# Notes to Consolidated Financial Statements

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2016 and 2015

## 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.

U.S. dollar amounts included herein are solely for the convenience of readers and are presented at the rate of ¥112.68 to $1.00, the approximate rate as of March 31, 2016. 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 37 and 46 subsidiaries as of March 31, 2016 and 2015, respectively.

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

The Company transferred a portion of its shares of Tokyo Electron Device Limited on April 1, April 15 and May 9, 2014. As a result, effective on April 1, 2014, the classification of Tokyo Electron Device Limited changed from a consolidated subsidiary to an equity method affiliate. In accordance with this change, 8 affiliates apply equity method as of March 31, 2016. The fiscal year-end of all entities is March 31, except for 5 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, 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 in the consolidated balance sheets.

**(c) Cash equivalents**

Tokyo Electron considers all highly-liquid instruments purchased with original maturities of three months or less to be cash equivalents.

**(d) Short-term investments**

Short-term investments consist of short term deposits and low-risk financial instruments with original maturities of more than three months.

**(e) Investment securities**

Tokyo Electron examines the intent of holding each security and classifies those securities as trading securities, held-to-maturity debt securities or other securities. Tokyo Electron has no trading securities. Held-to-maturity debt securities are stated mainly at amortized cost. Other securities with market prices are valued at fair 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. 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 other than raw materials are stated at the lower of cost, determined by principally the specific identification method, or net realizable value, which is defined as selling price less estimated additional manufacturing costs and estimated direct selling expenses. Raw materials are stated at the lower of cost, determined principally by the moving-average method, or replacement cost.

**(g) Property, plant and equipment**

Property, plant and equipment are stated at cost. Depreciation of buildings, machinery and equipment of the Company and its domestic subsidiaries is computed using the declining balance method, except for buildings acquired subsequent to March 31, 1998 which are depreciated using the straight-line method, based on the estimated useful lives of assets. Foreign subsidiaries mainly apply the straight-line method over the estimated useful lives of assets.

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

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

**(h) Intangible assets (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.

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 allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debts with respect to ordinary receivables, and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

**(l) 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 liability for defined benefits in the consolidated balance sheets.

**(m) Accrued warranty expenses**

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

**(n) Derivatives and hedge accounting**

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

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

**(o) Income taxes**

Tokyo Electron records deferred tax assets and liabilities on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the

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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 realized.

**(p) Revenue recognition**

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

**(q) Per share information**

Net income per share and net assets per share are computed based on the weighted-average number of shares of common stock outstanding during each year. 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, 2016 and 2015 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Net income attributable to owners of parent | ¥77,892 | ¥71,888 | $691,267 |
| Less components not pertaining to holders of common stock | — | — | — |
| Net income pertaining to holders of common stock | ¥77,892 | ¥71,888 | $691,267 |
| Weighted-average number of shares of common stock outstanding (thousands) | 168,924 | 179,238 | |

**(r) Research and development expenses**

Research and development expenses are charged to earnings as incurred and amounted to ¥76,287 million ($677,023 thousand) and ¥71,350 million for the years ended March 31, 2016 and 2015, 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, 2016.

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

Year ended March 31, 2016

The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013 (hereinafter, "Statement No.21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013 (hereinafter, "Statement No.22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013 (hereinafter, "Statement No.7")) (together, the "Business Combination Accounting Standards"), from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests". Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities".

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the current fiscal year prospectively.

There is no effect on the consolidated financial statements of the current fiscal year.

Year ended March 31, 2015

Effective from the year ended March 31, 2015, the Company and its consolidated domestic subsidiaries adopted article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, May 17, 2012 (hereinafter, "Statement No.26")) and article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, May 17, 2012 (hereinafter, "Guidance No.25")), and have changed the determination of retirement benefit obligations and current service costs. In addition, the Company and its consolidated domestic subsidiaries have changed the method of attributing expected benefit to periods from straight-line attribution to a benefit formula basis and determining the discount rates.

In accordance with article 37 of Statement No.26, the effect of changing the determination of retirement benefit obligations and current service costs were recognized in retained earnings at the beginning of the year ended March 31, 2015.

The effect of the adoption of the accounting standards on the Company's consolidated financial statements for the year ended March 31, 2015 was immaterial.

## 4. Accounting Standards issued but not yet adopted

"Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No.26"))

(1) Overview

Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets", which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

1. Treatment for an entity that does not meet any of the criteria in types 1 to 5;
2. Criteria for types 2 and 3;
3. Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2017

(3) Effects of application of the Guidance

The Company and its domestic subsidiaries are currently in the process of determining the effects of these revised standards on the consolidated financial statements.

## 5. Supplemental Information on the Consolidated Statements of Cash Flows

Information of assets and liabilities of a deconsolidated subsidiary and the relationship between the sales price of shares and the net proceeds from the sales transaction for the year ended March 31, 2015 are as follows:

| | Millions of yen |
|---|---|
| | 2015 |
| Current assets | ¥51,578 |
| Non-current assets | 6,333 |
| Current liabilities | (25,311) |
| Non-current liabilities | (9,222) |
| Non-controlling interests | (10,420) |
| Equity investment interest after sale of shares | (7,983) |
| Accumulated other comprehensive income | (113) |
| Loss on sale of affiliates' shares | (1,609) |
| Loss on change in equity | (242) |
| Sales price of shares | 3,011 |
| Cash and cash equivalents | (1,285) |
| Net proceeds from sales of affiliates' shares | ¥ 1,726 |

