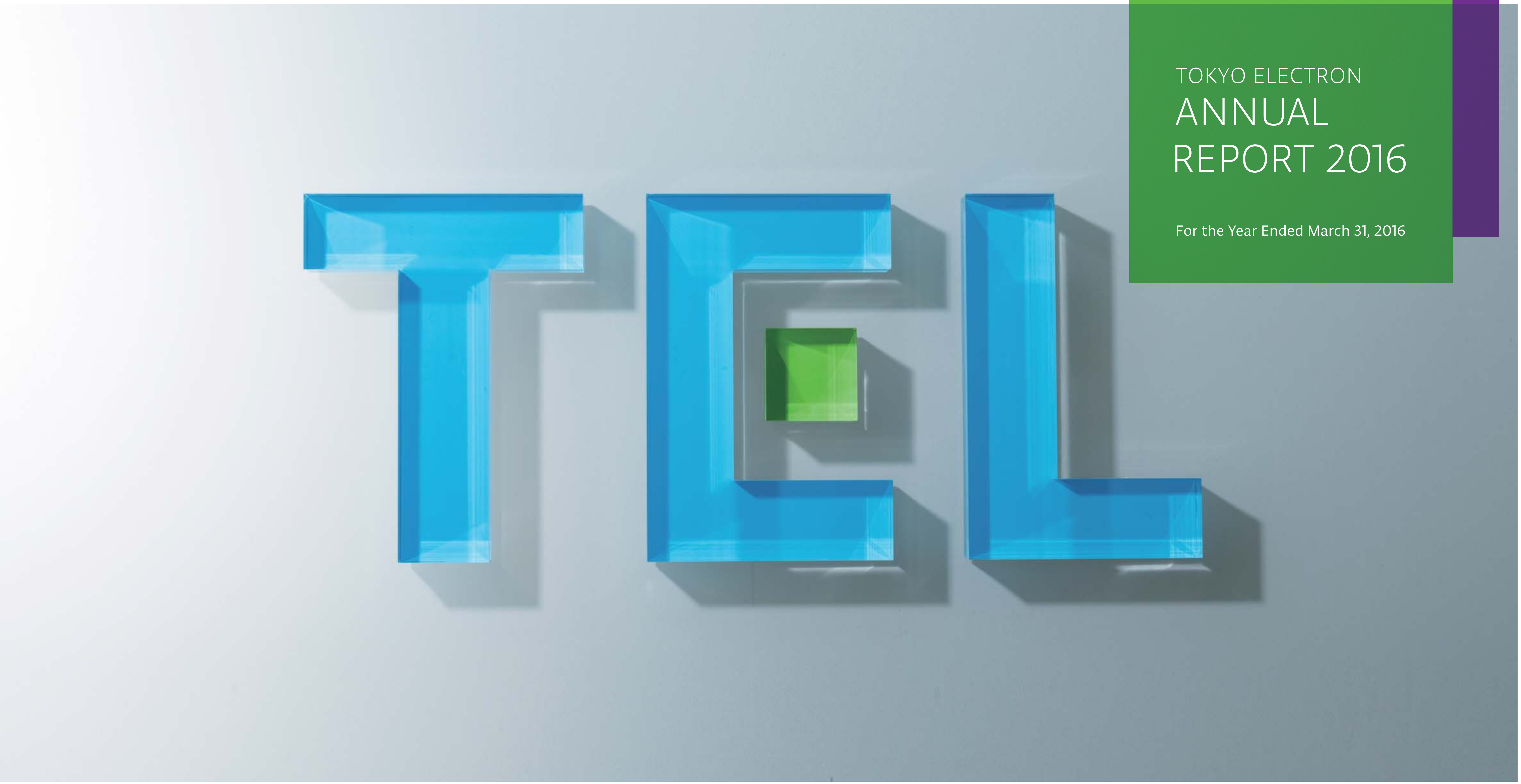
TOKYO ELECTRON
ANNUAL REPORT 2016

For the Year Ended March 31, 2016



Contents

Profile

Tokyo Electron Limited (TEL™) is a world-leading supplier of semiconductor production equipment (SPE) and flat panel display (FPD) production equipment. We provide a broad line-up of products that offer superior process performance and high productivity and related services to semiconductor and FPD manufacturers around the world.

An unwavering commitment to customer satisfaction that dates back to our founding in 1963 has cemented our position as a market leader. Our competitive strength lies in our capability to proactively and precisely identify real customer needs and respond to them with cutting-edge technology and products.

With a global network that spans Japan, the U.S., Europe and Asia, we are opening up new frontiers for digital networks by contributing to enhancing our customers' production lines through untiring dedication to technology innovation.

Disclaimer

Matters discussed in this annual report, including forecasts of future business performance of Tokyo Electron, management strategies, beliefs and other statements are based on Tokyo Electron's assumptions in light of information that is currently available. These forward-looking statements involve known or unknown risks, uncertainties and other factors that could cause actual results to differ materially from those referred to in the forward-looking statements.

Factors that have a direct or indirect impact on Tokyo Electron's future performance include, but are not limited to:

- Economic circumstances in Japan and overseas, consumption trends, and large fluctuations in foreign exchange rates
- Changes in semiconductor/FPD markets
- Changes in the demand for products and services manufactured or offered by Tokyo Electron's customers, such as semiconductor manufacturers, FPD manufacturers and electronics makers
- Tokyo Electron's capabilities to continue to develop and provide products and services that respond to rapid technology innovation and changing customer needs in a timely manner

For details, please refer to Business-related and Other Risks on page 20.

Contents

Guide to Buttons

- Move Back to Previous Page
- Move Forward to Next Page
- Return to Last Page Opened
- CONTENTS Go to Contents Page
- Search PDF Content
- Print
- Zoom

To Our Stakeholders

Tetsuo Tsuneishi
Chairman of the Board

Toshiki Kawai
President & CEO

A Strong New Start for Tokyo Electron

To begin, we would like to express our thanks for the continued understanding and support of our investors and all of Tokyo Electron's stakeholders. Looking back at 2015, the global economy continued to gradually recover, although economic growth in China and other emerging countries slowed. In the electronics industry, demand grew for higher capacity memory for mobile devices as well as for semiconductors used in data centers, reflecting the further sophistication of mobile devices and spread of cloud services. Capital investment by semiconductor manufactures was firm, driven by the dawning internet of things as well as such new forms of memory as 3D structure devices and cutting-edge logic semiconductors.

In this environment, Tokyo Electron's consolidated net sales grew 8% to ¥663.9 billion for fiscal 2016, ended March 31, 2016. Consolidated operating income rose 33% year on year to ¥116.8 billion, and ROE rose from 11.8% in the previous fiscal year to 13.0%. We paid annual dividends of ¥237 per share, surpassing the fiscal 2015 annual dividend, which had been our highest ever. Tokyo Electron also repurchased and cancelled treasury stock (8.53% of issued shares before the cancellation) to further increase shareholder returns.

In terms of business strategy, we formulated a new medium-term management plan comprising growth strategies aimed at reaching world-class profitability. Strengthening of product competitiveness, responsiveness to customer needs and the profit structure are pillars of the plan. In fiscal 2020, assuming a wafer fab equipment market of US$37 billion, we aim for consolidated net sales of ¥900 billion, a consolidated operating margin of 25% and ROE of 20%. To help us achieve the goals of the medium-term plan, we established the Tokyo Electron Corporate Governance Guidelines as our policy for building a proactive corporate governance system. With this and other efforts, in fiscal 2016, we took strong first steps toward our goal of achieving world-class profitability.

Our medium-term vision is to be a truly global company generating high added value and profits in the semiconductor and flat panel display industries through innovative technologies and groundbreaking proactive solutions that integrate diverse technologies. In line with this vision, we will focus our full energies on continuously increasing our corporate value. We look forward to your continued support and confidence as we advance these endeavors.

June 2016

Business Overview

Summary of Business | Main Products | Sales by Region

Semiconductor Production Equipment

Semiconductor devices are broadly used in mobile devices, such as smartphones and tablets, as well as the data center servers that are indispensable to the use of big data. Going forward, with the arrival of the internet of things, semiconductor applications will expand across all fields, from consumer electronics and automobiles to medicine and healthcare. Tokyo Electron provides semiconductor production equipment used to manufacture such semiconductors along with superior technical support and service. Our main product lineup includes coater/developers, plasma etch systems, thermal processing systems, single wafer deposition systems and cleaning systems used in wafer processing. Other products include wafer probers used in the wafer testing process as well as electrochemical deposition systems and wafer bonders/debonders used in advanced packaging processes.

- Coater/Developers
- Plasma Etch System
- Thermal Processing System
- Single Wafer Deposition System
- Cleaning System
- Wafer Prober

Coater/Developers
CLEAN TRACK™ LITHIUS Pro™ Z

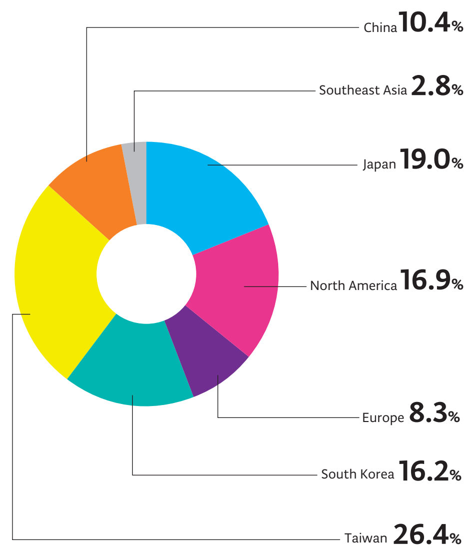
Plasma Etch System
Tactras™

ALD System
NT333™

Single Wafer Deposition System
Triase+™

Single Wafer Cleaning System
CELLESTA™-i

Wafer Prober
Precio™ XL



FPD Production Equipment

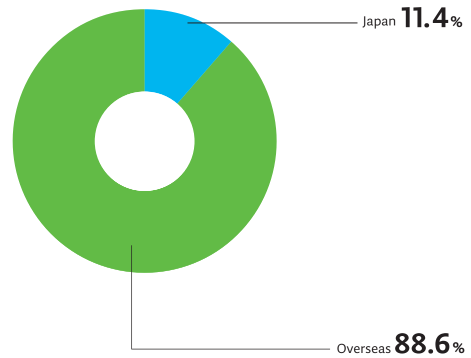
Flat panel displays (FPDs) are employed in a wide variety of products, from TVs and mobile devices including smartphones and tablets to digital signage for advertising. Tokyo Electron supplies coater/developers and plasma etch/ash systems for manufacturing FPDs along with solid technical support and service. We also offer an inkjet printing system for manufacturing OLED panels using large-sized substrates to take advantage of the expanding OLED display market.

