 | 2022 |
| Deferred tax assets | | | |
| Elimination of unrealized profit in inventories | ¥21,936 | ¥32,723 | \$179,233 |
| Net defined benefit liabilities | 19,250 | 19,305 | 157,289 |
| Software | 11,494 | 7,522 | 93,916 |
| Accrued employees' bonuses | 9,605 | 7,480 | 78,484 |
| Devaluation of inventories | 7,908 | 8,792 | 64,615 |
| Accrued warranty expenses | 7,181 | 4,023 | 58,673 |
| Accrued enterprise taxes | 6,149 | 3,720 | 50,243 |
| Other | 24,306 | 20,631 | 198,596 |
| Total gross deferred tax assets | 107,832 | 104,199 | 881,053 |
| Less valuation allowance | (5,467) | (4,762) | (44,670) |
| Total deferred tax assets | 102,364 | 99,436 | 836,382 |
| Deferred tax liabilities | | | |
| Net unrealized gains on investment securities | (41,253) | (29,164) | (337,068) |
| Undistributed earnings of subsidiaries | (11,506) | (10,570) | (94,015) |
| Other | (5,397) | (6,590) | (44,101) |
| Total deferred tax liabilities | (58,157) | (46,326) | (475,184) |
| Net deferred tax assets | ¥44,207 | ¥53,110 | \$361,197 |

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, 2022 and 2021.

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" (ASB) Guidance No. 28, February 16, 2018).

The Company and its domestic subsidiaries will transition from a consolidated tax filing system to a group tax sharing system for corporate tax purpose from the next fiscal year.

From the beginning of the next fiscal year, the Company and its domestic subsidiaries will apply "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (PITF No.42, August 12, 2021) which provides the practical solution on the accounting and the disclosure of corporate tax, local tax, and tax effect accounting.

Significant components of the difference between the statutory and effective tax rates for the years ended March 31, 2022 and 2021 are as follows:

| | 2022 | 2021 |
|-----------------------------|--------|--------|
| Statutory tax rate in Japan | 30.62% | 30.62% |
| Adjustments: | | |
| Tax credits | (4.14) | (7.52) |
| Others, net | 0.27 | 0.27 |
| Effective tax rate | 26.75% | 23.37% |

12. 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 12, 2022, the distribution of cash dividends amounting to ¥118,833 million (\$970,941 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of

March 31, 2022 since they are recognized in the period in which they are resolved at the board of directors' meeting. The dividends of ¥118,833 million include ¥464 million (\$3,791 thousand) related to treasury stock held by the BIP/ESOP Trusts.

13. Other Comprehensive Income

Other comprehensive income for the years ended March 31, 2022 and 2021 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2022 | 2021 | 2022 |
| Net unrealized gains on investment securities | | | |
| Net unrealized gains arising during the year | ¥39,592 | ¥66,262 | \$323,494 |
| Reclassification adjustments | (132) | 0 | (1,086) |
| Sub-total, before tax | 39,459 | 66,262 | 322,407 |
| Tax expense | (12,085) | (20,279) | (98,742) |
| Sub-total, net of tax | 27,374 | 45,982 | 223,665 |
| Net deferred gains on hedging instruments | | | |
| Net deferred gains arising during the year | — | 47 | — |
| Reclassification adjustments | — | — | — |
| Sub-total, before tax | — | 47 | — |
| Tax expense | — | (14) | — |
| Sub-total, net of tax | — | 32 | — |
| Foreign currency translation adjustments | | | |
| Adjustments during the year | 20,105 | 13,448 | 164,274 |
| Reclassification adjustments | — | 69 | — |
| Sub-total, before tax | 20,105 | 13,517 | 164,274 |
| Tax expense | (38) | 1,018 | (316) |
| Sub-total, net of tax | 20,066 | 14,536 | 163,957 |
| Remeasurements of defined benefit plans | | | |
| Adjustments during the year | 964 | 2,321 | 7,883 |
| Reclassification adjustments | 1,291 | 1,014 | 10,550 |
| Sub-total, before tax | 2,256 | 3,335 | 18,433 |
| Tax expense | (661) | (1,069) | (5,402) |
| Sub-total, net of tax | 1,594 | 2,266 | 13,031 |
| Share of other comprehensive income of associates accounted for using the equity method | | | |
| Adjustments during the year | 70 | 41 | 579 |
| Total other comprehensive income | ¥49,107 | ¥62,860 | \$401,234 |

14. 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 70,000 shares and 130,800 shares of the Company were authorized and granted at exercise prices of ¥1 (\$0.01) and ¥1 for the years ended March 31, 2022 and 2021, respectively.