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## 6. Securities

Other securities as of March 31, 2016 and 2015 are as follows:

| 2016: | Millions of yen Cost | Millions of yen Carrying value |
|---|---|---|
| Non-current | | |
| Securities with market prices | | |
| Equity securities | ¥7,204 | ¥18,580 |
| Securities without market prices | | |
| Unlisted stock | 1,318 | 1,334 |
| Total | ¥8,522 | ¥19,914 |

| 2015: | Millions of yen Cost | Millions of yen Carrying value |
|---|---|---|
| Non-current | | |
| Securities with market prices | | |
| Equity securities | ¥8,282 | ¥22,230 |
| Securities without market prices | | |
| Unlisted stock | 1,621 | 1,645 |
| Other | 60 | 60 |
| Total | ¥9,963 | ¥23,935 |

| 2016: | Thousands of U.S. dollars Cost | Thousands of U.S. dollars Carrying value |
|---|---|---|
| Non-current | | |
| Securities with market prices | | |
| Equity securities | $63,933 | $164,891 |
| Securities without market prices | | |
| Unlisted stock | 11,697 | 11,839 |
| Total | $75,630 | $176,730 |

Held-to-maturity securities classified as current assets are ¥160,999 million ($1,428,816 thousand) and ¥238,300 million as of March 31, 2016 and 2015, respectively.

Reconciliation of held-to-maturity securities as of March 31, 2016 and 2015 to the amounts of short-term investments in the consolidated balance sheets are as follows:

| | Millions of yen 2016 | Millions of yen 2015 | Thousands of U.S. dollars 2016 |
|---|---|---|---|
| Held-to-maturity (current) | ¥160,999 | ¥238,300 | $1,428,816 |
| Deposits and low-risk financial instruments with original maturities of three months or less | (45,000) | (238,068) | (399,361) |
| Deposits with original maturities of more than three months | 25,036 | 51 | 222,187 |
| Short-term investments | ¥141,035 | ¥ 283 | $1,251,642 |

Net loss on devaluation of investment securities was ¥331 million ($2,938 thousand) and ¥0 million for the years ended March 31, 2016 and 2015, respectively.

For the year ended March 31, 2016, the Company sold available-for-sale securities and recognized the following gain and loss on sale:

| | Millions of yen Amount of sale | Millions of yen Gain on sale | Millions of yen Loss on sale |
|---|---|---|---|
| Equity securities | ¥1,275 | ¥446 | ¥247 |
| Total | ¥1,275 | ¥446 | ¥247 |

| | Thousands of US dollars Amount of sale | Thousands of US dollars Gain on sale | Thousands of US dollars Loss on sale |
|---|---|---|---|
| Equity securities | $11,315 | $3,958 | $2,192 |
| Total | $11,315 | $3,958 | $2,192 |

For the year ended March 31, 2015, the amount of gain and loss on sale of available-for-sale securities was immaterial.

## 7. Inventories

Inventories as of March 31, 2016 and 2015 are as follows:

| | Millions of yen 2016 | Millions of yen 2015 | Thousands of U.S. dollars 2016 |
|---|---|---|---|
| Finished products | ¥130,479 | ¥112,301 | $1,157,961 |
| Work in process, raw materials and supplies | 64,601 | 63,287 | 573,313 |
| Total | ¥195,080 | ¥175,588 | $1,731,274 |

The amounts of change in inventory provision included in cost of sales in the consolidated statements of income for the years ended March 31, 2016 and 2015 were an increase of ¥758 million ($6,723 thousand) and a decrease of ¥582 million, respectively.

## 8. Other Income (Expenses)

**Loss on impairment of property, plant and equipment, goodwill and other assets**

For the years ended March 31, 2016 and 2015, the following loss on impairment has been recognized:

Year ended March 31, 2016

(1) Goodwill and non-current assets of TEL FSI, Inc.

| Location | Use | Type of Asset | Loss on impairment Millions of yen | Loss on impairment Thousands of U.S. dollars |
|---|---|---|---|---|
| Chaska, Minnesota, U.S.A. | Business assets | Goodwill | ¥3,825 | $33,946 |
| | | Buildings | 2,756 | 24,459 |
| | | Other intangible assets | 2,880 | 25,559 |
| | | Total | ¥9,461 | $83,964 |

Tokyo Electron performed an impairment test and recognized loss on impairment of assets of TEL FSI, Inc., a subsidiary manufacturing semiconductor production equipment, due to TEL FSI, Inc.'s reconsideration of its business plan. Tokyo Electron recognized the difference between the book value and the recoverable amount of goodwill, buildings, and other intangible assets as loss on impairment. The recoverable amount was measured as value in use, and was calculated by discounting future cash flows at a discount rate of 14.0-14.5%.

(2) Others

Loss on impairment of ¥266 million ($2,360 thousand) was recognized for other asset groups of Tokyo Electron.

Year ended March 31, 2015

(1) Non-current assets of Tokyo Electron (Kunshan) Limited

| Location | Use | Type of Asset | Loss on impairment Millions of yen |
|---|---|---|---|
| Kunshan, Jiangsu, China | Plant | Buildings, machinery and equipment, and other assets | ¥2,119 |

Due to a significant downturn in profitability caused by the marked deterioration in operating conditions, Tokyo Electron (Kunshan) Limited, a subsidiary manufacturing FPD production equipment, recognized the difference between book value and recoverable amount of property, plant and equipment as loss on impairment. The recoverable amount was measured as the net selling price calculated based on reasonable estimates, such as real estate appraisals performed by third party valuation experts.

(2) Others

Loss on impairment of ¥387 million was recognized for other asset groups of Tokyo Electron.

**Loss on business restructuring**

Loss on business restructuring of ¥2,235 million ($19,835 thousand) for the year ended March 31, 2016 represents losses on business restructuring in U.S. subsidiaries, which mainly consists of inventory disposal costs.

