

Consolidated Financial Review for the Second Quarter Ended September 30, 2010

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, 2010

(1) Operating results (Cumulative)

	Six months ended	
	September 30, 2009	September 30, 2010
Net sales (Millions of yen)	153,891	318,400
Operating income (Millions of yen)	(21,620)	42,342
Ordinary income (Millions of yen)	(19,212)	45,107
Net income (Millions of yen)	(16,161)	33,454
Net income per share (Yen)	(90.30)	186.88
Fully diluted net income per share (Yen)	-	186.54

(2) Financial position

	As of March 31, 2010	As of September 30, 2010
Total assets (Millions of yen)	696,351	752,576
Net assets (Millions of yen)	523,369	550,607
Equity ratio (%)	73.5	71.6
Net assets per share (Yen)	2,859.37	3,010.12
Equity:	538,972 million yen (as of September 30, 2010)	511,818 million yen (as of March 31, 2010)

2. Dividends

	Year ended March 31, 2010	Year ending March 31, 2011
2Q-end dividend per share (Yen)	4.00	38.00
Year-end dividend per share (Yen)	8.00	64.00 (Forecast)
Annual dividend per share (Yen)	12.00	102.00 (Forecast)

Note: Revision of dividends forecast for during this period: Yes

3. Earnings forecasts for the year ending March 31, 2011

	Year ending March 31, 2011
Net sales (Millions of yen)	675,000
Operating income (Millions of yen)	92,000
Ordinary income (Millions of yen)	95,000
Net income (Millions of yen)	65,000
Net income per share (Yen)	363.02

Note: Revision of earnings forecast for during this period: Yes

4. Others

(1) Important changes in subsidiaries during the current period: None

New: - Excluded: -

(Note: Changes in specified subsidiaries resulting in a change in scope of consolidation for the current quarterly accounting period.)

(2) Adoption of simplified accounting method or any special accounting method: Yes

(Note: Adoption of simplified accounting methods, or use of any special accounting methods for preparing the quarterly consolidated financial statements.)

(3) Changes in accounting principles, procedures and display of accounting method concerning consolidated statement policies:

1. Changes in accounting policies: Yes

2. Other changes: None

(Note: Changes in accounting principles, procedures, or methods of presentation related to the preparation of the quarterly consolidated financial statements, as described in the "Amendment to fundamental items that form the basis for preparing quarterly consolidated financial statements.")

(4) Number of shares outstanding (common stock)

1. Number of shares issued

As of September 30, 2010: 180,610,911 shares

As of March 31, 2010: 180,610,911 shares

2. Number of shares of treasury stock

As of September 30, 2010: 1,557,184 shares

As of March 31, 2010: 1,614,225 shares

3. Average number of shares outstanding

Six months ended September 30, 2010: 179,018,068 shares

Six months ended September 30, 2009: 178,979,828 shares

Notification of the status of quarterly financial review procedures:

At the time of disclosing these quarterly financial results, the quarterly financial statement review procedures are being conducted in accordance with the provisions of the Financial Instruments and Exchange Act.

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.

1. Qualitative Information on Forecasts for Consolidated Financial Results

(1) Qualitative Information on Consolidated Operating Results

During the first half of the current fiscal year (the sixth-month period from April to September 2010), signs of uncertainty over the future developed throughout the latter half of the period, including concerns regarding economic stagnation in United States and Europe. Nonetheless, the global economy remained steady thanks to growing domestic demand in emerging countries, particularly in China and India. In Japan, signs of a moderate recovery were visible, including a bottoming out of capital investment and an increase in exports despite the effects of a rising yen and lingering adverse conditions in the employment environment. In the electronics industry, in which the Tokyo Electron Group conducts its business, demand for PCs continued to increase and the market for digital home appliances and high-performance mobile devices known as smart phones was generally strong. As a result, conditions were favorable in the semiconductor and FPD-related markets, the key components of these products, although there were some indications of a moderate adjustment period, including rising inventory levels.