- FPD Coater/Developers
- FPD Plasma Etch/Ash System
- Inkjet Printing System for Manufacturing OLED Panels

FPD Coater/Developers
Exceliner™

FPD Plasma Etch/Ash System
Impressio™

Inkjet Printing System for Manufacturing OLED Panels
Elius™ 2500



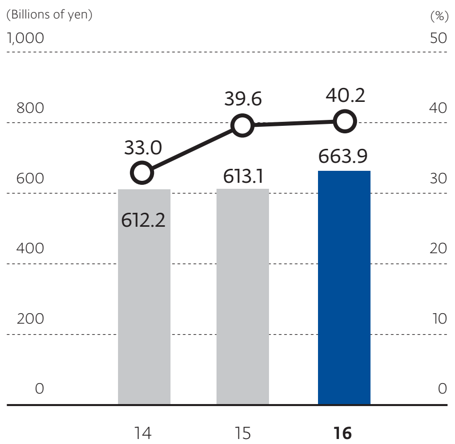
Consolidated Financial Highlights

Fiscal 2016 Results

Net Sales	Gross Profit Margin	Operating Margin	EPS	Free Cash Flow	Shareholder Returns
663.9 Billions of yen	40.2 %	17.6 %	461.10 Yen	60.4 Billions of yen	144.7 Billions of yen

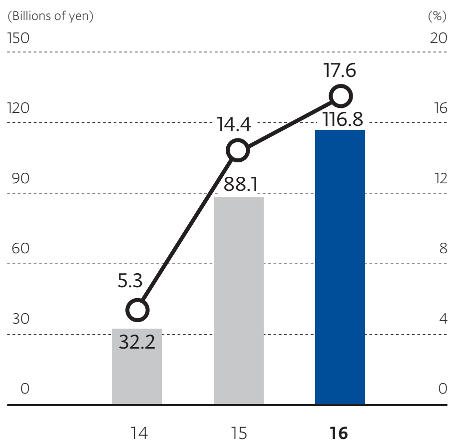
- Grew revenue and profit for third consecutive period
- Achieved record-high gross profit margin
- Paid record-high dividends for second consecutive period
- Acquired and cancelled ¥105.5 billion in treasury stock

Net Sales and Gross Profit Margin



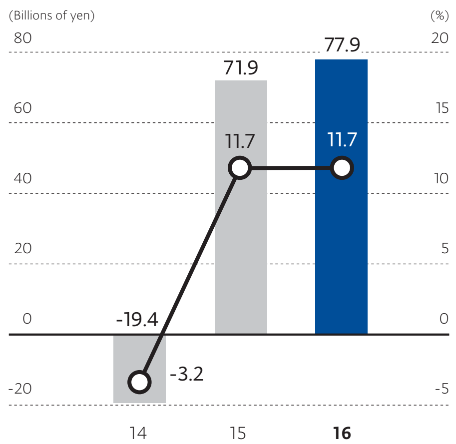
Net Sales Gross Profit Margin

Operating Income and Operating Margin



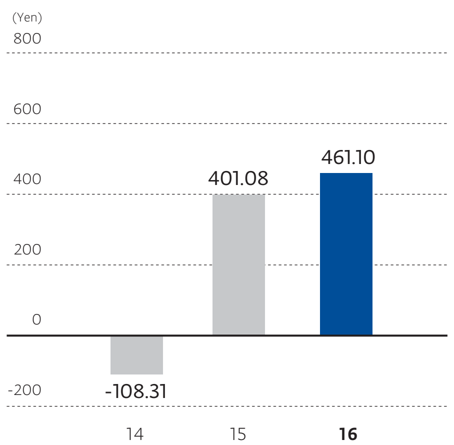
Operating Income Operating Margin

Net Income (Loss) Attributable to Owners of Parent and Net Income Margin

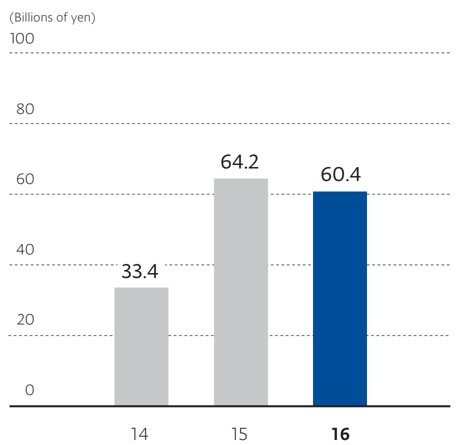


Net Income (Loss) Attributable to Owners of Parent
Net Income Margin

EPS

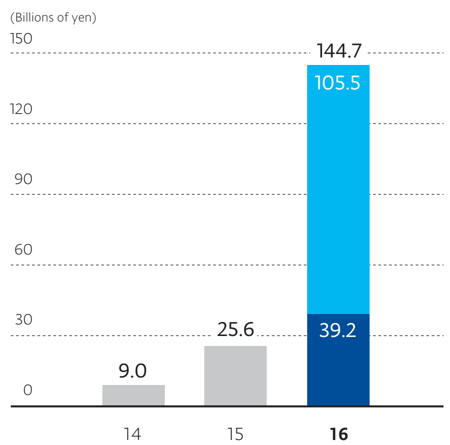


Free Cash Flow



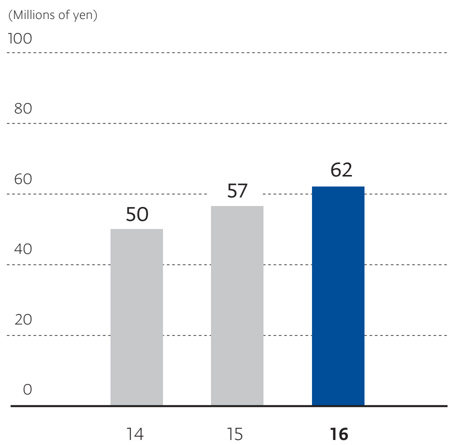
Free cash flow = Cash flows from operating activities + Cash flows from investing activities (excluding changes in deposits with maturities of more than three months)

Shareholder Returns

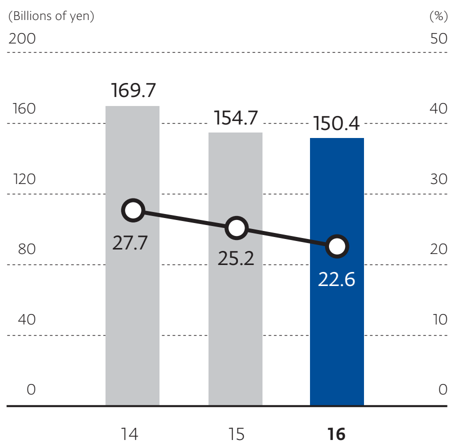


Cash Dividends Share Repurchases

Net Sales per Employee

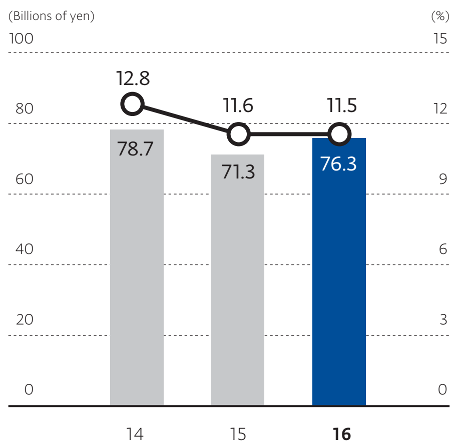


Selling, General and Administrative Expenses and Ratio to Net Sales



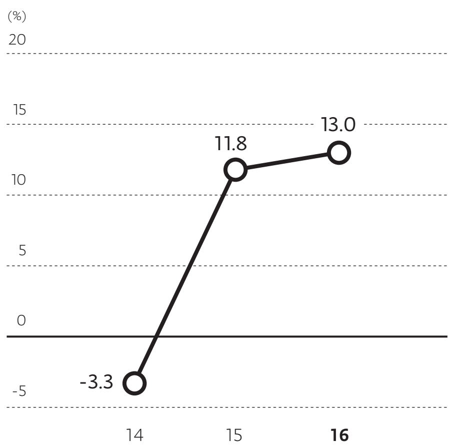
Selling, General and Administrative Expenses
Ratio of SG&A Expenses to Net Sales

R&D Expenses and Ratio to Net Sales

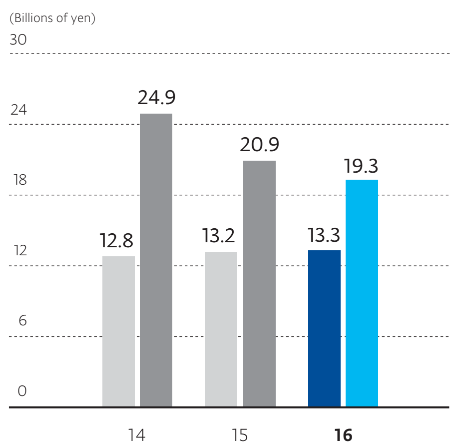


R&D Expenses
Ratio of R&D Expenses to Net Sales

ROE

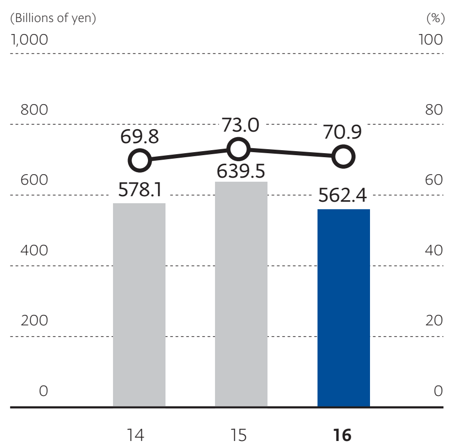


Capital Expenditures and Depreciation and Amortization



Capital Expenditures Depreciation and Amortization

Equity and Equity Ratio



Equity Equity Ratio

* The above graphs show data for fiscal years ended March 31.