## 9. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2016 and 2015.

## 10. Short-term Borrowings

There are no short-term borrowings classified as current liabilities as of March 31, 2016 and 2015.

As of March 31, 2016 and 2015, Tokyo Electron has unused lines of credit amounting to ¥114,960 million ($1,020,234 thousand) and ¥114,990 million, respectively.

## 11. Employee Benefits

The Company and its domestic subsidiaries provide for their employees a cash balance plan and a non-contributory retirement and severance benefit plan as defined benefit plans for their employees. Further, certain consolidated overseas subsidiaries provide defined benefit plans for their employees.

Defined benefit plans

(1) Movement of defined benefit obligations

| | Millions of yen 2016 | Millions of yen 2015 | Thousands of U.S. dollars 2016 |
|---|---|---|---|
| Balance at April 1, 2015 and 2014 | ¥112,272 | ¥113,221 | $ 996,379 |
| Cumulative effect of changes in accounting policies | — | 2,034 | — |
| Restated balance | 112,272 | 115,255 | 996,379 |
| Service cost | 5,677 | 5,697 | 50,382 |
| Interest cost | 1,273 | 1,608 | 11,297 |
| Actuarial loss | 9,690 | 4,793 | 85,996 |
| Benefits paid | (7,748) | (5,138) | (68,761) |
| Effect of change in scope of consolidation | (4,548) | (11,095) | (40,362) |
| Foreign currency exchange rate changes | (475) | 969 | (4,215) |
| Other | 87 | 183 | 771 |
| Balance at March 31, 2016 and 2015 | ¥116,228 | ¥112,272 | $1,031,487 |

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(2) Movement of plan assets

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Balance at April 1, 2015 and 2014 | ¥70,905 | ¥69,540 | $629,260 |
| Expected return on plan assets | 1,271 | 1,332 | 11,280 |
| Actuarial gain (loss) | (2,304) | 3,997 | (20,447) |
| Employer contributions | 2,997 | 3,406 | 26,597 |
| Benefits paid | (5,506) | (3,053) | (48,864) |
| Effect of change in scope of consolidation | (4,461) | (5,542) | (39,590) |
| Foreign currency exchange rate changes | (380) | 952 | (3,372) |
| Other | 27 | 273 | 239 |
| Balance at March 31, 2016 and 2015 | ¥62,549 | ¥70,905 | $555,103 |

(3) Reconciliation from defined benefit obligations and plan assets to liability (asset) for defined benefits

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Funded defined benefit obligations | ¥62,003 | ¥62,213 | $550,257 |
| Plan assets | (62,549) | (70,905) | (555,103) |
| Funded status | (546) | (8,692) | (4,846) |
| Unfunded defined benefit obligations | 54,225 | 50,059 | 481,230 |
| Asset ceiling adjustments (note 1) | — | 921 | — |
| Net liability for defined benefits at March 31, 2016 and 2015 | ¥53,679 | ¥42,288 | $476,384 |
| Net liability for defined benefits (note 2) | 55,302 | 51,105 | 490,788 |
| Net asset for defined benefits | (1,623) | (8,817) | (14,404) |
| Net liability for defined benefits at March 31, 2016 and 2015 | ¥53,679 | ¥42,288 | $476,384 |

Notes: 1. The asset ceiling adjustment represents plan assets exceeding the asset ceiling for overseas subsidiaries that apply International Accounting Standard 19 Employee Benefits.
2. The provision for accrued pension and severance costs for directors and audit & supervisory board members of ¥375 million ($3,328 thousand) as of March 31, 2016 and 2015 is not included.

(4) Defined benefit costs

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Service cost | ¥5,677 | ¥5,697 | $50,382 |
| Interest cost | 1,273 | 1,608 | 11,297 |
| Expected return on plan assets | (1,271) | (1,332) | (11,280) |
| Net actuarial gain amortization | (2,268) | (2,570) | (20,126) |
| Other | 243 | 528 | 2,155 |
| Total defined benefit costs for the fiscal years ended March 31, 2016 and 2015 | ¥3,654 | ¥3,931 | $32,428 |

(5) Remeasurements of defined benefit plants

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Actuarial losses | ¥(13,594) | ¥(3,572) | $(120,643) |

(6) Accumulated remeasurements of defined benefit plants

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Net actuarial gain (loss) that is yet to be recognized (before tax) | ¥(6,582) | ¥7,180 | $(58,413) |

(7) Plan assets

1. Plan assets comprise

| | 2016 | 2015 |
|---|---|---|
| Bonds | 46% | 46% |
| Life insurance company general account | 26 | 20 |
| Equity securities | 17 | 22 |
| Cash and cash equivalents | 2 | 2 |
| Other | 9 | 10 |
| Total | 100% | 100% |

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 at and for the years ended March 31, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | 0.59% | 1.15% |
| Long-term expected rate of return | 2.00% | 2.00% |

## 12. Income Taxes

Significant components of the deferred tax assets and liabilities of Tokyo Electron as of March 31, 2016 and 2015 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Deferred tax assets | | | |
| Net liability for defined benefits | ¥17,717 | ¥17,913 | $157,233 |
| Net operating loss carryforwards | 17,061 | 19,842 | 151,411 |
| Elimination of unrealized profit in inventories | 14,100 | 11,582 | 125,133 |
| Devaluation of inventories | 4,913 | 4,149 | 43,601 |
| Loss on impairment of property, plant and equipment and other assets | 3,037 | 3,026 | 26,952 |
| Accrued employees' bonuses | 2,831 | 3,210 | 25,124 |
| Accrued warranty expenses | 2,395 | 2,734 | 21,255 |
| Other | 12,366 | 10,003 | 109,745 |
| Total gross deferred tax assets | 74,420 | 72,459 | 660,454 |
| Less valuation allowance | (11,995) | (13,506) | (106,452) |
| Total deferred tax assets | 62,425 | 58,953 | 554,002 |
| Deferred tax liabilities | | | |
| Undistributed earnings of subsidiaries | (5,383) | (5,620) | (47,772) |
| Intangible assets identified through business combination | (3,741) | (5,255) | (33,200) |
| Net unrealized gains on investment securities | (3,487) | (4,510) | (30,946) |
| Other | (3,146) | (5,863) | (27,920) |
| Total deferred tax liabilities | (15,757) | (21,248) | (139,838) |
| Net deferred tax assets | ¥46,668 | ¥37,705 | $414,164 |