Against this backdrop, consolidated results for the first half of the current fiscal year continued to improve from the second half of the previous fiscal year, with net sales rising to 318,400 million yen (up 106.9% from the same period of the previous year). Consolidated operating income and ordinary income, respectively, were 42,342 million yen (compared to an operating loss of 21,620 million yen for the same period of the previous year) and 45,107 million yen (compared to an ordinary loss of 19,212 million yen for the same period of the previous year). Net income was 33,454 million yen (compared to a net loss of 16,161 million yen for the same period of the previous year).

In addition, consolidated results during the second quarter (July to September 2010) consisted of net sales reaching 173,510 million yen (up 104.2% from the same period of the previous year), operating income of 24,020 million yen (compared to an operating loss of 7,232 million yen for the same period of the previous year), an ordinary income of 26,043 million yen (compared to an ordinary loss of 5,191 million yen for the same period of the previous year), and a net income of 18,726 million yen (compared to a net loss of 5,125 million yen for the same period of the previous year).

The overview of each business segment is as described below.

(a) Semiconductor Production Equipment

Following the global economic recovery, applications that carry on semiconductors such as smart phones and tablet PCs are expanding in the emerging countries, which shows an increase in demand for semiconductors. As the investment for miniaturization is accelerated, capital investment in wafer fab equipment rose sharply from the previous year. Consequently, net sales from external customers in this segment during the first half of the current fiscal year were 240,229 million yen (up 192.5% from the same period of the previous year). In addition, net sales from external customers in the second quarter were

137,063 million yen (up 165.1% over the same period of the previous year), an improvement over the first quarter.

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

The market for FPD production equipment remained favorable due to steady demand for flat-panel televisions, and panel manufacturers continued to invest in new facilities, particularly in China. In light of developments in the Chinese market, which is expected to achieve further growth in the years ahead, the TEL group decided to establish a new production site in Kunshan City, Jiangsu Province. As for the photovoltaic cell production equipment field, substantial business growth is anticipated over the medium to long term although the field is still in a nascent stage. Net sales from external customers in this segment during the first half of the current fiscal year were 32,860 million yen (up 6.9% over the same period of the previous year). Net sales from external customers in this segment during the second quarter were 12,553 million yen (up 16.2% from the same period of the previous year).

(c) Electronic Components and Computer Networks

In the semiconductor and electronic device segment, demand for industrial equipment including medical devices, factory automation equipment, and semiconductor production equipment was strong, and sales of analog ICs and custom ICs were up. In the computer system segment, even though corporations continued to maintain a cautious stance toward IT investment, the maintenance service-related business performed well. As a consequence, net sales from external customers in this segment during the first half of the current fiscal year were 45,075 million yen (up 10.5% over the same period of the previous year). In addition, net sales from external customers in the second quarter were 23,754 million yen (up 6.3% from the same period of the previous year), an improvement from the first quarter.

(d) Others

Net sales from external customers in this segment during the first half of the current fiscal year were 234 million yen (up 11.0% over the same period of the previous year). Net sales from external customers in the second quarter were 138 million yen (up 13.8% over the same period of the previous year).

Note: From the first quarter of the current consolidated fiscal year, the business segment information is provided in conformity with the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Corporate Accounting Standards, ASBJ Statement No.17, dated 27 March, 2009), and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Corporate Accounting Standards, ASBJ Guidance No.20, dated 21 March, 2008). Due to this reason, the comparison of net sales from external customers to the same period of the previous fiscal year for each business segment has been made after rearrangement of the first quarter financial results into the reported segments after applying the above standards.

(For reference)
Consolidated

(Millions of yen)

	FY2011			(Ref.) FY2010	
	1Q	2Q	Total	1H	2H
Net Sales	144,889	173,510	318,400	153,891	264,745
Semiconductor Production Equipment	103,166	137,063	240,229	82,136	180,254
Japan	18,404	28,547	46,952	15,745	28,429
U.S.	17,552	22,474	40,026	20,795	34,760
Europe	2,942	7,028	9,970	5,148	5,788
Korea	21,445	30,126	51,571	11,684	33,032
Taiwan	34,014	37,082	71,097	22,537	54,258
China	4,649	5,195	9,844	2,589	5,026
S.E.Asia and others	4,158	6,608	10,766	3,635	18,959
FPD/PV Production Equipment	20,306	12,553	32,860	30,743	40,618
Electronic Components & Computer Networks	21,321	23,754	45,075	40,799	43,673
Others	95	138	234	211	199
Operating Income (Loss)	18,321	24,020	42,342	(21,620)	19,439
Ordinary Income (Loss)	19,063	26,043	45,107	(19,212)	21,771
Net Income (Loss)	14,727	18,726	33,454	(16,161)	7,127