Medium-term Management Plan (Fiscal 2016-2020)

Medium-term Management Plan (Fiscal 2016-2020)

A New Beginning for Tokyo Electron Becoming Truly Global

Operating margin: 20-25%

ROE: 15-20%

Medium-term Business Targets

Tokyo Electron aims to achieve world-class profitability within our industry by attaining an operating margin of 25% and ROE of 20% by fiscal 2020, assuming a wafer fab equipment market size of US$37 billion.

In light of the rapidly changing nature of the markets we serve, we are working to build a structure that will even sustain an operating margin of 20% and ROE of 15% if the market contracts to US$30 billion.

	Fiscal 2016	Fiscal 2020 (Medium-term Management Plan)	
Wafer fab equipment market size	US$31.5 billion	**US$37 billion**	US$30 billion
Net sales	¥663.9 billion	**¥900 billion**	¥720 billion
Gross profit margin	40.2%	**44%**	42%
Selling, general and administrative expenses	¥150.4 billion	**¥170 billion**	¥160 billion
Ratio of SG&A expenses to net sales	22.6%	**19%**	22%
Operating income	¥116.8 billion	**¥225 billion**	¥145 billion
Operating margin	17.6%	**25%**	20%
Net income attributable owners of parent	¥ 77.9 billion	**¥155 billion**	¥100 billion
ROE	13.0%	**20%**	15%

Vision

A truly global company generating high added value and profits in the semiconductor and flat panel display industries through innovative technologies and groundbreaking proactive solutions that integrate diverse technologies.

Management Policy

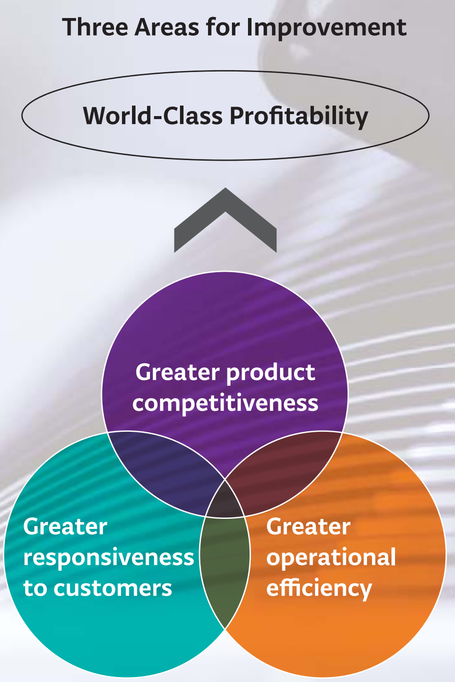
- Strengthen business and technological platforms to aim for world-class profitability.
- Respond to changes in the market environment and customer needs, grasp the true needs of customers, and generate demand by offering timely solutions that combine Tokyo Electron's technological strengths.

Executive Framework

- Powerful executive framework under the new CEO
- Corporate senior staff (CSS) that enable swift business execution
- Bringing broad perspectives into management, including younger members
- Actively utilizing global talent

Main Measures

Tokyo Electron will achieve world-class profitability through sales expansion that outpaces market growth and greater operational efficiency.



▶ **Reorganization centered on strengthening development divisions to better offer next-generation technology solutions**

- Provide solutions combining cutting-edge technologies
- Reevaluate development priorities and focus resources on key areas (etching, deposition and cleaning systems)
- Assign account technology general managers for each customer

▶ **Expand the field solutions business (used equipment sales, upgrades and various other services) by leveraging Tokyo Electron's installed base—among the highest in the industry—and providing solutions to needs presented by the internet of things.**

Interview with the CEO

Vision

A truly global company

generating high added value and profits in the semiconductor and flat panel display industries through innovative technologies and groundbreaking proactive solutions that integrate diverse technologies.

Q1 From your new position as CEO, what do you see ahead for Tokyo Electron's businesses?

The semiconductor and flat panel display (FPD) production equipment industries are approaching a new phase of growth for which I have great expectations. I am certain that we will be able to use this opportunity as a springboard for dramatic new growth to create a business structure with world-class profitability.

Semiconductor manufacturing technologies are evolving every minute. Miniaturization technologies have now reached the 10 nanometer level. In addition to lithography and other existing technologies that have steadfastly upheld Moore's Law, development of new semiconductor technologies, such as 3D structure devices and the use of new materials, is advancing. Customers are now looking for advanced semiconductor production technologies that combine such cutting-edge technologies in complex and novel ways. I think that breadth of Tokyo Electron's product lineup, one of the greatest in

Interview with the CEO

the industry, and our wealth of cutting-edge technologies will serve as major strengths in creating such innovative technologies. Greater demand for more sophisticated technologies means greater opportunities for growth.

Furthermore, the full-fledged arrival of the internet of things (IoT), which will connect all kinds of devices and objects, is just around the corner. This is expected to cause semiconductor applications to rapidly expand, from conventional uses in mobile and other electronics, to automobiles, healthcare, and virtually all other fields of business. In China, the world's greatest consumer of semiconductors, domestic production is expected to grow, with both overseas and local manufacturers expanding their production facilities in the country. I believe that the establishment of such new semiconductor manufacturing bases will present Tokyo Electron with excellent opportunities for business expansion.

The continued evolution of semiconductors is powered by semiconductor production equipment manufacturers. By continuing to provide innovative technologies, I believe Tokyo Electron can achieve greater growth than ever.

Q2 How will you turn these expanded business opportunities into real growth for the Company?

As technologies grow more advanced, there is greater demand for solutions that take a comprehensive view of the whole semiconductor production process. I think it is important for Tokyo Electron to not just improve the performance of its existing individual products, but also to leverage its extensive product lineup to combine advanced technologies across product categories. By doing so, we will be able to speed development of next generation products that optimize entire production processes.

Furthermore, the IoT will cause rapid growth in semiconductor applications in the near future. In addition to the advanced semiconductors used in mobile devices, data centers and artificial intelligence, there will be an enormous number of sensors and other simple semiconductor devices in all kinds of everyday objects. With all these different devices being used together, different generations and technologies will increasingly be used alongside one another. Tokyo Electron's delivered semiconductor production systems number over 59,000, among the highest installed bases in the semiconductor production equipment industry. This broadening of technological applications therefore presents us with a chance to generate income on par with the opportunities in cutting-edge technologies. We will steadily turn this chance into results by selling older generations of equipment, offering upgrades and providing new forms of service to increase customer productivity.

Based on these measures, we formulated the medium-term management plan assuming a scenario in which we will be able to meet the medium-term financial targets for fiscal 2020 of ¥900 billion in net sales, a 25% operating margin, and 20% ROE. We will further reinforce our strengths in product competitiveness and responsiveness to customers and achieve world-class profitability.

As the IoT broadens semiconductor applications, new technological needs are emerging in semiconductor manufacturing processes of all generations

Zoom

Q3 Strengthening product competitiveness and responsiveness to customers are pillars of the medium-term management plan. How, specifically, do you intend to achieve these goals?

In my new position as CEO, I have had the chance to take a fresh look at Tokyo Electron's history. Doing so has reaffirmed my belief that the driving force behind the Company's growth is its advanced and diverse technological prowess that generates innovation, the commitment to putting customers first passed down since its founding, and the Company's trailblazing, future-oriented spirit. To maximize these strengths and achieve world-class profitability, we have built a new operating structure, focusing on strengthening the development divisions.

We integrated Tokyo Electron's development divisions and reallocated resources. This was aimed at effectively combining the Group's many diverse technologies, such as those related to wet and dry cleaning, atmospheric and low-pressure deposition, plasma etching and temperature control, in

Interview with the CEO

order to bring new products to market ahead of the competition. We reevaluated our development priorities, and are now focusing on strengthening the areas of etching, deposition and cleaning systems, markets which are expected to grow. Furthermore, we have assigned account technology general managers for each customer to help us zero in on and quickly offer new proposals to meet the technological needs presented by the next generation of products and generations to come.

Through these initiatives, we will seek to generate customer demand by creating and providing products that surpass expectations. By also bolstering product competitiveness and operational efficiency, we aim to achieve the financial targets of the medium-term management plan.

Q4 Please tell us about your management philosophy as CEO and the kind of company you think Tokyo Electron should aim to be.

As CEO, I want to do three things. These are providing returns to the shareholders who have trusted and invested in the Company, helping our employees and their families prosper, and contributing to industry and society.

To achieve these goals, we must create profit. The source of profit is our technologies, and our technologies are created by our employees. We must therefore be a company where employees are excited to work, where they can grow by taking on ambitious goals, and where growth is rewarded fairly. To this end, it is important that we maintain the open and energetic corporate culture that Tokyo Electron has nurtured since its founding and create frameworks that allow each employee to use his or her abilities to the fullest. By broadening the scope of compensation systems that objectively evaluate ability and contribution based on clearly defined roles and responsibilities, I believe we can help all employees become high performers. I want each employee to feel highly motivated to work together toward big goals, thus fostering a dynamic culture of ambition and energy.