Net deferred tax assets are included in the consolidated balance sheets as of March 31, 2016 and 2015 as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Current assets | ¥31,204 | ¥27,672 | $276,926 |
| Investments and other assets | 20,782 | 18,348 | 184,434 |
| Other current liabilities | — | (1) | — |
| Other non-current liabilities | (5,318) | (8,314) | (47,196) |

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which temporary differences become deductible. For assessment of the realizability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, future estimated taxable income, tax planning strategies and level of net operating loss carryforwards, if any, in accordance with accounting principles generally accepted in Japan.

Based on the level of historical taxable income and future estimated taxable income over the periods which the temporary differences are deductible, management believes Tokyo Electron will realize the benefits of deferred tax assets, net of valuation allowance, as of March 31, 2016 and 2015.

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

On March 31, 2016, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 were changed from 32.34% to 30.86% and 30.62%, respectively, as of March 31, 2016.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥1,781 million ($15,806 thousand), and deferred income tax expense increased by ¥1,893 million ($16,800 thousand) for the fiscal year ended March 31, 2016.

Significant components of the difference between the statutory and effective tax rates for the years ended March 31, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Statutory tax rate in Japan | 33.06% | 35.64% |
| Adjustments: | | |
| Tax credits | (7.49) | (4.35) |
| Effect of enacted changes in Japanese tax rates on net deferred tax assets | 1.78 | 3.39 |
| Amortization and impairment of goodwill | 1.49 | 0.45 |
| Effect of elimination of unrealized profit | (1.30) | 0.70 |
| Change in valuation allowance | (0.83) | (17.51) |
| Others, net | 0.09 | (1.16) |
| Effective tax rate | 26.80% | 17.16% |

## 13. 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.

# Notes to Consolidated Financial Statements

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, 2016, the distribution of cash dividends amounting to ¥18,372 million ($163,046 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2016 since they are recognized in the period in which they are resolved at the board of directors' meeting.

## 14. Other Comprehensive Income

Other comprehensive income for the years ended March 31, 2016 and 2015 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Net unrealized gains on investment securities | | | |
| Net unrealized gains (losses) arising during the year | ¥ (2,379) | ¥5,281 | $ (21,113) |
| Reclassification adjustments | (201) | 0 | (1,784) |
| Sub-total, before tax | (2,580) | 5,281 | (22,897) |
| Tax expense | 1,024 | (1,413) | 9,088 |
| Sub-total, net of tax | (1,556) | 3,868 | (13,809) |
| Net deferred gains (losses) on hedging instruments | | | |
| Net deferred gains (losses) arising during the year | (168) | 95 | (1,491) |
| Reclassification adjustments | — | 3 | — |
| Sub-total, before tax | (168) | 98 | (1,491) |
| Tax expense | 56 | (29) | 497 |
| Sub-total, net of tax | (112) | 69 | (994) |
| Foreign currency translation adjustments | | | |
| Adjustments during the year | (5,705) | 6,664 | (50,630) |
| Reclassification adjustments | (1) | (21) | (9) |
| Sub-total, before tax | (5,706) | 6,643 | (50,639) |
| Tax expense | — | — | — |
| Sub-total, net of tax | (5,706) | 6,643 | (50,639) |
| Remeasurements of defined benefit plans | | | |
| Adjustments during the year | (11,326) | (907) | (100,515) |
| Reclassification adjustments | (2,268) | (2,665) | (20,128) |
| Sub-total, before tax | (13,594) | (3,572) | (120,643) |
| Tax expense | 4,361 | 1,302 | 38,703 |
| Sub-total, net of tax | (9,233) | (2,270) | (81,940) |
| Share of other comprehensive income of associates accounted for using equity method | | | |
| Adjustments during the year | (345) | 56 | (3,062) |
| Total other comprehensive income | ¥(16,952) | ¥8,366 | $(150,444) |

## 15. 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 135,700 shares of the Company were authorized and granted at an exercise price of ¥1 ($0.01) for the year ended March 31, 2016.

A summary of stock options outstanding and exercisable as of March 31, 2016 and 2015 is as follows:

| | 2016 | | | 2015 | |
|---|---|---|---|---|---|
| | Number of shares | Weighted-average exercise price | | Number of shares | Weighted-average exercise price |
| | | Yen | U.S. dollars | | Yen |
| Outstanding at the beginning of year | 378,200 | ¥1 | $0.01 | 479,300 | ¥1 |
| Granted | 135,700 | 1 | 0.01 | — | — |
| Exercised | 207,400 | 1 | 0.01 | 88,900 | 1 |
| Expired (forfeited) | 1,000 | 1 | 0.01 | 12,200 | 1 |
| Outstanding at the end of year | 305,500 | 1 | 0.01 | 378,200 | 1 |
| Exercisable at the end of year | 169,800 | 1 | 0.01 | 252,100 | 1 |

### Amounts expensed related to stock options

The amounts expensed related to stock options for the years ended March 31, 2016 and 2015, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Selling, general and administrative expenses | ¥967 | ¥153 | $8,582 |