A summary of stock options outstanding and exercisable as of March 31, 2022 and 2021 is as follows:

| | 2022 | | 2021 | | | |
|--------------------------------------|------------------|---------------------------------|--------------|------------------|---------------------------------|--------------|
| | Number of shares | Weighted-average exercise price | | Number of shares | Weighted-average exercise price | |
| | | Yen | U.S. dollars | | Yen | U.S. dollars |
| Outstanding at the beginning of year | 828,100 | ¥1 | \$0.01 | 866,900 | ¥1 | — |
| Granted | 70,000 | 1 | 0.01 | 130,800 | 1 | — |
| Exercised | 193,600 | 1 | 0.01 | 169,600 | 1 | — |
| Expired (forfeited) | — | — | — | — | — | — |
| Outstanding at the end of year | 704,500 | 1 | 0.01 | 828,100 | 1 | — |
| Exercisable at the end of year | 143,300 | 1 | 0.01 | 117,000 | 1 | — |

Amounts expensed related to stock options

The amounts expensed related to stock options for the years ended March 31, 2022 and 2021, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|--------|---------------------------|
| | 2022 | 2021 | 2022 |
| Selling, general and administrative expenses | ¥3,226 | ¥2,884 | \$26,358 |

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, 2022 and 2021 were ¥46,086 (\$376.55) and ¥22,054 per unit, which were evaluated as follows:

(1) Valuation method used: Black-Scholes model

(2) Major underlying assumptions and estimates:

| | 17th Stock Acquisition Rights | 16th Stock Acquisition Rights |
|-----------------------------------|-------------------------------|-------------------------------|
| Volatility (Note 1) | 34.86% | 36.18% |
| Expected residual period (Note 2) | 5.26 years | 5.49 years |
| Expected dividends (Note 3) | ¥684.50 (\$5.59) per share | ¥673.00 (\$6.08) per share |
| Risk-free interest rate (Note 4) | (0.10)% | (0.12)% |

Notes: 1. Calculated based on the stock price performance for the period corresponding to the expected residual period (from March 2016 to June 2021 and December 2014 to June 2020 for 17th and 16th Stock Acquisition Rights).

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, 2021 and 2020, and the years ended March 31, 2020 and 2019, for 17th and 16th Stock Acquisition Rights.

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.

15. Leases

Future minimum lease payments on non-cancelable operating leases are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------|-----------------|---------|---------------------------|
| | 2022 | 2021 | 2022 |
| Due within one year | ¥4,428 | ¥4,601 | \$36,180 |
| Due over one year | 12,816 | 10,051 | 104,716 |
| Total | ¥17,244 | ¥14,653 | \$140,897 |

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

16. 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 mainly consist of 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 17 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, 2022 and 2021 are set out below.

| | Millions of yen | |
|------------------------------|-----------------|-----------------------------------|
| | Carrying amount | Estimated fair value ¹ |
| 2022: | | |
| Assets | | |
| Cash and cash equivalents | ¥10,000 | ¥10,002 |
| Short-term investments | 35,000 | 34,990 |
| Investment securities | 142,993 | 142,990 |
| Derivatives (see Note 17) | | |
| Hedge accounting not applied | 1,358 | 1,358 |
| Hedge accounting applied | — | — |

| | Millions of yen | |
|------------------------------|-----------------|-----------------------------------|
| | Carrying amount | Estimated fair value ¹ |
| 2021: | | |
| Assets | | |
| Short-term investments | ¥45,014 | ¥45,016 |
| Investment securities | 103,781 | 103,781 |
| Derivatives (see Note 17) | | |
| Hedge accounting not applied | 600 | 600 |
| Hedge accounting applied | — | — |

| | Thousands of U.S. dollars | |
|------------------------------|---------------------------|-----------------------------------|
| | Carrying amount | Estimated fair value ¹ |
| 2022: | | |
| Assets | | |
| Cash and cash equivalents | \$81,706 | \$81,722 |
| Short-term investments | 285,972 | 285,890 |
| Investment securities | 1,168,345 | 1,168,318 |
| Derivatives (see Note 17) | | |
| Hedge accounting not applied | 11,102 | 11,102 |
| Hedge accounting applied | — | — |

Notes: 1. A part of Cash and cash equivalents and Short-term investments, Trade notes and accounts receivable, and Notes and accounts receivable - trade, and contract assets are omitted because they are cash or settled in a short period of time and the fair values approximate the book values.