The profits generated this way will feed a virtuous cycle to create new profits, providing continuous returns to all stakeholders. By doing so, we can contribute to the development of society as a leader in the semiconductor and flat panel display production equipment markets. Working toward these goals is my mission as a member of Tokyo Electron's top management.

Q5 Tokyo Electron generates steady cash flows. Please tell us your thoughts about shareholder returns and how cash should be used.

Our greatest priority is the development of new technologies for growth. The source of Tokyo Electron's profits is the Company's advanced technological capabilities that create innovation. As such, our policy for using cash is now even more focused on aggressive investment in R&D.

In terms of shareholder returns, beginning fiscal 2016, we have raised the payout ratio from 35% to 50%. As we aim for world-class profitability, we feel that we must bolster returns to shareholders accordingly. Furthermore, with an eye to ensuring stable dividends, we have set a lower limit on annual dividends of ¥150 per share.* We will also flexibly consider stock repurchases, taking a comprehensive view of such factors as needed investment for growth, cash on hand and the macroeconomic environment.

Fiscal 2016 annual dividends reached ¥237 per share, a second consecutive record-high, due to increases in the payout ratio and net income. The Company also repurchased and cancelled stock (15,400,000 shares, or 8.53% of issued shares before the cancellation). Going forward, we will continue working to maximize corporate value and boost shareholder value through continuous growth in profit.

* This lower limit may be revised in the event that the Company does not generate net income for two consecutive fiscal years.

New Policy for Shareholder Returns

Dividend payout ratio: 50%
Annual DPS of not less than ¥150

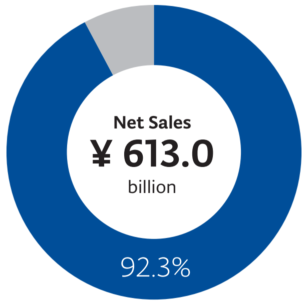
We will review our dividend policy if the company does not generate net income for two consecutive fiscal years

We will flexibly consider share buybacks

Review of Operations and Business Outlook

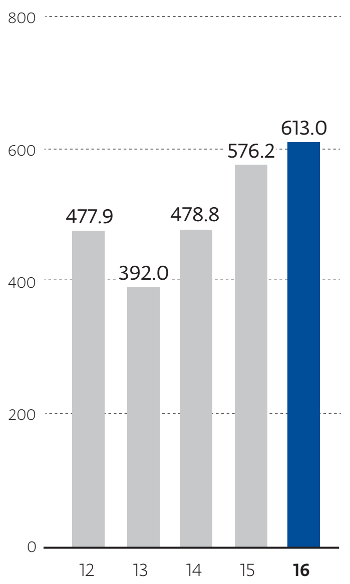
Semiconductor Production Equipment

Share of Net Sales



Sales by Segment

(Billions of yen)



Business Environment

In 2015, demand for memory was firm. Specifically, demand grew for higher capacity memory as a result of the ongoing sophistication of smartphones and data center servers, and global server shipments increased. However, because PC and smartphone shipment volumes were less than robust, demand for cutting-edge logic semiconductors was weak.

Given these circumstances, capital investment by foundries and logic chip manufacturers was more restrained than in the previous year, but capital investment by memory manufacturers grew. Investment in DRAM miniaturization grew significantly, while the majority of investment in NAND was aimed at new memory utilizing 3D structure. As a result, 2015 global capital investment in wafer fab equipment held steady year on year, at US$31.5 billion.

Business Overview

- **Segment net sales grew 6.4% year on year to ¥613.0 billion, reflecting growth in sales of deposition and cleaning systems, which Tokyo Electron has been focusing on expanding.**
- **In deposition systems, a key part of Tokyo Electron's growth strategy, sales of ALD* systems for cutting-edge miniaturization grew by about 50% year on year.**
- **Sales of cleaning systems grew by about 30% year on year, reflecting the steady development of business with customers of strategic products.**
- **By region, sales in Japan, China and Taiwan grew, reflecting booming investment in memory.**
- **Sales in the field solutions business rose approximately 8% year on year, reflecting rising demand for used equipment and parts certified by highly reputable equipment manufacturers.**

* ALD (Atomic Layer Deposition): An atomic level film deposition technique

Business Outlook

With the arrival of the internet of things (IoT), simple semiconductors, such as sensors to collect all kinds of data, will be needed in great quantity, and demand for advanced semiconductors used in artificial intelligence (AI) and big data analytics and information processing is also expected to rise. This expansion of applications of both cutting-edge and older generations of semiconductors will create new opportunities in the market for semiconductor production equipment, which is thus expected to see ongoing growth in demand.

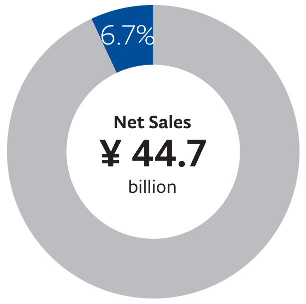
In products for cutting-edge semiconductors, Tokyo Electron will continue to effectively combine its wealth of semiconductor technologies to accelerate the development and release of next generation products. As the miniaturization of circuits continues and we approach such technological inflection points as the adoption of 3D structure devices, we are especially focusing efforts on etch, deposition and cleaning systems, for which markets are expected to grow. Tokyo Electron aims to firmly establish a leading position and raise its market share with differentiated, cutting-edge products, such as etch systems that achieve high precision processing and deposition systems that realize both exceptional productivity and film quality.

With regard to simple semiconductors produced with older generations of equipment, Tokyo Electron will leverage its installed base of over 59,000 units—among the largest in the industry—to swiftly meet demand for older equipment sales and upgrades. At the same time, we will offer comprehensive solutions including parts and services to improve customer productivity. By doing so, we will further increase sales in the field solutions business.

By meeting needs related to both cutting-edge and older technologies, Tokyo Electron will contribute to the creation of the IoT while achieving continuous growth in sales and profit.

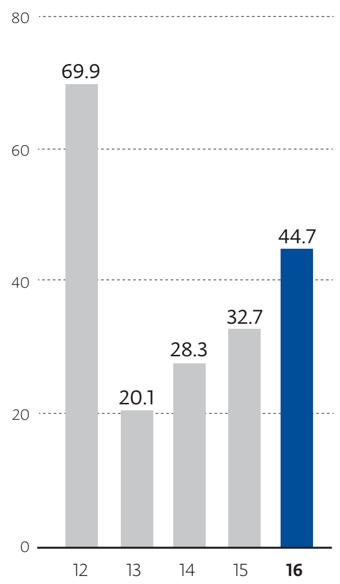
FPD Production Equipment

Share of Net Sales



Sales by Segment

(Billions of yen)



Business Environment

Demand for flat panel displays (FPDs) for both TVs and mobile devices each grew more than 10% (area basis) year on year in 2015. In these circumstances, capital investment in FPD production equipment for thin-film transistor (TFT) array processes grew more than 20% year on year, driven mainly by investment in small- and medium-sized panels. By region, capital investment in China was firm, and investment in Japan and Taiwan grew.

Business Overview

- **Segment net sales rose 36.6% to ¥44.7 billion.**
- **By region, China continues to account for the majority of sales, but sales in Taiwan recovered.**
- **Tokyo Electron's etch systems, which have a competitive edge among products for high definition, large-sized panels, gained market share.**
- **Sales of inkjet printing system for manufacturing OLED panels in customer's development lines were recorded.**

Business Outlook

Total area-basis FPD demand is forecast to continue expanding, reflecting rising average screen sizes of televisions and smartphones. Going forward, OLED TVs and digital signage are also expected to see growth in usage.

Under these circumstances, the overall market for FPD production equipment for TFT array processes is expected to see continued growth of 20%, with capital investment for large-sized panels rising, and that for small- and medium-sized panels growing considerably.

For large-sized panels, we will continue to increase sales of technologically superior etch systems compatible with metal oxide semiconductors—such as indium gallium zinc oxide (IGZO)—that feature low power consumption and high resolution. In China, capital investment in production lines for generation 10.5 ultra-large panels is planned. Using our track record in providing products for mass production of generation 10 panels, we aim to seize this opportunity to improve profitability.

At the same time, in small- and medium-sized panels, as the adoption of low-temperature polysilicon (LTPS) for high-definition panels continues, we aim to increase the market share of our new etch system released last year that is energy efficient and significantly improves process uniformity.

In terms of OLED displays, which are gathering attention for offering high contrast and enabling the adoption of flexible displays, Tokyo Electron's inkjet printing systems are being adopted in the organic luminescent layer formation processes of customers' development lines for large-sized panels. Going forward, we will continue to contribute to the panel manufacturing technologies and productivity of our customers, aiming to promote the use of this product for mass production.

Message from the Chairman of the Board

June 2016

Tetsuo Tsuneishi
Chairman of the Board

Sustainability

Proactive Governance for Sustainable Growth

Achieving Both Effective Decision Making and Oversight

Corporate governance has been growing in significance since 2001, when a major U.S. scandal involving corporate accounting fraud brought the issue to the public consciousness. In Japan, the Tokyo Stock Exchange's Corporate Governance Code came into effect last year. Under this new set of governance principles, all listed companies must disclose their overall approach, specific measures and future policy with regard to each of the code's recommendations on a "comply or explain" basis. Our related disclosure is detailed on Tokyo Electron's website. I invite all our stakeholders to take a look.

