

FINANCIAL REVIEW

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SALES AND INCOME

Operating Environment

During fiscal 2012, the global economy slowed overall, especially in developed nations, due to future uncertainty rooted in Europe's financial crises. However, in the second half of the fiscal year, there were signs of the beginning of a gradual recovery, mainly in the U.S. In emerging countries such as China and India, the speed of growth slowed, but economic growth continued, led by internal demand. Japan's economy quickly began its recovery from the Great East Japan Earthquake at an early stage, but the subsequent worldwide economic recession and historically high yen have slowed this recovery.

In the electronics industry, in which Tokyo Electron serves, smartphones and tablets have spread widely, resulting in an overall positive performance. However, as sales of PCs and televisions continued to be sluggish, sales of semiconductors and LCD panels that are key components in these products were not sufficient to lead to active capital investments.

Sales

Net sales in fiscal 2012 decreased 5.3% year on year to ¥633.1 billion. This was mainly because memory manufacturers refrained from investments due to sluggish PC sales. Sales in Japan were down 5.9% year on year, to ¥171.4 billion, and overseas sales decreased 5.1% to ¥461.7 billion. Overseas sales as a share of total consolidated sales remained at about the same level, up from 72.8% in fiscal 2011 to 72.9% in fiscal 2012.

Orders received during the fiscal year decreased by 26.4%, to ¥541.0 billion, and the order backlog at the end of March 2012 decreased 29.8% year on year, to ¥216.7 billion. Behind these decreases were declines in the willingness to invest by memory manufacturers and panel manufacturers, the Tokyo Electron Group's customers, due to surplus inventory in DRAMs caused by sluggish sales of PCs, and to surplus inventory in LCD panels caused by sluggish sales of TVs.

	Millions of Yen				
Sales and Income	2008	2009	2010	2011	2012
Net sales	¥906,092	¥508,082	¥418,637	¥668,722	¥633,091
Gross profit	311,298	137,408	108,316	234,758	211,445
Gross profit margin	34.4%	27.0%	25.9%	35.1%	33.4%
Selling, general and administrative expenses	142,800	122,697	110,497	136,888	151,002
Operating income (loss)	168,498	14,711	(2,181)	97,870	60,443
Operating margin	18.6%	2.9%	(0.5)%	14.6%	9.5%
Income (loss) before income taxes and minority interests	169,220	9,637	(7,768)	99,579	60,602
Net income (loss)	106,271	7,543	(9,033)	71,924	36,726

Gross Profit, SG&A Expenses and Operating Income (Loss)

Cost of sales for the period was down 2.8% year on year, to ¥421.6 billion, and the cost of sales ratio was 66.6%, 1.7 percentage points worse than in fiscal 2011.

As a result, gross profit decreased by 9.9% year on year, to ¥211.4 billion, and the gross profit margin decreased to 33.4%, from 35.1% in fiscal 2011.

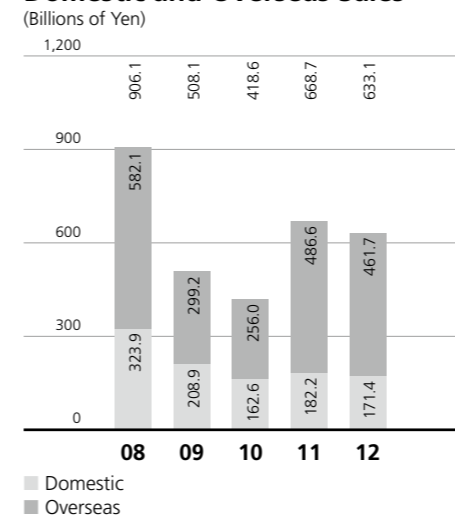
SG&A expenses increased by 10.3% year on year, to ¥151.0 billion as a result of aggressive spending in research and development. As a percentage of consolidated net sales, the SG&A ratio increased to 23.9%, from 20.5% in the previous year. Consequently, operating income decreased by 38.2% to ¥60.4 billion and the operating margin declined from 14.6% to 9.5%.