### 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, 2016 was ¥6,909 ($61.32) per unit, which was evaluated as follows:

(1) Valuation method used : Black-Scholes model

(2) Major underlying assumptions and estimates:

| | 11th Stock Acquisition Rights |
|---|---|
| Volatility (Note 1) | 39.21% |
| Expected residual periods (Note 2) | 11.5 years |
| Expected dividends (Note 3) | ¥96.5 ($0.86) per share |
| Risk-free interest rate (Note 4) | 0.52% |

Notes: 1. Calculated based on the stock price performance for 11.5 years (from December 2003 to June 2015).
2. Calculated on the assumption that the share subscription rights would be exercised at the middle point of the exercise period.
3. Based on the dividends paid for the year ended March 31, 2015 and 2014.
4. Based on Japanese government bond yield corresponding to the expected residual periods.

(3) Method of estimating the number of vested stock options

As it is difficult to reasonably estimate the number of stock options to be forfeited in the future, the Company adopts a method that reflects the actual number of forfeitures.

## 16. Leases

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Due within one year | ¥2,397 | ¥3,249 | $21,273 |
| Due over one year | 4,756 | 3,660 | 42,208 |
| Total | ¥7,153 | ¥6,909 | $63,481 |

## 17. 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.

# Notes to Consolidated Financial Statements

Short-term investments consist of time deposits and low risk financial instruments and Tokyo Electron trade with highly-rated financial institutions to mitigate credit risks.

Investment securities consist of mainly equity interests in listed companies exposed to equity market risks. Conditions, including market prices, for these investment securities are monitored on a regular basis.

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 18 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, 2016 and 2015 are set out below. Fair value of financial instruments which is practically difficult to estimate are excluded (see note 6).

| | Millions of yen | |
|---|---|---|
| 2016: | Carrying amount | Estimated fair value[1] |
| Assets | | |
| Cash and cash equivalents | ¥ 95,638 | ¥ 95,638 |
| Short-term investments | 141,035 | 140,785 |
| Trade notes and accounts receivable, net of allowance for doubtful accounts (¥48 million) | 116,455 | 116,455 |
| Investment securities | 18,580 | 18,580 |
| Liabilities | | |
| Trade notes and accounts payable | 55,050 | 55,050 |
| Derivatives (see note 18) | | |
| Hedge accounting not applied | 1,182 | 1,182 |
| Hedge accounting applied | 33 | 33 |

| | Millions of yen | |
|---|---|---|
| 2015: | Carrying amount | Estimated fair value[1] |
| Assets | | |
| Cash and cash equivalents | ¥317,632 | ¥317,632 |
| Short-term investments | 283 | 283 |
| Trade notes and accounts receivable, net of allowance for doubtful accounts (¥379 million) | 110,466 | 110,466 |
| Investment securities | 22,230 | 22,230 |
| Liabilities | | |
| Trade notes and accounts payable | 56,479 | 56,479 |
| Derivatives (see note 18) | | |
| Hedge accounting not applied | (2,125) | (2,125) |
| Hedge accounting applied | 202 | 202 |

| | Thousands of U.S. dollars | |
|---|---|---|
| 2016: | Carrying amount | Estimated fair value[1] |
| Assets | | |
| Cash and cash equivalents | $ 848,757 | $ 848,757 |
| Short-term investments | 1,251,642 | 1,249,423 |
| Trade notes and accounts receivable, net of allowance for doubtful accounts ($426 thousand) | 1,033,502 | 1,033,502 |
| Investment securities | 164,891 | 164,891 |
| Liabilities | | |
| Trade notes and accounts payable | 488,552 | 488,552 |
| Derivatives (see note 18) | | |
| Hedge accounting not applied | 10,490 | 10,490 |
| Hedge accounting applied | 293 | 293 |

Notes: 1. Fair value calculation of financial instruments

Cash and cash equivalents, short-term investments, trade notes and accounts receivable and trade notes and accounts payable

The carrying amounts approximate fair value because of the short maturity of these instruments.

Investment securities

The fair values of marketable securities are based on quoted market prices.

See note 6 for further information by classification of investment securities.

Derivatives

See note 18 for detailed discussion on derivative financial instruments.

2. The following unlisted equity securities are not included in the above as they do not have quoted market prices and therefore it is considered extremely difficult to measure their fair value.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| | Reported amount In balance sheet | | |
| Unlisted stocks | ¥1,334 | ¥1,645 | $11,839 |
| Other | — | 292 | — |
| Total | ¥1,334 | ¥1,937 | $11,839 |

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

| | Millions of yen | |
|---|---|---|
| 2016: | Within 1 year | After 1 through 5 years |
| Cash and cash equivalents | ¥ 95,638 | ¥— |
| Short-term investments | 141,035 | — |
| Trade notes and accounts receivable | 116,503 | — |

| | Millions of yen | |
|---|---|---|
| 2015: | Within 1 year | After 1 through 5 years |
| Cash and cash equivalents | ¥317,632 | ¥— |
| Short-term investments | 283 | — |
| Trade notes and accounts receivable | 110,845 | — |

| | Thousands of U.S. dollars | |
|---|---|---|
| 2016: | Within 1 year | After 1 through 5 years |
| Cash and cash equivalents | $ 848,757 | $— |
| Short-term investments | 1,251,642 | — |
| Trade notes and accounts receivable | 1,033,928 | — |

## 18. Derivative Financial Instruments

Tokyo Electron is subject to risk from adverse fluctuations in foreign currency exchange rates in its operating and financing activities. The Company and certain subsidiaries enter into forward foreign exchange contracts in order to hedge such risks, but do not enter into such transactions for speculative purposes. The Company implements a ratio analysis of the total cumulative cash flow fluctuations 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 Company 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, 2016 and 2015 are as follows:

1. Derivative financial instruments not designated as hedging instruments

| | Millions of yen | | |
|---|---|---|---|
| 2016: | Contract amount | Fair value | Gains (losses) |
| Sell U.S. dollars | ¥51,173 | ¥1,773 | ¥1,773 |
| Sell Korean won | 1,068 | (612) | (612) |
| Sell Singapore dollars | 58 | (0) | (0) |
| Buy Korean won | 879 | 2 | 2 |
| Buy U.S. dollars | 834 | (1) | (1) |
| Buy Taiwan dollars | 431 | 10 | 10 |
| Buy EURO | 359 | 9 | 9 |
| Buy Swiss francs | 95 | 1 | 1 |
| Buy Singapore dollars | 33 | (0) | (0) |
| Total | ¥54,930 | ¥1,182 | ¥1,182 |

| | Millions of yen | | |
|---|---|---|---|
| 2015: | Contract amount | Fair value | Gains (losses) |
| Sell U.S. dollars | ¥55,664 | ¥(1,448) | ¥(1,448) |
| Sell Swiss francs | 6,346 | 34 | 34 |
| Sell Korean won | 1,068 | (757) | (757) |
| Sell Singapore dollars | 61 | (0) | (0) |
| Sell Chinese yuan | 13 | (3) | (3) |
| Buy U.S. dollars | 843 | 1 | 1 |
| Buy Taiwan dollars | 394 | (1) | (1) |
| Buy Chinese yuan | 338 | 50 | 50 |
| Buy EURO | 135 | (1) | (1) |
| Buy Singapore dollars | 33 | 0 | 0 |
| Total | ¥64,895 | ¥(2,125) | ¥(2,125) |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| 2016: | Contract amount | Fair value | Gains (losses) |
| Sell U.S. dollars | $454,145 | $15,734 | $15,734 |
| Sell Korean won | 9,478 | (5,431) | (5,431) |
| Sell Singapore dollars | 515 | (0) | (0) |
| Buy Korean won | 7,801 | 18 | 18 |
| Buy U.S. dollars | 7,401 | (9) | (9) |
| Buy Taiwan dollars | 3,825 | 89 | 89 |
| Buy EURO | 3,186 | 80 | 80 |
| Buy Swiss francs | 843 | 9 | 9 |
| Buy Singapore dollars | 293 | (0) | (0) |
| Total | $487,487 | $10,490 | $10,490 |

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

2. Derivative financial instruments designated as hedging instruments

Alternative method

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 as follows:

| | Millions of yen | | Thousands of U.S. dollars | |
|---|---|---|---|---|
| 2016: | Contract amount | Fair value | Contract amount | Fair value |
| Future transactions denominated in a foreign currency | | | | |
| Sell U.S. dollars | ¥1,371 | ¥63 | $12,167 | $559 |
| Sell Korean won | 33 | (18) | 293 | (160) |
| Buy EURO | 361 | (8) | 3,204 | (71) |
| Buy GBP | 19 | (3) | 169 | (26) |
| Buy U.S. dollars | 13 | (0) | 115 | (0) |
| Monetary assets and liabilities in foreign currency (Note) | | | | |
| Sell U.S. dollars | 162 | — | 1,438 | — |
| Buy U.S. dollars | 200 | — | 1,775 | — |
| Buy Singapore dollars | 21 | — | 186 | — |
| Buy EURO | 12 | — | 106 | — |
| Total | ¥2,192 | ¥34 | $19,453 | $302 |

# Notes to Consolidated Financial Statements

| | Millions of yen | |
|---|---|---|
| 2015: | Contract amount | Fair value |
| Future transactions denominated in a foreign currency | | |
| Sell U.S. dollars | ¥ 638 | ¥ (37) |
| Sell Korean won | 74 | (51) |
| Buy Chinese yuan | 1,808 | 326 |
| Buy EURO | 406 | (45) |
| Buy U.S. dollars | 50 | 9 |
| Monetary assets and liabilities in foreign currency (Note) | | |
| Sell U.S. dollars | 1,091 | — |
| Buy U.S. dollars | 268 | — |
| Total | ¥4,335 | ¥202 |

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.

## 19. Business Combinations

Years ended March 31, 2015
Business Divestitures

**Share transfer of a subsidiary**

1. Outline of the share transfer

(1) Name of the company and business description

Name of the company: Tokyo Electron Device Limited
Business description: Sale of electronic components and computer networks

(2) Reason of the share transfer

In the midst of a rapidly changing business environment, Tokyo Electron has spent a considerable effort investigating future growth strategies for both Tokyo Electron and Tokyo Electron Device Limited as both companies look to develop the businesses going forward. As a result, the Company sold a portion of its shares in Tokyo Electron Device Limited in order to improve the value of both enterprises. This will enable Tokyo Electron and Tokyo Electron Device Limited to plan for a greater concentration of management resources in our core equipment business, and for Tokyo Electron Device Limited to actively drive its development business and overseas expansion in addition to existing sales of electronic components and computer network related products while becoming even more independent and building its own growth strategies for the future.