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

(2) Qualitative Information on Consolidated Financial Conditions

(i) Financial Conditions

Current assets at the end of the second quarter of the current fiscal year increased by 49,338 million yen to 602,277 million yen from the end of the previous fiscal year. The major factors influencing this result were a 24,000 million yen increase in certificates of deposit included in securities, and a 27,499 million yen increase in inventories.

Tangible fixed assets increased by 7,889 million yen from the end of the previous fiscal year to 100,016 million yen.

Intangible fixed assets decreased by 756 million yen from the end of the previous fiscal year to 4,829 million yen.

Investments and other assets decreased 246 million yen from the end of the previous fiscal year to 45,452 million yen.

As a result, total assets increased by 56,224 million yen from the end of the previous fiscal year to 752,576 million yen.

Current liabilities were up 28,191 million yen from the end of the previous fiscal year to 147,353 million yen. Major factors contributing to this increase were an increase in trade notes and accounts payable of 5,933 million yen, an increase in income taxes payable of 11,459 million yen, and an increase in customer advances of 4,590 million yen.

Long-term liabilities rose 795 million yen from the end of the previous fiscal year to 54,615 million yen.

Net assets were 550,607 million yen, an increase attributed to net income of 33,454 million yen and a decrease resulting from a year-end dividend payout of 1,431 million yen for the previous fiscal year. The equity ratio was 71.6%.

(ii) Cash Flow

Cash and cash equivalents at the end of the second quarter of the current fiscal year increased by 24,463 million yen from the end of the previous fiscal year to 148,403 million yen. The combined balance of cash and cash equivalents, plus 120,000 million yen in time deposits and negotiable certificates of deposit with deposit terms of over three months (which are not included in cash and cash equivalents) was 268,403 million yen. The overall situation regarding cash flow during the first half of the current fiscal year was as follows:

Cash flow from operating activities increased by 820 million yen from the same period of the previous year to 41,187 million yen. Major positive factors included 45,049 million yen in income before income taxes, 7,819 million yen in depreciation and amortization, a 6,785 million yen increase in accounts payable, a 2,512 million yen decrease in consumption tax receivable, and a 4,827 million yen increase in customer advances. The major negative factors included a 31,377 million yen increase in inventories.

Cash flow from investing activities was 15,986 million yen, compared to 57,120 million yen for the same period of the previous year, primarily the result of a 13,814 million yen payment for the purchase of tangible fixed assets.

Cash flow from financing activities was 317 million yen, compared to 936 million yen for the same period of the previous year, attributed mainly to net increase in short-term borrowings worth 1,502 million yen and dividends paid of 1,431 million yen.

In addition, the overall situation for cash flow in the second quarter of the current fiscal year was as follows: Cash flow from operating activities increased by 5,328 million yen from the same period of the previous year to 31,322 million yen. The main positive factors were 25,798 million yen in income before income taxes, 4,093 million yen in depreciation and amortization, an 8,220 million yen decrease in trade notes and accounts receivable, and a 4,029 million yen increase in trade notes and accounts payable. The major negative factors included a 16,887 million yen increase in inventories.

Cash flow from investing activities was 11,545 million yen, compared to 51,747 million yen for the same period of the previous year, primarily as a result of 9,700 million yen in payment for purchase of tangible fixed assets.

Cash flow from financing activities was 4,033 million yen, compared to 1,938 million yen for the same period of the previous year; mainly as a result of a 3,670 million yen in net increase in short-term borrowings.