Research & Development

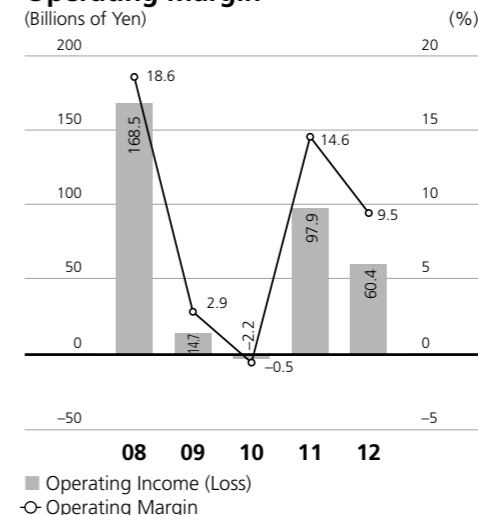
R&D expenses are included in SG&A expenses. The Company views these expenses as the source of future growth and as such incurred ¥81.5 billion in R&D expenses in fiscal 2012, up 15.5% year on year.

Breaking down these costs by division, R&D investment in the semiconductor production equipment business focused on the development of next-generation models in various equipment fields, and on the development of original double and multiple patterning technology that helps to promote further chip miniaturization, of film deposition technologies for new materials, and of extreme ultraviolet (EUV) lithography which is a promising next-generation lithography process. Tokyo Electron's R&D investments focused not only on existing business segments, but also on the development of production equipment for 3DI packaging technology, OLED displays, photovoltaic cells and other new product segments.

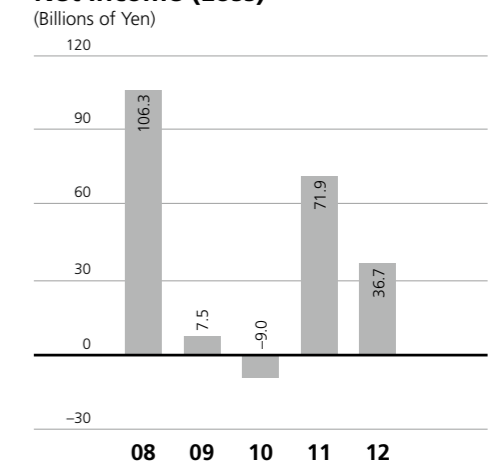
Domestic and Overseas Sales



Operating Income (Loss) and Operating Margin



Net Income (Loss)



Other Income (Expenses) and Net Income

During fiscal 2012, Tokyo Electron posted income of ¥1.4 billion in gain on collection of written-off receivables and ¥1.1 billion in revenue from development grants, and expenses of ¥1.8 billion in provision of allowance for doubtful accounts and a ¥0.9 billion loss from natural disasters. As a result, other income (expenses) amounted to a net income of ¥0.2 billion.

This contributed to ¥60.6 billion in income before income taxes and minority interests, compared with ¥99.6 billion in fiscal 2011. A net income for fiscal 2012 of ¥36.7 billion was recorded, compared to ¥71.9 billion in fiscal 2011. Net income per share was ¥205.04 in fiscal 2012, compared with ¥401.73 in fiscal 2011.

Comprehensive Income

For fiscal 2012, Tokyo Electron posted comprehensive income of ¥37.0 billion, compared with ¥69.6 billion in the previous fiscal year. This mainly reflected a gain of ¥0.8 billion from changes in fair value of investment securities and a loss of ¥0.9 billion due to foreign currency translation adjustments with high yen appreciation.

Dividend Policy and Dividends

It is the policy of Tokyo Electron to pay dividends on the basis of business performance and earnings results. The dividend payout ratio has been set at approximately 35% of consolidated net income. As a result, the Company paid an interim dividend of ¥53 (a ratio of 35.6%), and set the year-end dividend at ¥27 (a ratio of 48.0%). Thus, the total dividend applicable to fiscal 2012 was ¥80 (a combined ratio of 39.0%). Looking ahead, we will respond to the support of all our shareholders through achieving business expansion and earnings growth.

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PERFORMANCE BY SEGMENT

■ Semiconductor Production Equipment

Net sales (including intersegment sales or transfers) for fiscal 2012 decreased by 6.5% year on year, to ¥477.9 billion. While logic manufacturers made substantial investments led by smartphones, tablets and other cutting-edge mobile devices, memory manufacturers refrained from making investments due to lower PC sales. The segment profit declined by 26.3% to ¥89.0 billion and the segment profit margin decreased from 23.6% to 18.6%.

The segment's net sales to external customers decreased 6.5% year on year, to ¥477.9 billion. Orders in this segment dropped 23.0% to ¥437.6 billion. The order backlog declined 17.6% to ¥188.7 billion as of March 31, 2012.