(3) Share transfer date

April 1, 2014, April 15, 2014 and May 9, 2014

(4) Share transfer information

| Legal form | Share transfer |
|---|---|
| Number of shares transferred | 2,342,600 shares |
| Sales amount of the shares | ¥3,011 million |
| Ownership ratio after the share transfer | 35.45% |

2. Summary of accounting treatment

(1) Carrying value of assets and liabilities and primary information related to the transferred business

| | Millions of yen |
|---|---|
| | 2015 |
| Current assets | ¥51,578 |
| Non-current assets | 6,333 |
| Total assets | ¥57,911 |
| Current liabilities | ¥25,311 |
| Non-current liabilities | 9,222 |
| Total liabilities | ¥34,533 |

(2) Accounting treatment

Responding to treasury stock repurchase announced by Tokyo Electron Device Limited, Tokyo Electron recognized loss on change in equity in the amount of ¥242 million for the difference between the decrease in equity interest of Tokyo Electron Devise Limited and cash receipt, while Tokyo Electron recognized loss on sale of affiliates' shares in the amount of ¥1,609 million for the share transfer.

3. Business segment of the company transferred

Electronic components and computer networks

4. Approximate income recorded in the consolidated statement of operations for the fiscal year ended March 31, 2015

Income before income taxes and non-controlling interests ¥250 million

## 20. 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, plasma etch systems, thermal processing systems, single wafer deposition systems, cleaning systems used in wafer processing, wafer probers used in the wafer testing process and other semiconductor production equipment. The SPE segment principally develops, manufactures, sells and distributes such products.

Products of the FPD production equipment segment consist of coater/developers and etch/ash systems used in the manufacture of flat panel displays. The FPD production equipment segment principally develops, manufactures, sells and distributes such products.

**Changes in reportable segment**

The photovoltaic panel (PV) production equipment segment is included in "Other" for the year ended March 31, 2016 due to the decrease in its financial significance, whereas it was presented as a separate reportable segment for the year ended March 31, 2015. The segment information for the year ended March 31, 2015 has been reclassified to conform to the presentation for the current year, and is presented in the "Information about reportable segment net sales, segment profit (loss), segment assets and other items" section below.

**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 based on current market prices. Assets in common use have not been allocated to each reportable segment, while costs associated with those assets have been allocated to reportable segments on a systematic basis.

**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, 2016 and 2015 is as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Reportable Segment | | | | | |
| 2016: | Semiconductor production equipment | FPD production equipment | Other | Total | Eliminations and Corporate | Consolidated |
| Net sales | | | | | | |
| Sales to external customers | ¥613,033 | ¥44,687 | ¥ 6,229 | ¥663,949 | ¥ — | ¥663,949 |
| Intersegment sales or transfers | — | — | 11,592 | 11,592 | (11,592) | — |
| Total | 613,033 | 44,687 | 17,821 | 675,541 | (11,592) | 663,949 |
| Segment profit | 123,163 | 4,747 | 2,036 | 129,946 | (23,479) | 106,467 |
| Segment assets | 321,100 | 25,186 | 2,134 | 348,420 | 444,948 | 793,368 |
| Depreciation and amortization | 8,792 | 424 | 45 | 9,261 | 9,996 | 19,257 |
| Amortization of goodwill | 970 | — | — | 970 | — | 970 |
| Loss on impairment | 9,711 | — | — | 9,711 | 16 | 9,727 |
| Capital expenditures, including intangible assets | 8,500 | 285 | 13 | 8,798 | 5,952 | 14,750 |

# Notes to Consolidated Financial Statements

Millions of yen

| 2015: | Reportable Segment: Semiconductor production equipment | Reportable Segment: FPD production equipment | Other | Total | Eliminations and Corporate | Consolidated |
|---|---|---|---|---|---|---|
| Net sales | | | | | | |
| Sales to external customers | ¥576,242 | ¥32,710 | ¥ 4,173 | ¥613,125 | ¥ — | ¥613,125 |
| Intersegment sales or transfers | — | — | 11,443 | 11,443 | (11,443) | — |
| Total | 576,242 | 32,710 | 15,616 | 624,568 | (11,443) | 613,125 |
| Segment profit (loss) | 135,992 | (1,312) | (7,620) | 127,060 | (40,232) | 86,828 |
| Segment assets | 305,583 | 23,751 | 3,622 | 332,956 | 543,198 | 876,154 |
| Depreciation and amortization | 10,018 | 427 | 48 | 10,493 | 10,385 | 20,878 |
| Amortization of goodwill | 1,150 | — | — | 1,150 | — | 1,150 |
| Loss on impairment | 388 | 509 | — | 897 | 1,609 | 2,506 |
| Capital expenditures, including intangible assets | 8,530 | 197 | 23 | 8,750 | 5,530 | 14,280 |

Thousands of U.S. dollars

| 2016: | Reportable Segment: Semiconductor production equipment | Reportable Segment: FPD production equipment | Other | Total | Eliminations and Corporate | Consolidated |
|---|---|---|---|---|---|---|
| Net sales | | | | | | |
| Sales to external customers | $5,440,477 | $396,583 | $ 55,281 | $5,892,341 | $ — | $5,892,341 |
| Intersegment sales or transfers | — | — | 102,875 | 102,875 | (102,875) | — |
| Total | 5,440,477 | 396,583 | 158,156 | 5,995,216 | (102,875) | 5,892,341 |
| Segment profit | 1,093,033 | 42,128 | 18,069 | 1,153,230 | (208,368) | 944,862 |
| Segment assets | 2,849,663 | 223,518 | 18,939 | 3,092,120 | 3,948,775 | 7,040,895 |
| Depreciation and amortization | 78,026 | 3,763 | 399 | 82,188 | 88,712 | 170,900 |
| Amortization of goodwill | 8,608 | — | — | 8,608 | — | 8,608 |
| Loss on impairment | 86,182 | — | — | 86,182 | 142 | 86,324 |
| Capital expenditures, including intangible assets | 75,435 | 2,529 | 116 | 78,080 | 52,822 | 130,902 |

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

2. (1) For the year-ended March 31, 2015, as described in ""Change in reportable segment"", sales to external customers of ¥3,618 million, segment loss of ¥8,789 million, segment assets of ¥1,731 million and depreciation and amortization of ¥6 million reported as ""PV production equipment"" were included in ""Other"".