2. The following financial instruments classified as stocks without market prices and similar financial instruments are not included in the above.

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------------------|-----------------|--------|---------------------------|
| | 2022 | 2021 | 2022 |
| Reported amount in balance sheet | | | |
| Unlisted stocks | ¥1,978 | ¥1,008 | \$16,166 |
| Other | — | 274 | — |
| Total | ¥1,978 | ¥1,283 | \$16,166 |

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

| | Millions of yen | |
|-------------------------------------|-----------------|-------------------------|
| | Within 1 year | After 1 through 5 years |
| 2022: | | |
| Cash and cash equivalents | ¥335,648 | ¥— |
| Short-term investments | 35,626 | — |
| Trade notes and accounts receivable | 415,333 | — |
| Investment securities | — | 149 |

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

| | Thousands of U.S. dollars | |
|-------------------------------------|---------------------------|-------------------------|
| | Within 1 year | After 1 through 5 years |
| 2022: | | |
| Cash and cash equivalents | \$2,742,449 | \$— |
| Short-term investments | 291,088 | — |
| Trade notes and accounts receivable | 3,393,521 | — |
| Investment securities | — | 1,222 |

Hierarchy by level for fair value of financial instruments

The fair values of financial instruments are classified into the following three levels according to the observability and significance of the inputs used in fair value measurements:

Level 1: Fair values measured based on quoted prices of the assets or liabilities being measured which are available in active markets as observable valuation inputs

Level 2: Fair values measured based on inputs other than inputs included within Level 1 as observable valuation inputs

Level 3: Fair values measured based on unobservable valuation inputs

When several inputs that have a significant impact on fair value measurements are used, the fair values are categorized into the lowest level in the hierarchy for fair value measurements among the levels to which each of the inputs belongs.

(1) Financial instruments recorded at fair value in the consolidated balance sheets

| | Millions of yen | | | |
|-------------------------------|-----------------|---------|---------|----------|
| | Fair value | | | |
| 2022: | Level 1 | Level 2 | Level 3 | Total |
| Investment securities | | | | |
| Other securities | | | | |
| Equity securities | ¥142,844 | ¥— | ¥— | ¥142,844 |
| Derivatives | | | | |
| Currency-Related Transactions | — | 1,358 | — | 1,358 |
| Total | ¥142,844 | ¥1,358 | ¥— | ¥144,203 |

| | Thousands of U.S. dollars | | | |
|-------------------------------|---------------------------|----------|---------|-------------|
| | Fair value | | | |
| 2022: | Level 1 | Level 2 | Level 3 | Total |
| Investment securities | | | | |
| Other securities | | | | |
| Equity securities | \$1,167,122 | \$— | \$— | \$1,167,122 |
| Derivatives | | | | |
| Currency-Related Transactions | — | 11,102 | — | 11,102 |
| Total | \$1,167,122 | \$11,102 | \$— | \$1,178,225 |

(2) Financial instruments other than those recorded at fair value in the consolidated balance sheets

| | Millions of yen | | | |
|--|-----------------|---------|---------|---------|
| | Fair value | | | |
| 2022: | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents, Short-term investments, and Investment securities | | | | |
| Held-to-maturity securities | | | | |
| Corporate bonds | ¥— | ¥44,991 | ¥— | ¥44,991 |
| Other | — | 146 | — | 146 |
| Total | ¥— | ¥45,138 | ¥— | ¥45,138 |

| | Thousands of U.S. dollars | | | |
|--|---------------------------|-----------|---------|-----------|
| | Fair value | | | |
| 2022: | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents, Short-term investments, and Investment securities | | | | |
| Held-to-maturity securities | | | | |
| Corporate bonds | \$— | \$367,610 | \$— | \$367,610 |
| Other | — | 1,197 | — | 1,197 |
| Total | \$— | \$368,807 | \$— | \$368,807 |

Note: Explanation of valuation techniques and valuation inputs used in fair value measurements

Cash and cash equivalents, short-term investments, and investment securities For equity securities, the fair values are based on quoted market prices that can be measured at unadjusted quoted prices in active markets, and are classified as Level 1.

