

Consolidated Financial Review for the Second Quarter Ended September 30, 2014

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

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

1. Financial highlights for the six months ended September 30, 2014

(1) Operating results (Cumulative)

	Six months ended	
	September 30, 2013	September 30, 2014
Net sales (Millions of yen)	254,500	294,273
Operating income (Millions of yen)	(1,822)	30,115
Ordinary income (Millions of yen)	588	31,773
Net income (Millions of yen)	2,476	20,016
Net income per share (Yen)	13.82	111.68
Fully diluted net income per share (Yen)	13.79	111.42
Comprehensive income:	Six months ended September 30, 2014: 23,321 million yen Six months ended September 30, 2013: 8,789 million yen	

(2) Financial position

	As of March 31, 2014	As of September 30, 2014
Total assets (Millions of yen)	828,591	801,310
Net assets (Millions of yen)	590,613	595,876
Equity ratio (%)	69.8	74.1
Equity:	594,160 million yen (as of September 30, 2014) 578,091 million yen (as of March 31, 2014)	

2. Dividends

	Year ended March 31, 2014	Year ending March 31, 2015
1Q-end dividend per share (Yen)	-	10.00
2Q-end dividend per share (Yen)	25.00	30.00
3Q-end dividend per share (Yen)	-	-
Year-end dividend per share (Yen)	25.00	-
Annual dividend per share (Yen)	50.00	-

Note: The effective date of the business combination with Applied Materials, Inc. has not yet been determined despite this merger having been announced because it is conditional upon the approval from the relevant authorities in Japan, the U.S., and other countries subject to competition laws. Given these circumstances, we will not disclose estimates for dividends after the third quarter ending December 31, 2014.

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

While we have not yet disclosed full-year earnings forecast for the fiscal year ending March 31, 2015 since the effective date of the business combination still remains undetermined, the TEL Group is expected to achieve net sales of 304 billion yen and operating income of 43 billion yen in the second half.

4. Others

- (1) Important changes in subsidiaries: None
(Changes on specific subsidiaries with changes in scope of consolidation)
- (2) Changes in accounting principles, accounting estimation and restatement
 1. Changes in accounting policies along with changes in accountins standards: Yes
 2. Other changes of accounting policies besides number 1 above: None
 3. Changes in accounting estimation: None
 4. Restatement: None
- (3) Number of shares issued and outstanding (common stock)
 1. Number of shares issued and outstanding (including treasury stock)

As of September 30, 2014:	180,610,911 shares
As of March 31, 2014:	180,610,911 shares
 2. Number of shares of treasury stock

As of September 30, 2014:	1,359,423 shares
As of March 31, 2014:	1,408,950 shares
 3. Average number of shares outstanding

Six months ended September 30, 2014:	179,222,274 shares
Six months ended September 30, 2013:	179,187,591 shares

Notification of the status of quarterly financial review procedures:

This quarterly financial report is outside the jurisdiction of auditing procedures outlined in the Financial Instruments and Exchange Act and remain incomplete at the time of announcing this report.

Explanations on the appropriate use of earnings forecast:

The performance forecast and estimate stated in this Financial Review are based on certain assumptions judged to be reasonable at the present time in light of information currently available. Consequently, actual operating results may differ substantially from the projections in this Financial Review.

The company plans to hold a financial meeting for analysts and investors on Wednesday Oct 29, 2014. The supplementary materials to these financial reports that will be handed out at this meeting will be posted simultaneously on our company website.

1. Qualitative Information on Financial Results for the Current Quarter

(1) Description of Operating Results

Global economy during the first half of the current fiscal year generally remained on a gradual recovery trend, while the Japanese economy on the whole also shows moderate recovery despite the impact of the consumption tax hike.

In the electronics industry, the primary area of the Tokyo Electron (TEL) Group's business activities, the electronic components market still remained robust, thanks to an increase in demand for semiconductors supported by the launch of the new smartphones, along with the expansion of the low-priced smartphone market primarily in China, besides the positive developments such as the soaring demand for servers for data centers due to the growing popularity of cloud computing and the use of big data.

Under such circumstances, the Group's consolidated results (cumulative) for the first half of the current fiscal year were net sales of 294,273 million yen (a year-on-year growth of 15.6%), operating income of 30,115 million yen (a year-on-year operating loss of 1,822 million yen), ordinary income of 31,773 million yen (a year-on-year ordinary income of 588 million yen); and in addition, the net income for the first half of the current fiscal year stood at 20,016 million yen (a year-on-year growth of 708.2%).

The overview of each business segment is as described below.