At Tokyo Electron, we aim to maintain and enhance our competitiveness at the cutting-edge of the global electronics and semiconductor industries. We will consider multiple perspectives, spanning short to long horizons, to significantly increase shareholder value and achieve continued growth. Effective corporate governance is essential to achieving these goals. Governance must comprise management structures, including the Board of Directors and executive systems, that facilitate optimal, timely discussions and decision making in light of changing conditions in relevant markets and beyond. As I see it, the basic systems for increasing corporate value as quickly as possible form the foundation of corporate governance. However, Tokyo Electron does not rely solely on such systems. In addition, we strive to maintain a corporate culture in which employees act with initiative and ambition and all stakeholders are treated with honesty and fairness. Tokyo Electron has fostered this culture since its founding. It is both a source of pride and a notable element of the Company's corporate governance.

Tokyo Electron was among the earliest companies in Japan to establish highly independent nomination and compensation committees within its Board of Directors. We have also established a five-member Audit & Supervisory Board that is independent of the Board of Directors, creating a robust governance system. Furthermore, the Board of Directors comprises directors who serve concurrently as executive officers, directors who do not, and outside directors. Those who are concurrently executive officers bring expertise necessary to navigate the particularities of the semiconductor and display industries. Their business execution is overseen and supported by the non-executive directors, who offer rich experience in these industries. And Tokyo Electron's outside directors possess rich management experience at other companies, not limited to the industries in which Tokyo Electron operates. I believe that our board is unique, reflecting the increased emphasis on diversity in recent years, and its composition enables strong corporate governance.

As chairman of the board, I will continue do my utmost to make the Board of Directors even more effective, striving to maintain and strengthen optimal governance that facilitates timely, appropriate business execution and oversight while emphasizing vigorous discussion and swift decision making.

Corporate Governance

Basic stance

In an environment where over 80% of our sales come from overseas, Tokyo Electron regards building governance as essential to becoming a truly global company that achieves sustainable growth.

To that end, Tokyo Electron has built a framework to maximize the use of its worldwide resources and works to incorporate a wide range of opinions. In addition to strengthening its management platform and technology base, the Company maintains a governance structure that will enable it to attain world-class profitability.

Tokyo Electron uses the Audit & Supervisory Board System, which consists of a Board of Directors and an Audit & Supervisory Board. Effective governance is achieved based on the supervision of management by the Audit & Supervisory Board.

Board of Directors

1. Roles and responsibilities of the Board of Directors

The Board of Directors works to achieve sustainable growth and increase corporate value over the medium- to long-term based on its fiduciary responsibility to shareholders. The roles and responsibilities of the Board of Directors are as follows:

(1) Establishing management strategy and vision
(2) Making major operational decisions based on strategic direction
(3) Engaging in constructive, open-minded debate

The Board of Directors seeks the active participation of those present in discussions in order to obtain a wide-range of opinions, and supervises management and operational execution based on active debate.

The Board of Directors respects opinions even when they are minority or opposing viewpoints, including opinions voiced by outside directors; revises the conditions for implementation or the content of proposals as necessary; and engages in extensive debate with the goal of reaching decisions based on consensus. However, emphasis is placed on making necessary decisions quickly to avoid missing opportunities.

2. Board size and independent outside directors

Tokyo Electron considers it essential to maintain a Board of Directors with the appropriate size to ensure high quality, active debate and the diversity expected of both executive directors and independent directors. The current Board of Directors consists of 11 directors, and Tokyo Electron believes this to be the appropriate size, at present, to achieve a good balance in terms of knowledge, experience and skills.

Tokyo Electron regards the active expression of opinions, not only by independent directors, but also by Audit & Supervisory Board Members, as the cornerstone that supports the sound decision-making of the Board of Directors. Currently, five out of the 16 participants in the Board of Directors meetings, including the Audit & Supervisory Board Members, are outside members, consisting of two independent directors and three outside Audit & Supervisory Board Members. Tokyo Electron believes that the current Board of Directors meetings achieve an appropriate sense of productive tension and constructive debate due to the combined presence of executive directors, essential for making operational decisions, and outside members, who provide objectivity.

3. Nominations for Director and CEO

Tokyo Electron has established a Nomination Committee to ensure fairness and efficiency in management. The Nomination Committee proposes director candidates to the Board of Directors prior to their election at the General Meeting of Shareholders and also nominates CEO candidates for appointment by the Board of Directors. No representative directors, including the CEO, are members of the Nomination Committee, and the authority to propose election or dismissal of the CEO or directors is entrusted to a Nomination Committee member.

4. Director and CEO compensation

Tokyo Electron aims to strengthen its global competitiveness and increase management transparency, adopting a director and executive officer compensation system that is closely linked to performance and shareholder value. The compensation of directors and executive officers comprises a fixed monthly wage and an annual performance-linked bonus.

The Compensation Committee, which comprises three or more directors and includes at least one outside director, performs an analysis of industry wage levels in and outside Japan, accounting for both monetary and non-monetary aspects of the total compensation package. Based on this comprehensive analysis, the committee proposes a policy and system for director compensation to the Board of Directors. The proposal includes specific amounts for individual compensation, including the CEO's bonus.

In order to better link factors that increase corporate value and shareholder value to compensation, Tokyo

Does Tokyo Electron have these major components of corporate governance?

Compensation Committee	Yes	Composed of directors, excluding representative directors, or Audit & Supervisory Board Members
Nomination Committee	Yes	Composed of directors, excluding representative directors, or Audit & Supervisory Board Members
Outside directors	Yes	Two of the 11 directors are outside directors
Outside Audit & Supervisory Board Members	Yes	Three of the five Audit & Supervisory Board Members are outside Audit & Supervisory Board Members
Executive officer system	Yes	
Disclosure of individual remuneration of representative directors	Yes	Disclosed since 1999
Performance-linked compensation system	Yes	
Stock options system	Yes	Does not apply to outside directors and Audit & Supervisory Board Members
Retirement allowance system for executives	No	
Anti-takeover measures	No	

Message from the Outside Directors

This year marks a new start for Tokyo Electron.

From my outside perspective, the Company's transition to a new organizational structure appears to be going extremely smoothly.

Tokyo Electron's new president and CEO, Toshiki Kawai, has made a good start, thanks in part to the thoroughgoing efforts of Corporate Advisor Tetsuro Higashi and Chairman Tetsuo Tsuneishi. While the planned merger with Applied Materials last year ultimately did not work out, the process had the significant positive effect of prompting deep analysis of our competitor's strengths and weaknesses.

Meeting evolving needs and engaging with new technologies is part of Tokyo Electron's core mission. To survive and prosper, we must also always maintain a global orientation. To this end, Tokyo Electron's employees must continue to commit fully to the Group's Corporate Principles and to achieving continuous growth to be even more global and even more trusted.

Tokyo Electron's new organization has not changed the transparent, unrestrained nature of its Board of Directors' meetings. I believe that this level of sincerity and openness is the key to cultivating and maintaining highly effective corporate governance.

I hope to see Tokyo Electron reach new heights. I will do my part as best I can to make that a reality.

Outside Director
Hiroshi Inoue

Zoom

Corporate Governance

Electron has designated the net income attributable to owners of the parent and return on equity (ROE) for the current period as the main calculation benchmarks in the performance-linked compensation system for the CEO and other directors. These are adjusted, as necessary, for extraordinary income/losses and other special factors.

In principle, performance-linked compensation consists of monetary compensation and share-based compensation; the composition is roughly 1:1 for directors, and single year performance is appropriately reflected in the performance-linked compensation of the CEO and other directors. Share-based compensation is awarded in the form of stock options with the exercise price set at one yen per share, and the restriction that they may not be exercised for three years from the date of allotment.

5. Evaluation of the effectiveness of the Board of Directors

Each year, based on an evaluation survey filled out by the Board of Directors and Audit & Supervisory Board members, the Board of the Directors discusses, analyzes and evaluates its own effectiveness, and discloses a summary of the results.

Audit & Supervisory Board

The Audit & Supervisory Board currently consists of five members and includes three outside Audit & Supervisory Board Members. Three members, including one outside member, are full-time. The full-time Audit & Supervisory Board Members collect information through onsite surveys, and the board maintains appropriate coordination with the Internal Audit Department and the independent auditors as part of a structure that enables Audit & Supervisory Board Members to obtain all information necessary for audits.

Moreover, the composition of Audit & Supervisory Board Members provides a good balance of knowledge required for operational audits and accounting audits, including financial and accounting knowledge, legal knowledge, and audit experience at other companies. Tokyo Electron thus believes its Audit & Supervisory Board Members are able to perform their auditing functions effectively.

Internal Control System and Risk Management

Basic Stance

In order to enhance the Tokyo Electron Group's corporate value and remain accountable for our actions to our stakeholders, we are making efforts to strengthen effective internal control. This involves implementing practical measures that are in line with the Fundamental Policies concerning Internal Controls within the Tokyo Electron Group, set out by Tokyo Electron's Board of Directors. We are also annually evaluating our internal control over financial reporting based on the Financial Instruments and Exchange Act of Japan.

Risk Management System

To more effectively strengthen the internal control and risk management systems of the entire Group, Tokyo Electron has established a dedicated risk management and internal control function within the General Affairs Department of the corporate headquarters. This function manages and reduces risks through appropriate measures, such as by analyzing the risks that could affect the Group, and instructing responsible departments to conduct self-assessments of major identified risks. The function also regularly reports the status of risk management activities to the Audit & Supervisory Board Members and the Board of Directors.