For corporate bonds, the fair values are based on the price offered by financial institution and are classified as Level 2.

Derivatives

The fair values of currency-related transactions are based on the price offered by financial institution and are classified as Level 2.

17. 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 and currency option contracts for speculative purposes. The Group implements a ratio analysis of the total cumulative cash flow fluctuations or market fluctuations for the hedged item or the hedging instrument 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, 2022 and 2021 are as follows:

1. Derivative financial instruments not designated as hedging instruments

| 2022: | Millions of yen | | |
|-----------------------|-----------------|---------------|----------------|
| | Contract amount | Fair value | Gains (losses) |
| Sell U.S. dollars | ¥3,660 | ¥(10) | ¥(10) |
| Buy U.S. dollars | 23,250 | 1,071 | 1,071 |
| Buy Chinese yuan | 6,276 | 297 | 297 |
| Buy EURO | 819 | 0 | 0 |
| Buy Singapore dollars | 271 | (0) | (0) |
| Total | ¥34,278 | ¥1,358 | ¥1,358 |

| 2021: | Millions of yen | | |
|-----------------------|-----------------|-------------|----------------|
| | 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 |

| 2022: | Thousands of U.S. dollars | | |
|-----------------------|---------------------------|-----------------|-----------------|
| | Contract amount | Fair value | Gains (losses) |
| Sell U.S. dollars | \$29,911 | \$(82) | \$(82) |
| Buy U.S. dollars | 189,970 | 8,753 | 8,753 |
| Buy Chinese yuan | 51,283 | 2,429 | 2,429 |
| Buy EURO | 6,694 | 7 | 7 |
| Buy Singapore dollars | 2,215 | (4) | (4) |
| Total | \$280,074 | \$11,102 | \$11,102 |

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 none and as follows for the year ended March 31, 2022 and 2021, respectively:

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

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.

18. Revenue Recognition

Disaggregation of revenue arising from contracts with customers

Disaggregation of revenue by geographic regions, and types of products and services are as follows:

| 2022: | Millions of yen | | | |
|---|------------------------------------|--------------------------|----------------|-------------------|
| | Reportable Segment | | Other (Note 1) | Total |
| | Semiconductor production equipment | FPD production equipment | | |
| Geographic regions: | | | | |
| Japan | ¥228,902 | ¥1,334 | ¥131 | ¥230,368 |
| North America | 268,065 | — | — | 268,065 |
| Europe | 107,954 | — | — | 107,954 |
| South Korea | 377,767 | 3,407 | — | 381,175 |
| Taiwan | 359,225 | 2,343 | — | 361,569 |
| China | 513,529 | 52,689 | — | 566,219 |
| Others | 88,398 | 54 | — | 88,453 |
| Total | ¥1,943,843 | ¥59,830 | ¥131 | ¥2,003,805 |
| Products and services: | | | | |
| New equipment (Note 2) | 1,499,079 | 48,610 | — | 1,547,689 |
| Field solution services and Others (Note 2) | 444,764 | 11,220 | 131 | 456,116 |
| Total | ¥1,943,843 | ¥59,830 | ¥131 | ¥2,003,805 |

| 2022: | Thousands of U.S. dollars | | | |
|---|------------------------------------|--------------------------|----------------|---------------------|
| | Reportable Segment | | Other (Note 1) | Total |
| | Semiconductor production equipment | FPD production equipment | | |
| Geographic regions: | | | | |
| Japan | \$1,870,273 | \$10,901 | \$1,075 | \$1,882,250 |
| North America | 2,190,259 | — | — | 2,190,259 |
| Europe | 882,049 | — | — | 882,049 |
| South Korea | 3,086,585 | 27,844 | — | 3,114,430 |
| Taiwan | 2,935,090 | 19,147 | — | 2,954,237 |
| China | 4,195,845 | 430,507 | — | 4,626,353 |
| Others | 722,270 | 448 | — | 722,719 |
| Total | \$15,882,375 | \$488,849 | \$1,075 | \$16,372,300 |
| Products and services: | | | | |
| New equipment (Note 2) | 12,248,382 | 397,173 | — | 12,645,556 |
| Field solution services and Others (Note 2) | 3,633,992 | 91,676 | 1,075 | 3,726,744 |
| Total | \$15,882,375 | \$488,849 | \$1,075 | \$16,372,300 |