For a business overview of this segment, please see pages 8.

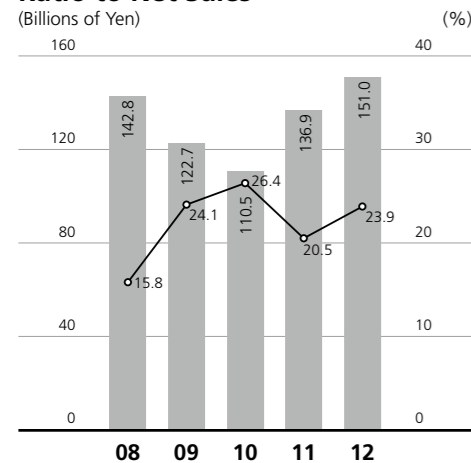
■ FPD/PV (Flat Panel Display and Photovoltaic Cell) Production Equipment

Net sales (including intersegment sales or transfers) in the segment stood at ¥69.9 billion, up 4.7% year on year. The segment profit decreased 65.8% to ¥2.3 billion and the segment profit margin from 10.0% in the previous fiscal year to 3.3%. Demand for FPD production equipment for small- and medium-sized panels was robust due to strong demand for mobile devices, however, demand for FPD production equipment for large-sized panels was weak due to sluggish demand for TVs. Sales of PV production equipment rose year on year.

The segment's net sales to external customers increased 4.7% to ¥69.9 billion. Orders in this segment dropped 75.3% to ¥18.6 billion. The fiscal year-end order backlog declined 78.3% to ¥14.2 billion as of March 31, 2012.

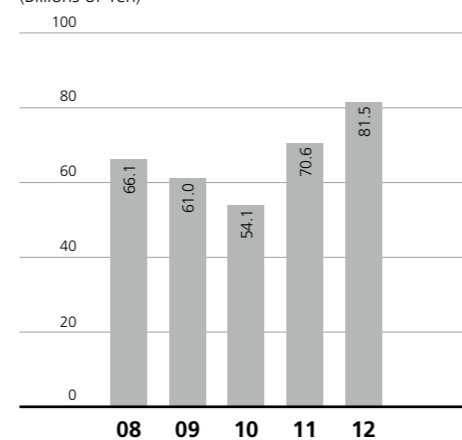
For a business overview of this segment, please see pages 8.

Selling, General and Administrative Expenses and Ratio to Net Sales



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

R&D Expenses



■ Electronic Components and Computer Networks

Net sales (including intersegment sales or transfers) in the segment decreased 5.5% year on year to ¥86.3 billion. Demand for electronic components used in consumer electronics and industrial electronic equipment were sluggish except for components used in mobile devices such as smartphones. Increased corporate demand for cloud computing and the increased usage of data centers propelled sales of computer networks products as well as maintenance services. As a result, the segment profit decreased 20.5% to ¥2.3 billion and segment profit margin declined from 3.2% to 2.7%.

The segment's net sales to external customers decreased 5.9% to ¥84.9 billion. Orders in this segment decreased 7.4% to ¥84.3 billion. The fiscal year-end order backlog declined 4.1% to ¥13.8 billion.

For a business overview of this segment, please see pages 8.

■ Others

Sales in the "Others" segment mainly include group-wide logistics services, leasing and insurance.

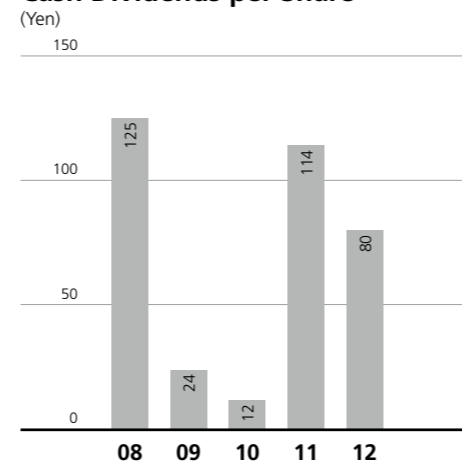
Net sales to external customers in the segment amounted to ¥0.5 billion, almost the same level as in fiscal 2011.