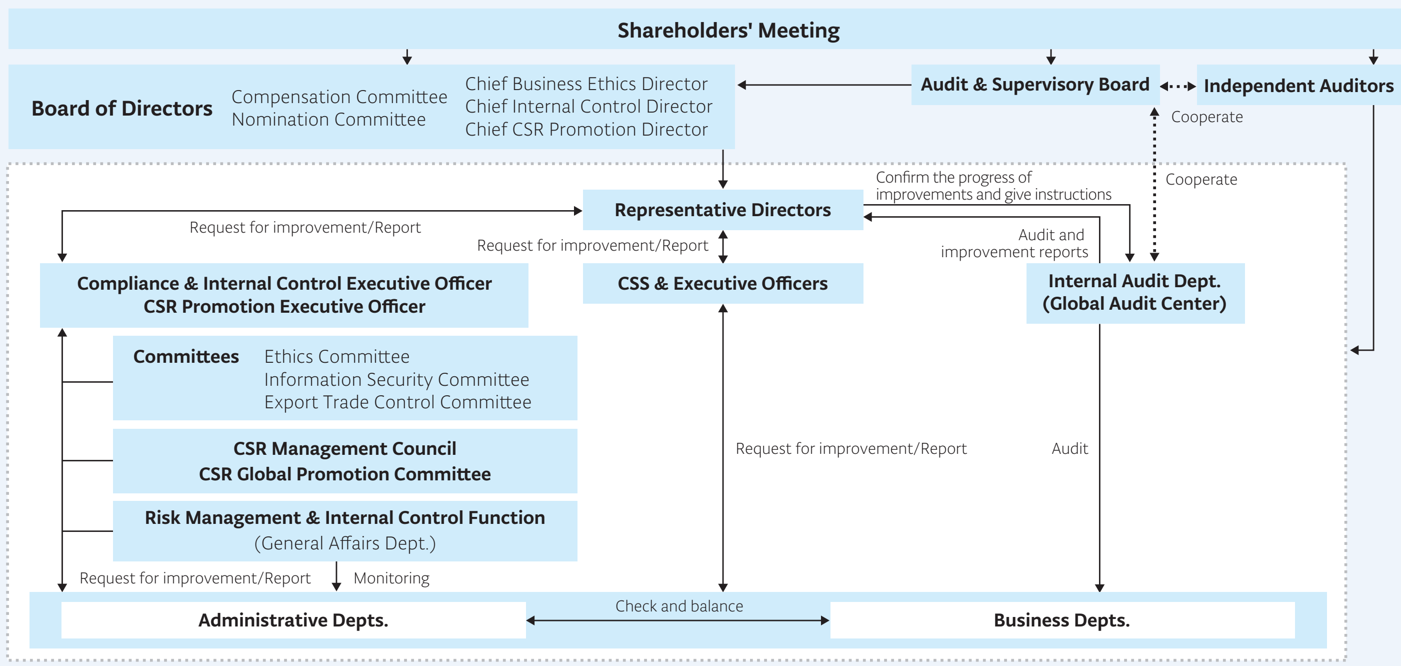
In fiscal 2016, the Group thoroughly reevaluated the material risks surrounding its operating environment in order to improve the effectiveness of its risk management. Based on this reevaluation, the Group is redefining material risks and clarifying each risk owner to enhance the efficacy of its risk management framework.

Auditing by the Internal Audit Department

The Global Audit Center of the corporate headquarters is the Group's internal audit department. This Center is responsible for auditing business activities, compliance and systems at domestic and overseas Group companies and business units (BUs) in accordance with each fiscal year's auditing plan. The Center also annually evaluates the effectiveness of the Group's internal control over financial reporting based on the Financial Instruments and Exchange Act of Japan.

At operating divisions where issues have been identified through audits and assessments, the Center monitors progress and provides necessary guidance for improvement.

Corporate Governance Framework, Internal Control System and Risk Management System



Message from the Outside Directors

Tokyo Electron has a strong reputation among market participants as an early adopter of robust corporate governance systems in line with global best practices. At the same time, stakeholder expectations continue to evolve amid an increasingly competitive global environment and what could be described as historic geoeconomical changes.

Corporate governance in Japan is in a period of historic transformation. The adoption of Japan's Corporate Governance Code, Stewardship Code, and the new benchmark JPX-Nikkei 400 has led investors to focus more and more on companies' business strategies in the context of a greater emphasis on return on equity (ROE) and the role of independent outside directors. In this regard, an effectively functioning corporate governance system is critical to enhancing understanding of and confidence in Tokyo Electron with its operations throughout the world.

I believe the role of an independent outside director is to pay close attention to global trends and, in addition to providing an independent and objective point of view, proactively raise issues and ask questions regarding matters of importance to the Company, including topics that may be difficult to debate within the organization. I hope to contribute to enhancing Tokyo Electron's corporate value by fulfilling my responsibilities as an independent outside director and helping to further foster the Company's culture that promotes free and open discussion.

Outside Director

Charles Ditmars Lake II

Zoom

Corporate Governance

Business Continuity Management

Since 2012, the Group has been improving its Business Continuity Plan (BCP) for large-scale earthquakes. The BCP is being updated at the headquarters, local offices and plants so that it will work effectively in the event of a disaster, facilitating early recovery and alternate production.

In fiscal 2016, the Group focused on revising the manuals and plans, as well as on implementing BCP drills and employee education.

In addition, emphasis has been placed on improving early emergency response with top priority given to securing employee safety, including stockpiling emergency supplies (including food and drinking water), and reinforcing essential infrastructure. As a result of these preparedness initiatives, we were able to smoothly implement the BCP to respond quickly to the Kumamoto Earthquake in April 2016.

Information Security Management

To ensure appropriate management and safe and effective use of information assets, the Group has established a framework for preventing information leakage under the Tokyo Electron Group Information Security Policy and the Regulation for Management of Technical and Business Information. These rules have been disseminated globally throughout the Group companies and are updated whenever necessary.

In order to strengthen information security, the Group is enhancing training and education for all of its executives and employees worldwide. These programs ensure that they can protect technical and business data and abide by the IT security rules.

Additionally, we have established a system for reporting both actual and potential cases (incidents) of information leakage. Such reports are critical in making quick responses, and their analysis can offer valuable insights into improving Group-wide measures to prevent leakage.

Business Ethics and Compliance

Basic Stance

Stakeholder trust is the cornerstone of business activities. In order to maintain trust, it is necessary to continuously act in rigorous conformity to business ethics and compliance. In line with the Fundamental Policies concerning Internal Controls within the Tokyo Electron Group, all Group executives and employees are required to maintain high standards of ethics and to act with a clear awareness of compliance.

Business Ethics

In 1998, Tokyo Electron formulated the Code of Ethics of the Tokyo Electron Group to establish uniform standards to govern all of its global business activities. In the same year, the Company appointed a Chief Business Ethics Director and established the Ethics Committee, which is responsible for promoting business ethics awareness throughout the Tokyo Electron Group. The Ethics Committee comprises the Chief Business Ethics Director, the Ethics Committee Chairman, and presidents of major Group companies in and outside Japan. The members meet semiannually, report on ethics-related issues facing each company, and discuss measures to further improve ethical behavior and compliance.

The Code of Ethics is reviewed in response to changes in the expectations of society. In January 2015, an anti-corruption statement was added to its introduction based on Principle 10 of the UN Global Compact, which concerns working against corruption including extortion and bribery. In fiscal 2016, the Group reviewed its Code of Ethics in response to the Code of Conduct of the EICC®*, an electronic industry CSR consortium that the Group joined in June 2015.

The Tokyo Electron Group's Code of Ethics and its Q&A section are published in Japanese, English, Korean and Chinese and disclosed on the intranet to enable all Group executives and employees, including those overseas, to view them at any time. The Code of Ethics is also publicly accessible from the corporate website.

http://www.tel.com/environment/corp_governance/compliance/ethical.htm

* EICC is a registered trademark of Electronic Industry Citizenship Coalition Incorporated.

Compliance System

Tokyo Electron has appointed a Compliance & Internal Control Executive Officer from among its executive officers to raise awareness of compliance across the Group and further improve Group-wide compliance. The Company has also drawn up the Compliance Regulations, setting out basic compliance-related requirements in line with the Code of Ethics. The Compliance Regulations are intended to ensure that all individuals who take part in the business activities of the Tokyo Electron Group clearly understand the pertinent laws and regulations, international standards and internal company rules, and consistently apply these rules in all of their activities.

Compliance Education

Through the Group's e-learning system, we provide standard web-based training programs covering the basics of compliance, export-related compliance, protection of personal information, the Act for Subcontracting and other topics. All executives and employees are required to complete this training. In addition, other web-based programs tailored to specific positions and job roles are also available, including those on insider trading and the Social Security and Tax Number System.

We also have a quiz-based business ethics compliance education course for all Group executives and employees from fiscal 2014. Updated yearly, the quiz is intended to maintain compliance awareness throughout the Group and disseminate the latest information.

In addition to these web-based courses, we organized in-house seminars in fiscal 2016 for Corporate Directors and domestic Group company presidents on the subjects of compliance and internal control.

Internal Reporting System

The Tokyo Electron Group has an internal reporting system that employees can use to report any activity suspected of being in breach of laws, regulations or business ethics principles. An ethics hotline and a compliance hotline have been established to receive reports from all Group companies, and each overseas location also has its own reporting system. In all instances, the system ensures that whistleblowers remain anonymous and are protected from any disadvantage or repercussions.

There were no reports or cases of non-compliance with laws, regulations, or principles of ethics in fiscal 2016 that could have had a material impact on the Group's business or local communities.

Message from the Outside Directors

I have closely followed the semiconductor production equipment industry over the eight years I have served as an outside director on Tokyo Electron's Board of Directors. I am now certain that the Company's greatest strength stems from the firm trust customers place in Tokyo Electron.

To me, corporate management means working with customers to increase business value and generate higher returns and then fairly distributing these returns to stakeholders, including shareholders and employees.

With the popularization of the internet of things, semiconductor applications are on the verge of enormous change and expansion, deeply altering the market landscape. Applications that used to target customers in relatively specialized fields, such as niche products or control technologies, are now beginning to expand in scope. They are finding uses across extremely broad areas, spanning not just supply chains, but entire value chains.

As such, this is a time of great opportunity for Tokyo Electron. By capitalizing on its strengths and working with customers to stay ahead of the curve as markets evolve, I hope to see Tokyo Electron markedly increase its corporate value.