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

2. "New equipment" includes sales of new equipment and set-up services to be transferred for equipment. "Field solution services and Others" includes spare parts, services and modifications for installed equipment, and sales for used equipment.

3. Net sales amounting to ¥2,003,805 million recorded in the consolidated statements of income for the year ended March 31, 2022 is mainly "Revenue arising from contracts with customers". Revenue arising from other sources is included in the "Disaggregation of revenue arising from contracts with customers" because its amount is immaterial. Most of the revenue arising from contracts with customers is arising from goods or services transferred to customers at a point in time. Maintenance services included in field solution services are revenue arising from services provided to customers over time and are recognized revenue over time. However, it is not separately disclosed in the "Disaggregation of revenue arising from contracts with customers" because it is immaterial.

Basic information for the understanding of revenue arising from contracts with customers

Information on performance obligations (the nature of performance obligations (the nature of the goods or services that Tokyo Electron has promised to transfer to the customer))

In the business of semiconductor production equipment and FPD production equipment, Tokyo Electron delivers equipment and provides equipment installation at customer's sites and adjustment to adequately demonstrate equipment performance to satisfy customers' specifications.

It also provides field solution services such as spare parts, services and modifications for installed equipment, and sales for used equipment.

Regarding sales of semiconductor and FPD production equipment, performance obligations related to transfer of goods and provision of set-up services are separately identified. Regarding sales of spare parts, performance obligations related to each spare parts delivery are separately identified. Regarding modifications, modification parts delivery and modification operation by using these modification parts are identified as a single performance obligation. In addition, provision of maintenance services is identified as a performance obligation.

Timing of satisfaction of performance obligations (Timing of revenue recognition)

Revenue related to equipment delivery is principally recognized when the equipment is transferred to the customer because the legal title to the equipment is transferred to the customer, the customer obtains control of the equipment, and the performance obligation is considered satisfied.

Revenue related to provision of set-up services is principally recognized when the equipment is installed at the customer's site and adjustment to adequately demonstrate equipment performance to satisfy customers' specification is completed, and the performance obligation is considered satisfied.

Revenue related to spare parts is recognized when spare parts are transferred to the customer because the legal title to spare parts is transferred to the customer, the customer obtains control of spare parts, and the performance obligation is considered satisfied.

Revenue related to modifications is principally recognized when the modification is completed, and the performance obligation is considered satisfied.

Revenue related to maintenance services is recognized over the term of the contracts with customers because the performance obligation is satisfied over time.

Payment terms

The transaction consideration is received according to the contract terms with customers. Since the period between satisfaction of performance obligations and payments of transaction consideration generally does not exceed one year, transaction consideration does not include a significant financing component. According to the contracts with customers, in some cases advance payments are received before all performance obligations are satisfied.

Determination of transaction price

Transaction prices are determined at the time of the commencement of the transaction with customers.

In cases where a series of transactions for sales of equipment are transacted with the same customer, there can be special prices such as corresponding to purchase quantities. For such series of transactions with special prices, on the grounds that the sales price of transactions fluctuates based on future purchase quantities, the special prices are treated as variable consideration and included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Transaction prices are estimated including variable consideration by using customers' planned purchase quantities or planned sales quantities to which special prices apply, which are indicated when such series of transactions with special prices are proposed. Estimation of variable consideration is periodically revised based on the status of transactions with customers.

Allocation of transaction price to performance obligations

Allocation of transaction prices to performance obligations reflects the amount of consideration expected to be received in exchange for transferring goods or services to customers. Transaction prices are allocated to each performance obligation identified in the contracts based on the relative stand-alone selling prices of goods or services. If the stand-alone selling price of goods or services is not directly observable, the stand-alone selling price is estimated based on the cost approach by adding an appropriate margin to expected costs calculated based on historical actual costs.