TEL sold part of the shares held in Tokyo Electron Device Ltd. in April and May of this year. This resulted in Tokyo Electron Device Ltd. being switched from a consolidated subsidiary of the group to an affiliate accounted for under the equity method, and the Electronic Components and Computer Networks segment overseen by the company and its subsidiaries being removed from segments reported from the first quarter of the current fiscal year. The 15.6% year on year increase in consolidated net sales mentioned above reflects the impact of removing Tokyo Electron Device Ltd. from consolidated range.

(i) Semiconductor Production Equipment

Capital investment in facilities among semiconductor manufacturers remained strong, supported by the robust demand for electronic components such as DRAM and NAND flash memory, on the back of the functional sophistication and solid sales of smartphones along with the growing demand for servers for data centers. Consequently, net sales to external customers in this segment for the first half of the current fiscal year were 272,626 million yen (a year-on-year growth of 40.0%).

(ii) Flat Panel Display (FPD) Production Equipment

The market for FPD production equipment remained strong, due to the growing demand for small to medium-sized flat panel displays used primarily for smartphones, along with ongoing capital investment in

facilities for manufacturing large-sized flat panel displays in China. As a result, net sales to external customers in this segment for the first half of the current fiscal year were 19,029 million yen (a year-on-year growth of 102.6%).

(iii) Photovoltaic Panel (PV) Production Equipment

While we have ceased new sales activities for PV production equipment, sales entries for work in progress to fulfill existing orders and other factors resulted in net sales to external customers in this segment of 2,325 million yen (a year-on-year loss of 29.3%) for the first half of the current fiscal year.

(iv) Others

Net sales to external customers in this segment were 292 million yen (a year-on-year growth of 13.2%) for the first half of the current fiscal year.

(For reference)

Consolidated Operating Results

(Millions of yen)

	FY2014 1H	FY2014 2H	FY2015		
			1H	1Q	2Q
Net Sales	254,500	357,670	294,273	151,325	142,948
Semiconductor Production Equipment	194,773	284,068	272,626	136,126	136,500
Japan	33,233	43,191	39,505	13,421	26,084
U.S.	44,817	59,546	67,696	33,790	33,906
Europe	13,575	16,060	24,720	12,530	12,189
Korea	28,864	44,538	37,146	22,451	14,695
Taiwan	56,059	74,192	76,808	38,456	38,352
China	9,635	39,261	20,981	13,911	7,069
S.E.Asia	8,587	7,277	5,768	1,565	4,202
FPD Production Equipment	9,393	18,923	19,029	13,929	5,099
PV Production Equipment	3,288	517	2,325	1,102	1,223
Electronic Components & Computer Networks	46,786	53,939	-	-	-
Others	258	221	292	167	125
Operating Income (Loss)	(1,822)	34,027	30,115	17,069	13,045
Ordinary Income	588	34,898	31,773	16,913	14,860
Net Income (Loss)	2,476	(21,885)	20,016	11,835	8,181

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

Production and Order Performance

1. Production

(Millions of yen)

	FY2014 1H	FY2014 2H	FY2015		
			1H	1Q	2Q
Semiconductor Production Equipment	185,142	284,943	247,355	124,318	123,037
FPD Production Equipment	10,815	25,232	10,453	7,419	3,033
PV Production Equipment	3,358	517	2,272	1,081	1,191
Total	199,316	310,693	260,081	132,818	127,262

- Note: 1. Amounts are based on sales prices.
2. The above amounts do not include consumption taxes.

2. Orders Received

(Millions of yen)

	FY2014 1H	FY2014 2H	FY2015		
			1H	1Q	2Q
Semiconductor Production Equipment	249,031	297,901	279,771	137,297	142,474
FPD Production Equipment	20,843	20,493	19,130	14,280	4,849
PV Production Equipment	2,286	2,017	550	541	8
Electronic Components & Computer Networks	48,607	54,533	-	-	-
Others	258	221	292	167	125
Total	321,026	375,167	299,744	152,286	147,457

- Note: 1. Offset elimination has been carried out on the dealing between segments.
2. The above amounts do not include consumption taxes.

3. Orders Backlog

(Millions of yen)

	FY2014 1H	FY2014 2H	FY2015	
			1Q	2Q
Semiconductor Production Equipment	196,081	209,914	211,085	217,059
FPD Production Equipment	27,449	29,019	29,371	29,121
PV Production Equipment	7,494	8,994	8,433	7,219
Electronic Components & Computer Networks	16,606	17,200	-	-
Others	-	-	-	-
Total	247,632	265,129	248,889	253,399

- Note: 1. Offset elimination has been carried out on the dealing between segments.
2. The above amounts do not include consumption taxes.