Segment Information

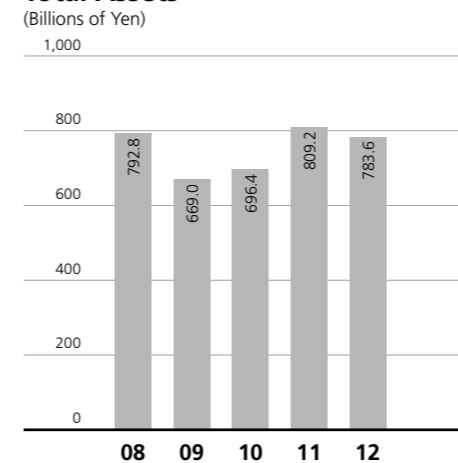
2012:

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

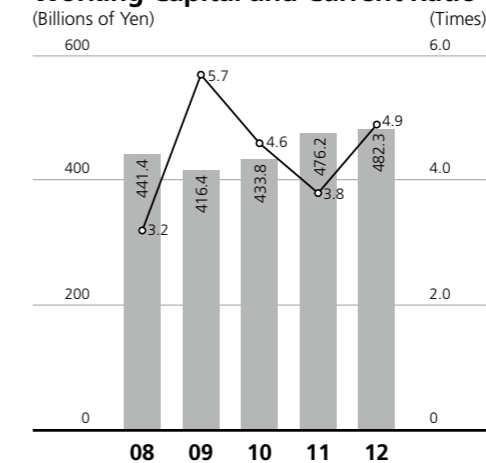
Cash Dividends per Share



Total Assets

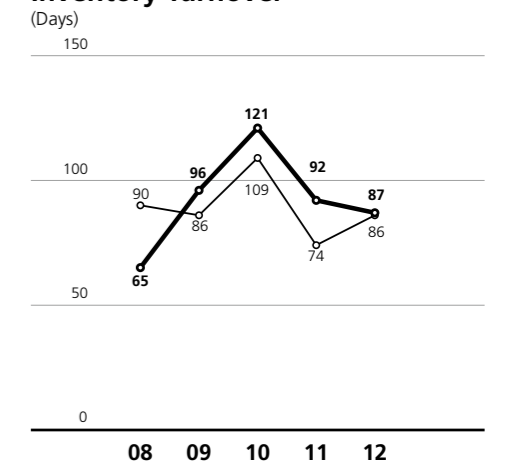


Working Capital and Current Ratio



■ Working Capital
○ Current Ratio

Receivable Turnover and Inventory Turnover



○ Receivable Turnover
● Inventory Turnover

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FINANCIAL POSITION AND CASH FLOWS

Assets, Liabilities and Net Assets

Assets

Current assets decreased by ¥37.2 billion from the end of the previous fiscal year, to ¥607.1 billion, reflecting decreases of ¥37.4 billion in liquidity on hand (cash and cash equivalents + short-term investments) and of ¥19.5 billion in inventories, and an increase of ¥13.9 billion in trade notes and accounts receivable. The turnover period for trade notes and accounts receivable increased from 74 days in fiscal 2011 to 87 days in fiscal 2012, and the inventory turnover period decreased from 92 days in fiscal 2011, to 86 days in fiscal 2012.

Net property, plant and equipment increased by ¥14.3 billion year on year, to ¥126.9 billion, as ¥24.2 billion in depreciation and amortization was outweighed by ¥39.5 billion in fixed asset acquisitions.

Investments and other assets decreased by ¥2.7 billion year on year, to ¥49.7 billion.

As a result, as of March 31, 2012, total assets stood at ¥783.6 billion, a decrease of ¥25.6 billion year on year.

Liabilities and Net Assets

Current liabilities decreased by ¥43.2 billion, from the end of fiscal 2011, to ¥124.8 billion. This reflected decreases of ¥21.0 billion in income taxes payable,

¥5.5 billion in trade notes and accounts payable and ¥5.6 billion in customer advances. The balance of interest-bearing debt, which consists only of short-term borrowings, stood at ¥4.4 billion as of March 31, 2012. The debt/equity ratio declined to 0.8%, 0.6 points lower than the end of March 2011.

Non-current liabilities increased by ¥3.8 billion, to ¥60.2 billion.

Net assets increased by ¥13.8 billion year on year, to ¥598.6 billion. This reflected an increase in retained earnings of ¥13.5 billion resulting from a net income of ¥36.7 billion and ¥23.1 billion in dividends paid. As a result, the equity ratio improved from 70.8% at the end of March 2011 to 74.9% as of March 31, 2012, and ROE dropped to 6.3%, from 13.3% in fiscal 2011.