Relationship between satisfaction of performance obligations based on contracts with customers and cash flows arising from the contracts, and information on the amount and timing of revenue expected to be recognized from the next fiscal year from contracts with customers existing as of this fiscal year end

(1) Balances of contract assets and contract liabilities

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------------|---------------------------|
| | March 31, 2022 | April 1, 2021 | March 31, 2022 |
| Receivables from contracts with customers | ¥415,333 | ¥221,967 | \$3,393,521 |
| Contract assets | 18,614 | 6,695 | 152,095 |
| Contract liabilities | 102,555 | 69,484 | 837,937 |

The contract assets principally relate to Tokyo Electron's rights to consideration for performance obligations transferred but not billed at the fiscal year end. The contract assets are transferred to receivables arising from contracts with customers when the rights for the considerations become unconditional.

The contract liabilities principally relate to advances received from customers before all performance obligations

are satisfied. The contract liabilities are reclassified to revenue when revenue is recognized.

The revenue recognized during the fiscal year ended March 31, 2022 that was included in the contract liabilities balance as of April 1, 2021 was ¥64,876 million.

Increase / decrease of contract assets are principally due to revenue recognition and reclassification to accounts receivable.

Increase / decrease of contract liabilities are principally due to advance received and revenue recognition.

The revenue recognized during the year ended March 31, 2022 for which performance obligations were satisfied or partially satisfied in the previous period was immaterial.

(2) Transaction prices allocated to remaining performance obligations

The practical expedient is applied for this Note for transaction prices allocated to remaining performance obligations. The contracts for which original expected terms of the contract is one year or less are not included in this Note.

The amount of performance obligations not satisfied or partially not satisfied is ¥171,553 million as of March 31, 2022, and approximately 80% of such performance obligations are expected to be recognized as revenue within one year after March 31, 2022.

The total amount of transaction prices allocated to the remaining performance obligations does not include the estimated amounts of variable consideration described in "Determination of transaction price" above.

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 related to 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 related to 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.

As described in "4. Changes in Accounting Policies and Adoption of New Accounting Standards", Tokyo Electron changed the accounting treatment for revenue recognition by adopting the Accounting Standard for Revenue Recognition from the beginning of this fiscal year, and accordingly changed the methods for measuring profits or losses of business segments in the same manner.

As a result, in comparison with the previous method, net sales of the semiconductor production equipment segment and the FPD production equipment segment for the year ended March 31, 2022 increased by ¥188,757 million and ¥6,301 million, respectively. In addition, segment profit of the semiconductor production equipment segment and the FPD production equipment segment for the year ended March 31, 2022 increased by ¥105,410 million and ¥1,563 million, respectively.

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, 2022 and 2021 is as follows:

| | Millions of yen | | | | | |
|---|--|--------------------------------|-------------------|------------|-------------------------|--------------|
| | Reportable Segment | | | Total | Adjustments (Note 2) | Consolidated |
| 2022: | Semiconductor production equipment | FPD production equipment | Other (Note 1) | | | |
| Net sales | | | | | | |
| Sales to external customers | ¥1,943,843 | ¥59,830 | ¥131 | ¥2,003,805 | ¥— | ¥2,003,805 |
| Intersegment sales or transfers | — | — | 28,000 | 28,000 | (28,000) | — |
| Total | 1,943,843 | 59,830 | 28,132 | 2,031,806 | (28,000) | 2,003,805 |
| Segment profit | 667,437 | 3,874 | 698 | 672,010 | (75,312) | 596,698 |
| Segment assets | 949,714 | 25,019 | 3,895 | 978,629 | 915,828 | 1,894,457 |
| Depreciation and amortization | 19,149 | 1,258 | 148 | 20,556 | 16,170 | 36,727 |
| Amortization of goodwill | 206 | — | — | 206 | — | 206 |
| Capital expenditures, including intangible assets | 25,331 | 1,592 | 20 | 26,945 | 39,936 | 66,881 |

| | Millions of yen | | | | | |
|---|--|--------------------------------|-------------------|------------|-------------------------|--------------|
| | Reportable Segment | | | Total | Adjustments (Note 2) | Consolidated |
| 2021: | Semiconductor production equipment | FPD production equipment | Other (Note 1) | | | |
| 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 |