(2) Description of Financial Conditions

(i) Financial Conditions

Current assets at the end of the second quarter of the current fiscal year were 593,210 million yen, down 28,282 million yen compared to the end of the previous fiscal year. The major factors influencing this result

were a 27,019 million yen decrease in trade notes and accounts receivable, a 25,990 million yen decrease in inventories, a 7,704 million yen decrease in cash and deposit, a 6,805 million yen decrease in accrued consumption and other taxes and a 38,679 million yen increase in short-term investments included in securities.

Tangible fixed assets decreased by 707 million yen from the end of the previous fiscal year, to 111,636 million yen.

Intangible fixed assets decreased by 1,888 million yen from the end of the previous fiscal year, to 27,667 million yen.

Investment and other assets increased by 3,596 million yen from the end of the previous fiscal year, to 68,795 million yen.

As a result, total assets decreased by 27,281 million yen from the end of the previous fiscal year, to 801,310 million yen.

Current liabilities were down 24,799 million yen compared to the end of the previous fiscal year, to 145,710 million yen. The major factors causing the decrease were a 13,782 million yen decrease in trade notes and accounts payable and an 11,531 million yen decrease in short-term borrowings associated with the removal of Tokyo Electron Device Ltd. from consolidated accounting.

Long-term liabilities were down 7,744 million yen compared to the end of the previous fiscal year, to 59,723 million yen.

Net assets were up 5,262 million yen compared to the end of the previous fiscal year, to 595,876 million yen.

The main factors were an increase due to reported quarterly net income of 20,016 million yen, a decrease of 10,650 million yen in minority interests from the removal of Tokyo Electron Device Ltd. from consolidated accounting and other facts, and a decrease as a result of the payment of 6,272 million yen in both year-end dividends for the previous fiscal year and quarterly dividends for the first quarter of the current fiscal year.

The equity ratio was 74.1%.

(ii) Cash Flow

Cash and cash equivalents at the end of the second quarter of the current consolidated fiscal year increased by 120,274 million yen compared to the end of the previous fiscal year, to 225,071 million yen.

The combined balance including a 74,049 million yen in time deposits and short-term investments with periods to maturity or redemption of at least three months that are not included in cash and cash equivalents was 299,121 million yen, up 30,974 million yen from the end of the previous fiscal year. The overall situation regarding cash flow during the second quarter of the current fiscal year was as described below.

Cash flow from operating activities was positive 43,338 million yen, up 43,555 million yen compared to the same period of the previous fiscal year. The main positive factors were 29,101 million yen in net income before income taxes, 9,737 million yen in depreciation and amortization, a 5,327 million yen decrease in

trade notes and accounts receivable and a 5,186 million yen decrease in inventories. The main negative factors were the payment of income taxes of 15,302 million yen and a 6,535 million yen decrease in accounts payable.

Cash flow from investing activities was positive 85,358 million yen, compared to positive 7,148 million yen in the same period of the previous fiscal year. The primary positive factor was 89,303 million yen associated with a decrease in short-term investments. The primary negative factor was 6,597 million yen in payments for purchase of tangible fixed assets.

Cash flow from financing activities was negative 6,458 million yen, compared to positive 1,102 million yen in the same period of the previous fiscal year. This was primarily the result of the payment of 6,272 million yen in dividends.

(3) Description of Financial Estimates Information such as Consolidated Performance Forecasts

While we have not yet disclosed full-year earnings forecast for the fiscal year ending March 31, 2015 since the effective date of the business combination still remains undetermined, the TEL Group is expected to achieve net sales of 304 billion yen and operating income of 43 billion yen in the second half. For information, estimated full-year earnings combining the actual results for the first half and the expectation for the second half amount to net sales of 598.2 billion yen and operating income of 73.1 billion yen.

Note: The financial forecasts and estimates stated in this announcement are based on certain assumptions judged to be reasonable by the Company in light of information currently available concerning economic conditions in Japan and overseas, fluctuations in foreign exchange rates, and other factors that may have an impact on performance. The company does not promise that the forecasts or estimates will be accurate.

They are therefore susceptible to the impact of many uncertainties, including market conditions, competition, the launching of new products (and their success or failure), and global conditions in the semiconductor related industry. Consequently, actual sales and profits may differ substantially from the projections stated in this announcement.