Capital Expenditures*1 and Depreciation and Amortization*2

Total capital expenditures increased by 1.0% year on year in fiscal 2012, to ¥39.5 billion.

- New Miyagi plant (Taiwa-cho, Kurokawa-gun, Miyagi Prefecture)
- New Kunshan plant (Kunshan, Jiangsu Province, China)
- TEL Technology Center Tsukuba (Tsukuba, Ibaraki Prefecture)
- Purchase of evaluation and measuring equipment

Depreciation and amortization increased by 36.7% year on year, to ¥24.2 billion.

*1 Capital expenditures represent only the gross increase in property, plant and equipment.

*2 Depreciation does not include amortization and losses on impairment of goodwill.

Cash Flows

Cash flows from operating activities showed a net inflow of ¥29.7 billion, ¥53.5 billion less than in fiscal 2011. The main contributors were ¥60.6 billion in income before income taxes and minority interests, ¥24.2 billion in depreciation and amortization, and a ¥16.0 billion decrease in inventories. Major negative factors included a ¥47.6 billion in income taxes paid and a ¥15.5 billion increase in trade notes and accounts receivable.

Investing activities used net cash of ¥8.4 billion, compared with ¥35.9 billion used in fiscal 2011. This mainly reflected a ¥36.0 billion outflow to purchase property, plant and equipment and a ¥31.0 billion inflow from a net decrease in short-term investments.

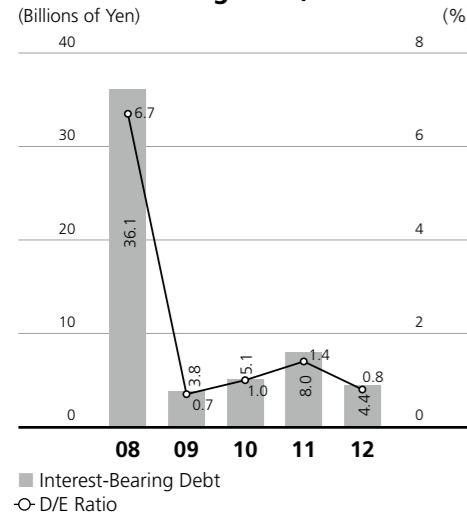
Financing activities used net cash of ¥27.3 billion, compared with ¥5.2 billion in fiscal 2011. The main outflow was ¥23.1 billion in dividends paid and ¥3.6 billion in repayment of short-term borrowings.

As a result, the balance of cash and cash equivalents at the end of March 2012 stood at ¥158.8 billion, a decrease of ¥6.3 billion from the ¥165.1 billion balance at the end of fiscal 2011. Total liquidity on hand, which consists of cash, cash equivalents and short-term investments, decreased by ¥37.4 billion year on year, from ¥285.1 billion at the end of March 2011 to ¥247.6 billion at the end of March 2012.

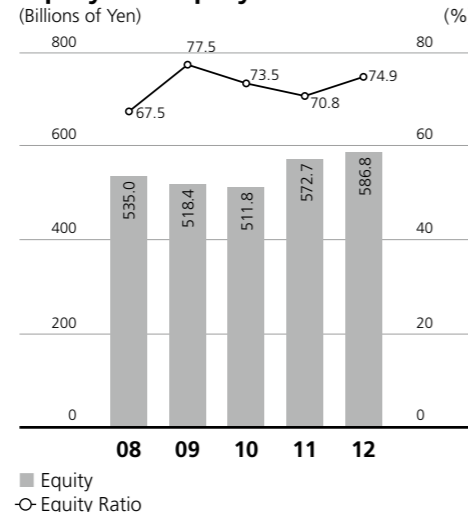
Financial Position	Millions of Yen				
	2008	2009	2010	2011	2012
Total current assets.....	¥640,234	¥505,687	¥552,939	¥644,231	¥607,051
Net property, plant and equipment.....	104,106	99,906	92,128	112,552	126,885
Total investments and other assets.....	48,478	63,405	51,285	52,422	49,675
Total assets.....	792,818	668,998	696,352	809,205	783,611
Total current liabilities.....	198,821	89,272	119,162	168,038	124,794
Total liabilities.....	247,573	139,733	172,982	224,403	185,008
Total net assets (Total shareholders' equity).....	545,245	529,265	523,370	584,802	598,603