| | Thousands of U.S. dollars | | | | | |
|---|--|--------------------------------|-------------------|--------------|-------------------------|--------------|
| | Reportable Segment | | | Total | Adjustments (Note 2) | Consolidated |
| 2022: | Semiconductor production equipment | FPD production equipment | Other (Note 1) | | | |
| Net sales | | | | | | |
| Sales to external customers | \$15,882,375 | \$488,849 | \$1,075 | \$16,372,300 | \$— | \$16,372,300 |
| Intersegment sales or transfers | — | — | 228,781 | 228,781 | (228,781) | — |
| Total | 15,882,375 | 488,849 | 229,857 | 16,601,082 | (228,781) | 16,372,300 |
| Segment profit | 5,453,364 | 31,659 | 5,706 | 5,490,731 | (615,346) | 4,875,384 |
| Segment assets | 7,759,736 | 204,425 | 31,828 | 7,995,989 | 7,482,868 | 15,478,858 |
| Depreciation and amortization | 156,465 | 10,278 | 1,214 | 167,959 | 132,122 | 300,081 |
| Amortization of goodwill | 1,687 | — | — | 1,687 | — | 1,687 |
| Capital expenditures, including intangible assets | 206,976 | 13,015 | 166 | 220,159 | 326,305 | 546,464 |

- 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 ¥(75,312) million (\$ (615,346) thousand) and ¥(54,846) million for the years ended March 31, 2022 and 2021, respectively, mainly consists of research and development costs of ¥(23,075) million (\$ (188,537) thousand) and ¥(2,669) million for the years ended March 31, 2022 and 2021, respectively, pertaining to the Company's fundamental research and element research, additional payment of value-added tax of ¥(4,577) million (\$ (37,396) thousand) for the year ended March 31, 2022, provision for loss on liquidation of subsidiaries and associates of ¥(3,327) million 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 ¥ 915,828 million (\$ 7,482,868 thousand) and ¥765,725 million as of March 31, 2022 and 2021, respectively, mainly consist of cash and cash equivalents, buildings and investment securities not allocated to any of the reportable segments.
- (3) "Adjustments" for capital expenditures totaling ¥ 39,936 million (\$ 326,305 thousand) and ¥39,913 million for the years ended March 31, 2022 and 2021, 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, 2022 and 2021 are as follows:

| 2022: | Millions of yen | | | | | | | Total |
|-----------|-----------------|---------------|----------|-------------|----------|----------|---------|------------|
| | Japan | North America | Europe | South Korea | Taiwan | China | Other | |
| Net sales | ¥230,368 | ¥268,065 | ¥107,954 | ¥381,175 | ¥361,569 | ¥566,219 | ¥88,453 | ¥2,003,805 |

- 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 ¥267,999 million.

| 2021: | Millions of yen | | | | | | | Total |
|-----------|-----------------|---------------|---------|-------------|----------|----------|---------|------------|
| | Japan | North America | Europe | South Korea | Taiwan | China | Other | |
| 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.

| 2022: | Thousands of U.S. dollars | | | | | | | Total |
|-----------|---------------------------|---------------|-----------|-------------|-------------|-------------|-----------|--------------|
| | Japan | North America | Europe | South Korea | Taiwan | China | Other | |
| Net sales | \$1,882,250 | \$2,190,259 | \$882,049 | \$3,114,430 | \$2,954,237 | \$4,626,353 | \$722,719 | \$16,372,300 |

Note: Net sales of North America include sales in the U.S.A. of \$2,189,720 thousand.

(2) Net property, plant and equipment by location as of March 31, 2022 and 2021 are as follows:

| 2022: | Millions of yen | | |
|-------------------------------|-----------------|---------|----------|
| | Japan | Other | Total |
| Property, plant and equipment | ¥173,493 | ¥49,584 | ¥223,078 |

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

| 2022: | Thousands of U.S. dollars | | |
|-------------------------------|---------------------------|-----------|-------------|
| | Japan | Other | Total |
| Property, plant and equipment | \$1,417,548 | \$405,135 | \$1,822,683 |