Consolidated Balance Sheet

TOKYO ELECTRON

	(Millions of yen)	
	As of March 31, 2014	As of September 30, 2014
ASSETS		
Current assets		
Cash and deposit	56,345	48,641
Trade notes and accounts receivable	129,032	102,012
Securities	211,800	250,480
Merchandise and finished goods	114,289	84,279
Work in process	38,074	40,952
Raw materials and supplies	15,912	17,053
Others	57,538	50,602
Allowance for doubtful accounts	(1,502)	(813)
Total current assets	621,492	593,210
Long-term assets		
Tangible fixed assets	112,344	111,636
Intangible fixed assets		
Goodwill	9,400	8,990
Others	20,155	18,677
Total intangible fixed assets	29,556	27,667
Investments and other assets		
Others	67,065	70,674
Allowance for doubtful accounts	(1,866)	(1,878)
Total investments and other assets	65,199	68,795
Total long-term assets	207,099	208,100
Total assets	828,591	801,310

	(Millions of yen)	
	As of March 31, 2014	As of September 30, 2014
LIABILITIES		
Current liabilities		
Trade notes and accounts payable	53,667	39,885
Short-term borrowings	11,531	-
Income taxes payable	14,014	11,032
Accrued warranty expenses	10,072	10,778
Other allowance	8,642	7,813
Others	72,581	76,200
Total current liabilities	<u>170,509</u>	<u>145,710</u>
Long-term liabilities		
Other allowance	582	374
Net defined benefit liability	53,448	49,026
Others	13,436	10,322
Total long-term liabilities	<u>67,468</u>	<u>59,723</u>
Total liabilities	<u>237,978</u>	<u>205,434</u>
NET ASSETS		
Shareholders' equity		
Common stock	54,961	54,961
Capital surplus	78,023	78,023
Retained earnings	436,174	448,647
Treasury stock	(9,478)	(9,146)
Total shareholders' equity	<u>559,679</u>	<u>572,484</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,592	5,555
Deferred gains or losses on hedges	60	75
Translation adjustments	5,777	9,976
Remeasurements of defined benefit plans	6,981	6,068
Total accumulated other comprehensive income	<u>18,411</u>	<u>21,675</u>
Subscription rights to shares	1,643	1,487
Minority interests	10,878	227
Total net assets	<u>590,613</u>	<u>595,876</u>
Total liabilities and net assets	<u>828,591</u>	<u>801,310</u>

Consolidated Statement of Income

	(Millions of yen)	
	Six months ended September 30, 2013	Six months ended September 30, 2014
Net sales	254,500	294,273
Cost of sales	174,453	186,825
Gross profit	80,046	107,448
Selling, general & administrative expenses		
Research and development expenses	38,440	34,951
Others	43,428	42,381
Total selling, general & administrative expenses	81,869	77,333
Operating income (loss)	(1,822)	30,115
Non-operating income		
Interest income	677	551
Revenue from grants	907	478
Others	2,397	1,233
Total non-operating income	3,981	2,264
Non-operating expenses		
Foreign currency translation loss	1,338	535
Others	232	69
Total non-operating expenses	1,570	605
Ordinary income (loss)	588	31,773
Unusual or infrequent profit		
Gain on sale of fixed assets	79	120
Gain on sale of investment securities	-	54
Others	18	-
Total unusual or infrequent profit	98	175
Unusual or infrequent loss		
Loss on impairment	873	-
Loss on sales of subsidiaries' stocks	-	1,609
Expenses for restructuring of business bases	-	698
Others	135	540
Total unusual or infrequent loss	1,009	2,848
Income (loss) before income taxes	(321)	29,101
Income taxes	(2,903)	9,058
Income (loss) before minority interests	2,582	20,042
Minority interests	105	26
Net income (loss)	2,476	20,016

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Income (loss) before minority interests	2,582	20,042
Other comprehensive income		
Valuation difference on available-for-sale securities	368	(37)
Deferred gains or losses on hedges	65	81
Translation adjustments	5,773	4,178
Remeasurements of defined benefit plans	-	(892)
Share of other comprehensive income of associates accounted for using equity method	-	(51)
Total other comprehensive income	<u>6,206</u>	<u>3,278</u>
Comprehensive income	<u>8,789</u>	<u>23,321</u>
(Breakdown)		
Comprehensive income attributable to owners	8,619	23,280
Comprehensive income attributable to minority interests	169	40

Consolidated Cash Flow

TOKYO ELECTRON

(Millions of yen)