Although I will leave the Board of Directors in June 2016, I am confident that Tokyo Electron will continue producing results that meet the expectations of its shareholders and other stakeholders. I would like to thank all of the Company's stakeholders for your support over these eight years, and I look forward to seeing the great things to come for Tokyo Electron.

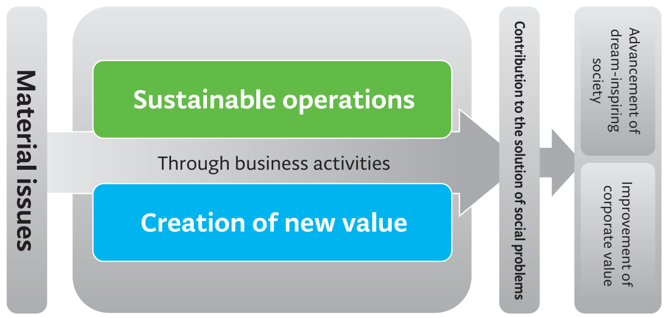
Outside Director **Masahiro Sakane**

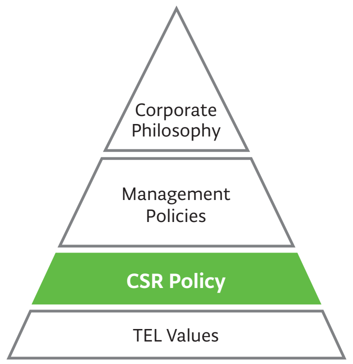
CSR Operations

Corporate Philosophy

We strive to contribute to the development of a dream-inspiring society through our leading-edge technologies and reliable service and support.

Tokyo Electron considers CSR to be the embodiment of its Corporate Philosophy, which has been firmly upheld since the Company's founding. Tokyo Electron pursues sustainable operations from the viewpoints of corporate governance, legal and regulatory compliance and business ethics while creating new value through its products and services. Based on these efforts, the Company implements CSR activities to help solve social problems. Tokyo Electron will continue to pursue CSR activities to build stakeholder trust, improve corporate value and promote the growth of a sustainable and dream-inspiring society.





CSR Promotion Framework

Through the end of fiscal 2016, Tokyo Electron semiannually convened a CSR Promotion Committee, consisting of the Chief CSR Promotion Director, CSR Promotion Executive Officer, and the heads of related departments. The Committee discussed CSR, set goals, and checked the progress of ongoing action plans. Tokyo Electron held Monthly CSR Meeting to share information about departmental CSR issues and promote improvement. Starting in fiscal 2017, the Company semiannually convenes the CSR Management Council, comprising CEO, corporate directors, and division general managers. At the same time, the CSR Promotion Committee has been reorganized into the CSR Global Promotion Committee to further enhance CSR activities at the global level.

Stakeholder Communication

Business activities are based on good communication with stakeholders and society at large. That is why Tokyo Electron considers building stakeholder trust essential to its operations. Accordingly, the Company discloses information on the progress of its initiatives and future direction of its business in a fair and timely manner through regular briefings and its corporate website. In addition, Tokyo Electron interacts with stakeholders on many occasions and through various contact points. This helps us accurately understand their views and expectations, and allows the Company to quickly reevaluate and adjust its course of business as appropriate.

Through these efforts, TEL is reducing the latent impact of social and environmental issues on its business while seeking to improve its competitiveness and market position to maintain sustainable business operations.

Participation in International CSR Initiatives

Tokyo Electron performs CSR activities in line with global standards and operates its businesses in a socially responsible manner throughout its supply chains. To address CSR challenges from an even broader perspective, TEL is actively engaged with global CSR initiatives, including the UN Global Compact and the EICC, an electronic industry CSR alliance.

CSR Policy

Tokyo Electron has developed a CSR Policy that outlines the principles and values that form the foundation of its CSR activities.

1	**Corporate Activities**	Tokyo Electron provides safe, high-quality products and services to customers around the world and works toward the enrichment of society.
2	**Business Ethics**	Tokyo Electron acts in compliance with the laws and regulations of the countries in which it operates, observes international regulations and acts in accordance with strict business ethics. We do not engage in any conduct that impedes fair and open market competition.
3	**Respect for Individuals**	Tokyo Electron respects the character and individuality of each person. We value the diversity of employees, share a strong sense of mission, and promote the development of a vibrant work environment.
4	**The Environment**	Tokyo Electron seeks to achieve harmony with the global environment. By developing and providing eco-friendly products, we strive to reduce our own impact on the environment and help our customers reduce theirs as well.
5	**Communication with Stakeholders**	Tokyo Electron discloses information in a fair, impartial and timely manner; strives to engage in two-way communications; and works to meet stakeholder expectations.
6	**Social Contribution**	As a good corporate citizen, Tokyo Electron promotes the development of local communities and the betterment of society worldwide.

Stakeholder Communication

Tokyo Electron's key stakeholders	Divisions in charge	Key communication methods
Shareholders/investors	Management, IR	Earnings announcement (quarterly), medium-term management plan briefing, interviews, factory tours
Customers	Sales, R&D, Marketing	Interviews, executive meetings, customer satisfaction survey (annual), Technology Conference
Suppliers	Procurement, Materials	Production Update Briefing (semiannual), Partners Day (annual), STQA* audit, interviews * Supplier Total Quality Assessment
Employees	Management, HR	Employee meetings, Technology Conference, interviews, global engagement survey (annual)
Local communities	Local management teams	Factory tours, participation in local activities, visits to/interviews with local authorities, social contribution activities
Governments/associations	Local management teams	Legal and regulatory compliance/notification/monitoring/advocacy, industry group activities, alliances with external organizations

CSR Operations

Identifying Material Issues

Based on the expectations and requests communicated by stakeholders and on the social and environmental challenges surrounding the sustainability of its businesses, Tokyo Electron has identified issues that are material to the medium- and long-term improvement of its corporate value. Accordingly, CSR goals have been set to address these issues.

Fiscal 2017 CSR Goals

For the fiscal year ending March 2017, Tokyo Electron has set 16 goals related to 5 material issues and is working to achieve them.

Material issues	Themes	Goals
Enhancing product competitiveness	Innovation	Maintain development costs at the fiscal 2016 level.
	Environmental contribution of products	Continue initiatives to reduce per-wafer consumption of energy and pure water by 10% by fiscal 2019 (as compared with fiscal 2014).
Reinforcing responsiveness to customers	Customer satisfaction	Get 3 points or more on a 4.0 scale for every item in the customer satisfaction survey.
	Quality	Implement PDCA training and disseminate the TEL6-Step model (8D problem solving method).
	Information security	Ensure all target employees take a training course in information security.
Strengthening earnings power	Improve profitability	See Medium-term Management Plan on page 5 for details.
	Streamline operations	Keep the number of TPM programs at the fiscal 2016 level.
Maximizing dreams and drive	Create an invigorating workplace	Provide a work environment that supports continuous growth while ensuring performance-responsive, scrupulously fair treatment of employees.
	Social contribution	Maintain the number of social contribution programs at the fiscal 2016 level.
Establishing sustainable operations	Corporate governance	Improve the operation of the Board of Directors through annual effectiveness evaluations.
	Compliance and ethics	Ensure all employees take training courses in business ethics and compliance.
	Business continuity management	Provide business continuity plan (BCP) training at principal manufacturing sites and headquarters, revise the BCP manual and implement safety confirmation system training (all to be performed annually).
	Safety	TCIR*: Less than 0.5. * Total Case Incident Rate (the number of workplace injuries per 200,000 work hours)
	Environmental management	• Reduce energy consumption by 1% on a per-unit basis* from the fiscal 2016 level. • Maintain water consumption at the fiscal 2012 level (on a per-unit basis). * Energy consumption (environmental burden) divided by values closely associated with energy consumption, such as production volume, number of employees or total floor area.
	Supply chain management	Reinforce supply chain management through supply chain CSR assessment*. * Targeted at high-ranking suppliers whose aggregate business with Tokyo Electron accounts for 80% of its procurement.

Promoting Dialog with Investors

Basic Stance

Tokyo Electron endeavors to provide opportunities for constructive dialog with growing numbers of investors around the world to contribute to the Company's sustainable growth and increase corporate value over the medium and long term. Furthermore, to the extent that this is reasonable and possible, Tokyo Electron places emphasis on having the CEO and representative directors engage in direct dialog with investors.

IR Activities

Striving to maintain dialog with investors, Tokyo Electron appoints an executive officer in charge of IR and maintains a dedicated Investor Relations Department under the direct control of the CEO.

Tokyo Electron holds earnings release conferences and medium-term management plan briefings for securities analysts and institutional investors with such speakers as the CEO and the executive officer in charge of accounting. The Group also participates in IR conferences in and outside Japan, at which the executive officer in charge of IR speaks, and holds individual meetings.

The spokespersons for the IR Department hold individual meetings with investors and periodically relay the opinions of investors at these events to the CEO and the executive officer in charge of IR so that feedback can be of use in management.

Shareholders' Meeting

Tokyo Electron mails a Notice of Annual General Meeting of Shareholders to shareholders more than three weeks in advance of the meeting as one of its measures to vitalize these meetings and to promote smooth and efficient voting. It also sets the date of the Company's meeting to avoid days on which many such meetings are concentrated.

In addition, shareholders are free to cast their votes via the internet, and Tokyo Electron participates in the web-based voting platform for institutional investors operated by ICJ, Inc.

To supplement the above shareholder meeting-related initiatives, Tokyo Electron's website carries the notices, resolutions, voting results and presentation materials of shareholders' meetings.