(3) Major customer information

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

| Name of customer | Related reportable segment | Millions of yen | Thousands of U.S. dollars |
|---|---|-----------------|---------------------------|
| | | 2022 | 2022 |
| Samsung Electronics Co., Ltd. | Semiconductor production equipment and FPD production equipment | ¥312,279 | \$2,551,515 |
| Intel Corporation | Semiconductor production equipment | 303,982 | 2,483,722 |
| Taiwan Semiconductor Manufacturing Company Ltd. | Semiconductor production equipment | 231,393 | 1,890,627 |

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

| Name of customer | Related reportable segment | Millions of yen |
|---|---|-----------------|
| | | 2021 |
| Samsung Electronics Co., Ltd. | Semiconductor production equipment and FPD production equipment | ¥256,656 |
| Intel Corporation | Semiconductor production equipment | 193,706 |
| Taiwan Semiconductor Manufacturing Company Ltd. | Semiconductor production equipment | 164,340 |

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, 2022 and 2021, and unamortized balances as of March 31, 2022 and 2021 are as follows:

| | Millions of yen | | |
|--------------------------|------------------------------------|--------------------------|-------|
| | Semiconductor production equipment | FPD production equipment | Total |
| 2022: | | | |
| Amortization of goodwill | ¥206 | ¥— | ¥206 |
| Goodwill | 531 | — | 531 |

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

| | Thousands of U.S. dollars | | |
|--------------------------|------------------------------------|--------------------------|---------|
| | Semiconductor production equipment | FPD production equipment | Total |
| 2022: | | | |
| Amortization of goodwill | \$1,687 | \$— | \$1,687 |
| Goodwill | 4,346 | — | 4,346 |

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, 2022 and 2021 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2022 | 2021 | 2022 |
| Net income per share of common stock - Basic | | | |
| Net income attributable to owners of parent | ¥437,076 | ¥242,941 | \$3,571,176 |
| Less components not pertaining to holders of common stock | — | — | — |
| Net income pertaining to holders of common stock | ¥437,076 | ¥242,941 | \$3,571,176 |
| Weighted-average number of shares of common stock outstanding (thousands) | 155,662 | 155,511 | |
| 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) | 777 | 892 | |
| Increase in number of share subscription rights (Thousands of share) | 777 | 892 | |

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 610 thousand shares and 615 thousand shares as of March 31, 2022 and 2021, 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 612 thousand shares and 568 thousand shares for the fiscal years ended March 31, 2022 and 2021, respectively.

As described in "4. Change in Accounting Policies and Adoption of New Accounting Standards", Tokyo Electron applies the Accounting Standard for Revenue Recognition from the fiscal year ended March 31, 2022, and the application of such changes in accounting policies follows the transitional treatment prescribed in the proviso of paragraph 84 of the standard. As a result, net assets per share increased by ¥471.69, net income per share increased by ¥476.79, and fully diluted net income per share increased by ¥474.42, respectively, for the fiscal year ended March 31, 2022.

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, 2022 and 2021, 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, 2022 and 2021, 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 |
|--|---|
| <p>In the consolidated balance sheet for the current fiscal year, the Company recognized Inventories of ¥473,845 million, which represented approximately 25% of total assets in the consolidated financial statements. Most of the inventories belonged to the semiconductor production equipment business.</p> <p>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.</p> <p>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 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.</p> <p>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.</p> | <p>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:</p> <p>(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.</p> <p>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.</p> <p>(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 appropriateness of assumptions underlying the rates of write-down determined by management, we:</p> <ul style="list-style-type: none"> 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. <p>(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 appropriateness of assumptions related to sales forecasts adopted by management in identifying finished goods and work in process inventories to be disposed of, we primarily:</p> <ul style="list-style-type: none"> 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. |

Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We do not perform any work on the other information as we determine such information does not exist.

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, 2022 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.

/S/ 宍戸 通孝
Michitaka Shishido
Designated Engagement Partner
Certified Public Accountant

/S/ 西野 聡人
Akira Nishino
Designated Engagement Partner
Certified Public Accountant

/S/ 鈴木 紳
Shin Suzuki
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 21, 2022

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.



TOKYO ELECTRON LIMITED

Akasaka Biz Tower, 3-1 Akasaka 5-chome

Minato-ku, Tokyo 107-6325, Japan

Tel: +81-3-5561-7000

www.tel.com