(3) Qualitative Information on Forecasts for Consolidated Financial Results

With semiconductor manufacturers making robust capital investment, sales of semiconductor production equipment, our main business, are projected to rise. Accordingly, the consolidated financial forecast for the entire fiscal year has been revised as follows:

Consolidated forecast	(Billions of yen, YY change)	
	FY2011 (E)	
Net Sales	675.0	61.2%
Semiconductor Production Equipment	518.0	97.4%
FPD/PV Production Equipment	64.5	-9.6%
Electronic Components & Computer Networks	92.0	8.9%
Others	0.5	-
Operating Income	92.0	-
Ordinary Income	95.0	-
Net Income	66.0	-

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

Note: The financial forecasts and estimates stated in this interim financial review are based on certain assumptions judged to be reasonable at the present time 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.

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 production equipment business. Consequently, actual sales and profits may differ substantially from the projections stated in this financial review.

Consolidated Balance Sheet

TOKYO ELECTRON

(Millions of yen)

	As of March 31, 2010	As of September 30, 2010
ASSETS		
Current assets		
Cash and deposit	56,939	57,403
Trade notes and accounts receivable	124,462	121,605
Securities	187,000	211,000
Merchandise and finished goods	87,201	105,727
Work in process	37,793	46,891
Raw materials and supplies	13,455	13,331
Others	46,263	47,350
Allowance for doubtful accounts	(176)	(1,031)
Total current assets	<u>552,939</u>	<u>602,277</u>
Long-term assets		
Tangible fixed assets	92,127	100,016
Intangible fixed assets		
Others	5,586	4,829
Total intangible fixed assets	<u>5,586</u>	<u>4,829</u>
Investments and other assets		
Others	53,151	49,445
Allowance for doubtful accounts	(7,452)	(3,993)
Total investments and other assets	<u>45,698</u>	<u>45,452</u>
Total long-term assets	<u>143,412</u>	<u>150,298</u>
Total assets	<u>696,351</u>	<u>752,576</u>

(Millions of yen)

	As of March 31, 2010	As of September 30, 2010
LIABILITIES		
Current liabilities		
Trade notes and accounts payable	52,359	58,292
Income taxes payable	4,355	15,814
Accrued employees' bonuses	6,043	9,897
Other allowance	5,294	7,168
Others	51,109	56,179
Total current liabilities	<u>119,161</u>	<u>147,353</u>
Long-term liabilities		
Accrued pension and severance costs	49,906	51,224
Other allowance	621	619
Others	3,291	2,771
Total long-term liabilities	<u>53,820</u>	<u>54,615</u>
Total liabilities	<u>172,982</u>	<u>201,968</u>
NET ASSETS		
Shareholders' equity		
Common stock	54,961	54,961
Capital surplus	78,034	78,045
Retained earnings	393,970	425,992
Treasury stock	(10,900)	(10,513)
Total shareholders' equity	<u>516,065</u>	<u>548,485</u>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,504	1,134
Deferred gains or losses on hedges	(67)	65
Translation adjustments	(6,683)	(10,713)
Total valuation and translation adjustments	<u>(4,247)</u>	<u>(9,513)</u>
Subscription rights to shares	1,578	1,397
Minority interests	9,973	10,237
Total net assets	<u>523,369</u>	<u>550,607</u>
Total liabilities and net assets	<u>696,351</u>	<u>752,576</u>

Consolidated Statement of Income

TOKYO ELECTRON

(Millions of yen)

	Six months ended September 30, 2009	Six months ended September 30, 2010
Net sales	153,891	318,400
Cost of sales	123,020	209,683
Gross profit	30,870	108,717
Selling, general & administrative expenses		
Research and development expenses	25,173	34,120
Others	27,317	32,254
Total selling, general & administrative expenses	52,490	66,375
Operating income (loss)	(21,620)	42,342
Non-operating income		
Interest income	554	376
Revenue from development grants	939	1,836
Others	1,182	734
Total non-operating income	2,676	2,947
Non-operating expenses		
Lease expenses of fixed assets	88	-
Maintenance and operation cost of closed business bases	-	104
Others	180	77
Total non-operating expenses	269	182
Ordinary income (loss)	(19,212)	45,107
Unusual or infrequent profit		
Reversal of allowance for doubtful accounts	19	309
Reversal of expenses for integration and closure of business bases	-	120
Gain on sale of fixed assets	24	-
Others	-	76
Total unusual or infrequent profit	43	506
Unusual or infrequent loss		
Loss on retirement or sale of fixed assets	-	399
Loss on impairment	4,764	122
Expenses for integration and closure of business bases	1,564	-
Others	751	42
Total unusual or infrequent loss	7,080	564
Income (loss) before income taxes	(26,249)	45,049
Provision for income taxes and enterprise taxes	(10,234)	11,193
Income before minority interests	-	33,856
Minority interests	146	402
Net income (loss)	(16,161)	33,454