Cash Flows	Millions of Yen				
	2008	2009	2010	2011	2012
Cash flows from operating activities.....	¥116,939	¥81,030	¥48,285	¥83,239	¥29,712
Cash flows from investing activities.....	(30,186)	(160,622)	9,613	(35,882)	(8,352)
Cash flows from financing activities.....	(27,033)	(46,016)	(288)	(5,237)	(27,335)
Cash and cash equivalents at end of year.....	193,493	65,883	123,940	165,051	158,776

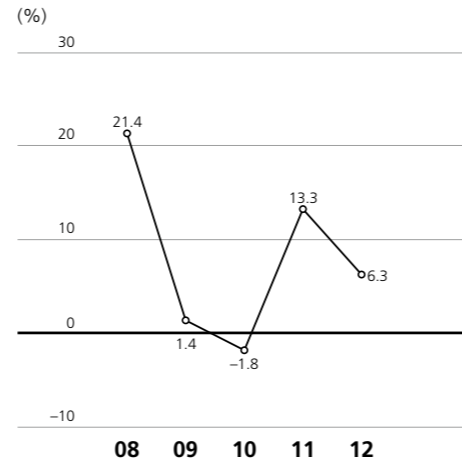
Interest-Bearing Debt, D/E Ratio



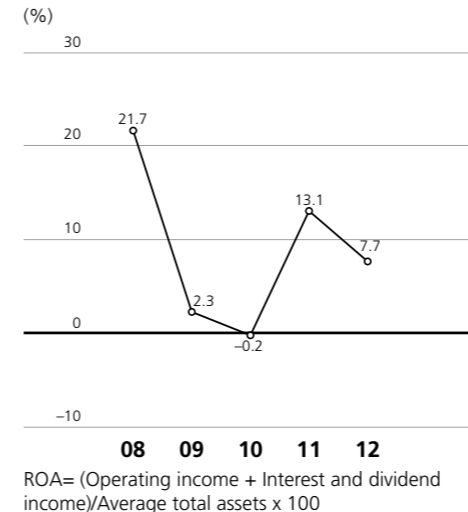
Equity and Equity Ratio



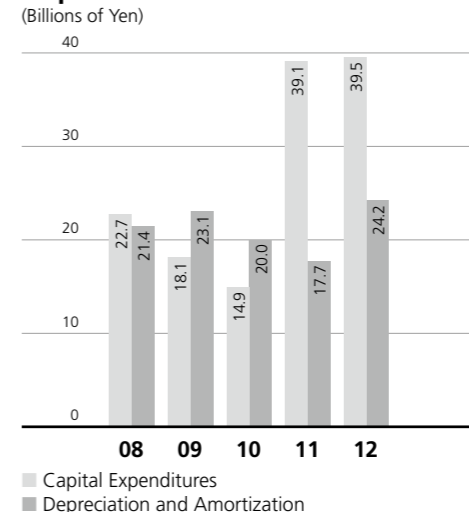
ROE



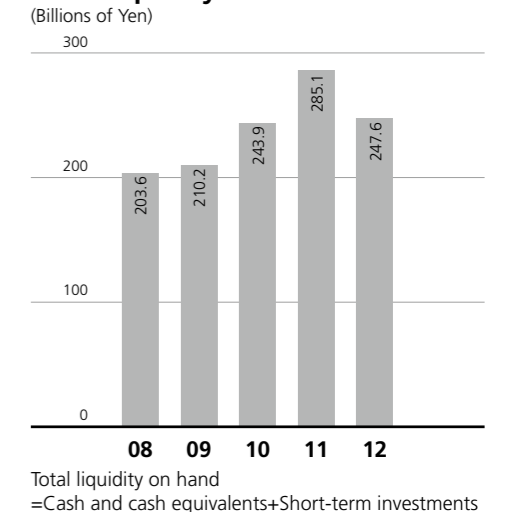
ROA



Capital Expenditures and Depreciation and Amortization



Total Liquidity on Hand



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BUSINESS-RELATED AND OTHER RISKS

The following are possible risks that may have an impact on Tokyo Electron's business performance, stock price, or financial position.

(1) Impact From Changes in the Semiconductor Market

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

(2) Impact From Concentration of Transactions on Particular Customers

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

(3) Impact From Research and Development

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

(4) Safety-related Impact

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

(5) Impact From Quality Issues

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

(6) Impact of Intellectual Property Rights

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

(7) Impact of Fluctuating Foreign Exchange Rates

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

(8) Other Risks

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