(2) "Eliminations and Corporate" segment loss totaling ¥23,479 million ($208,368 thousand) and ¥40,232 million for the years ended March 31, 2016 and 2015, respectively, includes corporate expenses not allocated to any reportable segments. The corporate expenses consist of research and development costs of ¥13,583 million ($120,545 thousand) and ¥17,109 for the years ended March 31, 2016 and 2015, respectively, pertaining to fundamental research and element research, not allocated to any of the reportable segments. In addition, for the year ended March 31, 2015, expenses related to business combination of ¥8,530 million is included.

(3) "Eliminations and Corporate" segment assets totaling ¥444,948 million ($3,948,775 thousand) and ¥543,198 million as of March 31, 2016 and 2015, respectively, consist mainly of cash and cash equivalents, short-term investments and buildings not allocated to any of the reportable segments.

(4) "Eliminations and Corporate" loss on impairment of ¥16 million ($142 thousand) and ¥1,609 million for the years ended March 31, 2016 and 2015, respectively, are attributable to corporate assets not allocated to any of the reportable segments.

(5) "Eliminations and Corporate" capital expenditures totaling ¥5,952 ($52,822 thousand) and ¥5,530 million for the years ended March 31, 2016 and 2015, respectively, consist mainly of capital expenditures for buildings, machinery and equipment not allocated to any of the reportable segments.

**Other information**

(1) Domestic and overseas net sales by destination for the years ended March 31, 2016 and 2015 are as follows:

Millions of yen

| 2016: | Taiwan | Japan | Korea | U.S.A. | China | Europe | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Net sales | ¥170,095 | ¥121,808 | ¥107,273 | ¥103,574 | ¥87,325 | ¥56,659 | ¥17,215 | ¥663,949 |

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

Millions of yen

| 2015: | Taiwan | U.S.A. | Korea | Japan | Europe | China | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Net sales | ¥141,620 | ¥135,425 | ¥101,962 | ¥95,046 | ¥62,466 | ¥58,380 | ¥18,226 | ¥613,125 |

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

Thousands of U.S. dollars

| 2016: | Taiwan | Japan | Korea | U.S.A. | China | Europe | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Net sales | $1,509,540 | $1,081,008 | $952,015 | $919,187 | $774,982 | $502,831 | $152,778 | $5,892,341 |

(2) Net property, plant and equipment by location as of March 31, 2016 and 2015 are as follows:

Millions of yen

| 2016: | Japan | U.S.A. | Other | Total |
|---|---|---|---|---|
| Property, plant and equipment | ¥75,580 | ¥9,724 | ¥11,013 | ¥96,317 |

Millions of yen

| 2015: | Japan | U.S.A. | Other | Total |
|---|---|---|---|---|
| Property, plant and equipment | ¥78,492 | ¥15,496 | ¥12,908 | ¥106,896 |

Thousands of U.S. dollars

| 2016: | Japan | U.S.A. | Other | Total |
|---|---|---|---|---|
| Property, plant and equipment | $670,749 | $86,298 | $97,737 | $854,784 |

(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 2016 | Thousands of U.S. dollars 2016 |
|---|---|---|---|
| Samsung Electronics Co., Ltd. | Semiconductor production equipment and FPD production equipment | ¥100,672 | $893,433 |
| Intel Corporation | Semiconductor production equipment | 83,795 | 743,655 |
| Taiwan Semiconductor Manufacturing Company Ltd. | Semiconductor production equipment | 71,938 | 638,427 |

| Name of customer | Related reportable segment | Millions of yen 2015 |
|---|---|---|
| Intel Corporation | Semiconductor production equipment | ¥123,154 |
| Samsung Electronics Co., Ltd. | Semiconductor production equipment and FPD production equipment | 97,943 |

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

## Notes to Consolidated Financial Statements

**Information about reportable segment goodwill**

Reportable segment information about amortization of goodwill for the years ended March 31, 2016 and 2015, and unamortized balances as of March 31, 2016 and 2015 are as follows:

| | Millions of yen | | |
|---|---|---|---|
| 2016: | Semiconductor production equipment | FPD production equipment | Total |
| Amortization of goodwill | ¥ 970 | ¥— | ¥ 970 |
| Goodwill | 4,095 | — | 4,095 |

| | Millions of yen | | |
|---|---|---|---|
| 2015: | Semiconductor production equipment | FPD production equipment | Total |
| Amortization of goodwill | ¥1,150 | ¥ — | ¥1,150 |
| Goodwill | 9,067 | — | 9,067 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| 2016: | Semiconductor production equipment | FPD production equipment | Total |
| Amortization of goodwill | $ 8,608 | $— | $ 8,608 |
| Goodwill | 36,342 | — | 36,342 |

### 21. Subsequent events

Regarding the Kumamoto earthquakes in April 2016, Tokyo Electron Kyushu Limited, one of our main plants, suffered damage to its buildings and production facilities. Tokyo Electron is taking necessary steps to return the plant operation to its normal state.

In the fiscal year ending March 31, 2017, Tokyo Electron expects to record restoration cost, inventory disposal cost and other losses related to the Kumamoto earthquakes, and currently estimates the total amount of loss to be approximately ¥10,000 million ($88,747 thousand).

## Independent Auditor's Report

KPMG

**Independent Auditor's Report**

To the Board of Directors of Tokyo Electron Limited:

We have audited the accompanying consolidated financial statements of Tokyo Electron Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tokyo Electron Limited and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 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.

KPMG AZSA LLC

June 17, 2016
Tokyo, Japan