Consolidated Cash Flow

TOKYO ELECTRON

(Millions of yen)

	Six months ended September 30, 2009	Six months ended September 30, 2010
Cash flow from operating activities		
Income (loss) before income taxes	(26,249)	45,049
Depreciation and amortization	9,885	7,819
Loss on impairment	4,764	-
Increase in accrued pension and severance costs (decrease)	1,416	1,344
Increase in allowance for doubtful accounts (decrease)	-	(2,475)
Increase in accrued employees' bonuses (decrease)	(1,103)	3,853
Increase in accrued warranty expenses (decrease)	(1,655)	1,662
Interest and dividend income	(586)	(414)
Decrease in trade notes and accounts receivable (increase)	29,918	1,434
Decrease in inventories (increase)	6,249	(31,377)
Increase in accounts payable (decrease)	7,151	6,785
Decrease in consumption tax receivable (increase)	7,725	2,512
Increase in customer advances (decrease)	(4,978)	4,827
Decrease in specific doubtful receivables (increase)	-	3,333
Others	26	297
Subtotal	<u>32,564</u>	<u>44,653</u>
Receipts from interest and dividends	644	446
Interest paid	(20)	(18)
Income taxes paid or refund (paid)	7,178	(3,894)
Net cash generated by operating activities	<u>40,367</u>	<u>41,187</u>
Cash flow from investing activities		
Decrease in time deposits (increase)	(48,166)	-
Payment for purchase of tangible fixed assets	(8,425)	(13,814)
Payment for purchase of intangible fixed assets	(329)	-
Others	(199)	(2,172)
Net cash used in investing activities	<u>(57,120)</u>	<u>(15,986)</u>
Cash flow from financing activities		
Net increase in short-term borrowings (decrease)	1,668	1,502
Dividends paid	(715)	(1,431)
Others	(15)	247
Net cash generated by financing activities	<u>936</u>	<u>317</u>
Effect of exchange rate changes on cash and cash equivalents	373	(1,054)
Net increase in cash and cash equivalents (decrease)	(15,443)	24,463
Cash and cash equivalents at beginning of period	65,883	123,939
Cash and cash equivalents at end of period	50,440	148,403

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

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/PV (Flat Panel Display and Photovoltaic Cell) Production Equipment segment consists of coaters/developers, plasma etch/ash system used in the manufacturing of flat panel displays, and plasma CVD systems used in the manufacturing of thin film silicon PV cells, and we are engaged in the development, manufacturing, sales and provision of maintenance services, etc. for such products.

The Electronic Components and Computer Networks segment consists of semiconductor products centering on integrated circuits (IC), other electronic components, computer networks and software, etc., and we are engaged in the design, development, procurement, and sales, etc. for such products.

(ii) Net sales and profit/loss in reportable segments

Six months ended September 30, 2010

(Millions of yen)

	Reportable Segment			Others
	Semiconductor Production Equipment	FPD/PV Production Equipment	Electronic Components & Computer Networks	
Net sales	240,229	32,860	45,535	7,688
Segment income	54,602	3,677	1,311	1,056
	Total Segment	Eliminations	Consolidated Total	
Net sales	326,314	(7,913)	318,400	
Segment income	60,648	(15,598)	45,049	

Notes:

- The "Others" segment includes all other businesses 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 amounting to 15,598 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 10,959 million yen, pertaining to fundamental research and element research conducted by the company not related to any of the reportable segments.
- Segment income is adjusted against quarterly net income before taxes in the quarterly consolidated income statement.

(iii) 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

(Additional Information)

From the first quarter of the current consolidated fiscal year, the business segment information is provided in conformity with the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Corporate Accounting Standards, ASBJ Statement No.17, dated March 27, 2009), and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Corporate Accounting Standards, ASBJ Guidance No.20, dated March 21, 2008).