Six months ended
September 30, 2013

Six months ended
September 30, 2014

Cash flow from operating activities

Income (loss) before income taxes	(321)	29,101
Depreciation and amortization	12,749	9,737
Amortization of goodwill	2,139	544
Increase (decrease) in accrued pension and severance costs	1,474	-
Increase (decrease) in net defined benefit liability	-	757
Loss (gain) on sales of subsidiaries' stocks	-	1,609
Decrease (increase) in trade notes and accounts receivable	(16,352)	5,327
Decrease (increase) in inventories	(20,314)	5,186
Increase (decrease) in accounts payable	9,058	(6,535)
Decrease (increase) in prepaid consumption tax	7,529	4,740
Increase (decrease) in customer advances	8,201	4,343
Others	(6,975)	2,861
Subtotal	(2,811)	57,671
Receipts from interest and dividends	2,262	984
Interest paid	(39)	(15)
Income taxes (paid) refund	371	(15,302)
Net cash generated by operating activities	(217)	43,338

Cash flow from investing activities

Decrease (increase) in time deposits	(48)	-
Decrease (increase) in short-term investments	13,984	89,303
Payment for purchase of tangible fixed assets	(5,246)	(6,597)
Payment for purchase of intangible fixed assets	(1,356)	(128)
Proceeds from sale of investment securities	1	1,084
Proceeds from sale of subsidiaries resulting in change in scope of consolidation	-	1,726
Others	(186)	(28)
Net cash used in investing activities	7,148	85,358

Cash flow from financing activities

Net increase (decrease) in short-term borrowings	4,101	-
Proceeds from long-term borrowings	2,000	-
Dividends paid	(4,658)	(6,272)
Others	(339)	(186)
Net cash generated by financing activities	1,102	(6,458)

Effect of exchange rate changes on cash and cash equivalents	(2,158)	(1,963)
Net increase (decrease) in cash and cash equivalents	5,875	120,274
Cash and cash equivalents at beginning of period	85,313	104,797
Increase (decrease) in cash and cash equivalents from changes in accounting periods at consolidated subsidiaries	(1,206)	-
Cash and cash equivalents at end of period	89,982	225,071

Segment Information

(i) Overview of reportable segments

The reportable segments by the company provide separate financial information pertaining to the various segments of the company, which is reviewed periodically by the management to evaluate corporate performance as well as make decisions about the allocation of management resources.

The corporate structure consists of product and service segments based on business units (BUs), and the reportable segments are as follows: Semiconductor Production Equipment, Flat Panel Display (FPD) Production Equipment, and Photovoltaic Panel (PV) Production Equipment.

The Semiconductor Production Equipment segment consists of coaters/developers, plasma etch systems, thermal processing systems, single wafer deposition systems, cleaning systems used in wafer processing, wafer probers used in the wafer testing process and other semiconductor production equipment, and we are engaged in the development, manufacturing, sales and provision of maintenance services, etc. for such products.

The FPD Production Equipment segment consists of coaters/developers, plasma etch/ash systems used in the manufacturing of flat panel displays, and we are engaged in the development, manufacturing, sales and provision of maintenance services, etc. for such products.

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

(ii) Net sales and income (loss) in reportable segments

Six months ended September 30, 2014

(Millions of yen)

	Reportable Segments			Others	Total
	Semiconductor Production Equipment	FPD Production Equipment	PV Production Equipment		
Net sales	272,626	19,029	2,325	5,682	299,663
Segment income (loss)	60,644	(612)	(7,728)	653	52,957

	Eliminations	Consolidated Total
Net sales	(5,390)	294,273
Segment income (loss)	(23,856)	29,101

Notes:

- The "Others" is all other businesses segment which are not included in the reported business segments, such as the transportation of products, etc. of the Tokyo Electron Group companies, equipment leasing and insurance, etc.
- The eliminations of segment income or loss amounting to 23,856 million yen includes corporate expenses pertaining to the corporate account which are not allocated to any specific reportable segments. The corporate account expenses are mainly R&D expenses of 8,146 million yen, pertaining to fundamental research and element research conducted by the company, and business combination expenses of 6,107 million yen, not related to any of the reportable segments.
- Segment income (loss) is adjusted against income before income taxes in consolidated statement of income.

Segment Information

(iii) Items Related to Changes in Reportable Segments

In conjunction with the change of Tokyo Electron Device Limited (TED) from a consolidated subsidiary to an equity-method affiliate, from the first quarter of the current fiscal year, the "Electronic Components and Computer Networks" handled by TED and its subsidiaries has been eliminated from the reportable segment, and investment profit or loss on equity method relating to TED has been included in segment income or loss adjustment amounts.

(iv) Impairment losses on fixed assets and goodwill, etc. in reportable segments

Significant impairment losses related to fixed assets: None

Significant changes in goodwill amount: None

Significant income related to negative goodwill: None