For more details, please refer to the Tokyo Electron Corporate Governance Guidelines, published in December 2015.
http://www.tel.com/ir/policy/cg/document/index_02.pdf

Constituent of the FTSE4Good Global Index

FTSE4Good

Tokyo Electron has been a constituent of the FTSE4Good Global Index since September 2003. The FTSE4Good Global Index is a social responsibility investment (SRI) index provided by the FTSE Group, a world-leading index firm wholly owned by the London Stock Exchange.

Directors, Audit & Supervisory Board Members and Executive Officers (As of July 1, 2016)

Directors

Tetsuo Tsuneishi
Corporate Director
Chairman of the Board

Toshiki Kawai
Representative Director
President & CEO

Sadao Sasaki
Representative Director

Tetsuro Hori
Representative Director
Internal Control

Gishi Chung
Corporate Director

Masami Akimoto
Corporate Director

Tatsuya Nagakubo
Corporate Director
Business Ethics, CSR Promotion

Hirofumi Kitayama
Corporate Director

Tetsuro Higashi
Corporate Director
Corporate Advisor

Hiroshi Inoue*
Corporate Director
Honorary Chairman, Tokyo Broadcasting System Holdings, Inc.

Charles Ditmars Lake II*
Corporate Director
Chairman and Representative in Japan, American Family Life Assurance Company (Aflac Japan)
President, Aflac International, Incorporated

* Outside Director

Audit & Supervisory Board Members

Yoshiteru Harada
Audit & Supervisory Board Member

Shojiro Mori
Audit & Supervisory Board Member

Mikio Akaishi*
Audit & Supervisory Board Member

Takatoshi Yamamoto*
Audit & Supervisory Board Member

Ryuji Sakai*
Audit & Supervisory Board Member / Attorney at law, Nagashima Ohno & Tsunematsu

* Outside Audit & Supervisory Board Member

Executive Officers

Toshiki Kawai
President & CEO, GM, Business Division

Sadao Sasaki
EVP & GM, Development & Production Division, Product Development Division, Deposition
President, Tokyo Electron Tohoku Ltd.

Tetsuro Hori
EVP & GM, Corporate Administration Division, Accounting, Finance, Intellectual Property, Corporate Strategy, IR, Compliance & Internal Control

Gishi Chung
SVP & Deputy GM, Development Division (Process), Innovative Technology Planning Division

Masami Akimoto
SVP & Deputy GM, Development Division (Coat & Clean)
President, Tokyo Electron Kyushu Ltd.

Hideyuki Tsutsumi
SVP & GM, Global Field Division

Takeshi Okubo
SVP & Deputy GM, Global Field Division

Barry Mayer
SVP & GM, Global Strategy
President, Tokyo Electron U.S. Holdings, Inc.

David Brough
SVP & GM, Global Strategy, Europe Region
President, Tokyo Electron Europe Ltd.

Seisu Ikeda (Yoh)
SVP & GM, CTSPS BU

Kenji Washino
SVP & GM, ATS BU

Kiyoshi Sunohara
SVP & GM, FS BU

Tatsuya Nagakubo
VP & Deputy GM, Corporate Administration Division, Human Resources & General Affairs, CSR Promotion

Masahiko Hamajima
VP & GM, Corporate Strategy

Takeo Sasaki
VP & GM, Legal, Export & Logistics Control

Keisuke Koizumi
VP & GM, IT Division

Yutaka Nanasawa
VP & Deputy GM, IT Division
President, TEL Solar Services AG

Masayuki Kojima
VP & Deputy GM, Development Division (Etch)

Yoshifumi Tahara
VP & Deputy GM, Development Division (Deposition, ATS/FPD), Product Development Division
President, Tokyo Electron Yamanashi Ltd.

Akihisa Sekiguchi
VP & GM, Advanced Semiconductor Technology Division

Kazushi Tahara
VP & Deputy GM, Production Division
President, Tokyo Electron India Private Ltd.

Toshihiko Nishigaki
VP & GM, Business Innovation
President, TEL FSI, Inc.

Yoshinobu Mitano
VP & GM, ES BU

Shingo Tada
VP & GM, Thin Film Formation BU

Tsuguhiko Matsuura
VP & GM, FPD BU

Yoshiaki Horii
VP & GM, Planning of Region Strategy Division

Takao Sasaki
VP & Deputy GM, Global Field Division, Production Division (Corporate Safety)
President, Tokyo Electron FE Ltd.

EVP : Executive Vice President
SVP : Senior Vice President
VP : Vice President
GM : General Manager

Financial Review

Sales and Income

Operating Environment

The overall world economy in fiscal 2016 saw gradual recovery, despite slowing growth in China and some other emerging countries. In the electronics industry, demand grew for higher capacity memory for mobile devices as well as for CPUs and memory used in data centers, reflecting the further sophistication of mobile devices and development of cloud services. The semiconductor production equipment (SPE) market, in which Tokyo Electron operates, was firm, as semiconductor manufacturers carried out capital investment driven by the dawn of the internet of things (IoT) as well as the adoption of new forms of memory, such as 3D structure devices, and cutting-edge logic semiconductors. The market for flat panel display (FPD) production equipment for thin-film transistor (TFT) array processes saw overall growth as capital investment in small- and medium-sized LCD panels grew considerably, despite a decline in investment in large-sized panels.

Sales

Net sales in fiscal 2016 rose 8.3% year on year to ¥663.9 billion. This reflected the steady development of business with customers of Tokyo Electron's mainstay products as well as growth in sales of parts and used equipment as a result of increased demand for older generation technologies.

Domestic sales grew 28.2% year on year to ¥121.8 billion, while overseas sales grew 4.6% to ¥542.1 billion. Overseas sales as a share of total consolidated sales came to 81.7% in fiscal 2016, down 2.8 percentage points from 84.5% in fiscal 2015.

Orders received during fiscal 2016 came to ¥679.3 billion, up 2.8% compared with the previous fiscal year. The order backlog at the end of March 2016 was ¥311.1 billion, up 5.2% year on year. For orders received and order backlog in the SPE and FPD production equipment segments, see Performance by Segment on page 18.

Gross Profit, SG&A Expenses and Operating Income

Cost of sales during fiscal 2016 increased 7.1% year on year to ¥396.7 billion, while the cost of sales ratio dropped 0.6 of a percentage point to 59.8%, reflecting the 8.3% increase in net sales. Gross profit was up 10.1% year on year to ¥267.2 billion, and the gross profit margin rose 0.6 of a percentage point to a record high of 40.2%.

SG&A expenses fell 2.7% year on year to ¥150.4 billion. This decrease was mainly due to a reduction in business merger-related expenses as a result of the cancellation of the merger agreement with Applied Materials. The ratio of SG&A expenses to consolidated net sales dropped from 25.2% in the previous fiscal year to 22.6% in the fiscal year under review.

Consequently, operating income increased 32.5% year on year to ¥116.8 billion, and the operating margin rose from 14.4% to 17.6%.

Research and Development

R&D expenses were up 6.9% year on year to ¥76.3 billion. The main cause of this rise was increases in expenses in the key fields of etch, deposition and cleaning systems in the SPE segment. The ratio of R&D expenses to net sales dropped 0.1 of a percentage point year on year to 11.5%.

Tokyo Electron regards advanced technological prowess as the source of its growth. Accordingly, to produce strong next generation products and achieve the goals of the medium-term management plan, the Company focused investment on fields in which market growth is forecast. In the SPE field, development centered on key technologies in the areas of etching, deposition and cleaning. These technologies are needed for multiple patterning for further miniaturization, 3D structure NAND flash memory and the adoption of new materials.

Results of the Company's R&D efforts included the release of new products, such as coater/developers compatible with advanced packaging technologies and single wafer deposition systems for next-generation miniaturization. Furthermore, the EXIM™ sputtering system, used to manufacture STT-MRAM* and other products, was adopted in the development lines of multiple customers.

In FPD production equipment, Tokyo Electron released new etch systems for high-resolution small- and medium-sized panels.

* STT-MRAM (Spin Transfer Torque-Magnetoresistive Random Access Memory): An emerging memory promising for its low power consumption

Other Income (Expenses) and Net Income Attributable to Owners of Parent

During fiscal 2016, main sources of other income were ¥1.0 billion in gain on sale of the land and buildings of the former Technology Center Tsukuba, ¥0.9 billion in foreign exchange gain and ¥0.9 billion in interest and dividend income. Other expenses included ¥9.7 billion in loss on impairment of goodwill and other assets and ¥2.2 billion in loss on business restructuring due to revisions to business plans for TEL FSI, Inc. As a result, net other income (expenses) came to ¥10.3 billion of net expense in fiscal 2016, compared with ¥1.3 billion of net expense in fiscal 2015.

As a result, income before income taxes came to ¥106.5 billion, up 22.6% year on year. Net income attributable to owners of the parent totaled ¥77.9 billion in fiscal 2016, up 8.4% from fiscal 2015. Due in part to the repurchase and cancellation of stock (8.53% of issued shares before the cancellation), net income per share rose 15.0% year on year, outpacing the rise in net income, to ¥461.10.

Comprehensive Income

In fiscal 2016, Tokyo Electron recognized comprehensive income of ¥61.0 billion, down 24.1% from fiscal 2015 even though net income increased ¥6.0 billion year on year to ¥77.9 billion. This was mainly due to ¥9.2 billion in loss on remeasurements of defined benefit plans related to a reduction in the discount rate used to calculate retirement benefits as a result of the Bank of Japan's negative interest rate policy as well as ¥5.7 billion in loss on foreign currency translation adjustments reflecting the appreciation of the yen, and a ¥1.6 billion loss on changes in fair value of investment securities.

Dividend Policy, Dividends and Stock Repurchases

It is the policy of Tokyo Electron to pay dividends on the basis of business performance. As the Company aims for world-class profitability, it seeks to bolster returns to shareholders accordingly, and beginning with fiscal 2016, raised the payout ratio from 35% to 50%. Furthermore, with an eye to ensuring stable dividends, a lower limit of ¥150 per share has been set on annual dividends.*

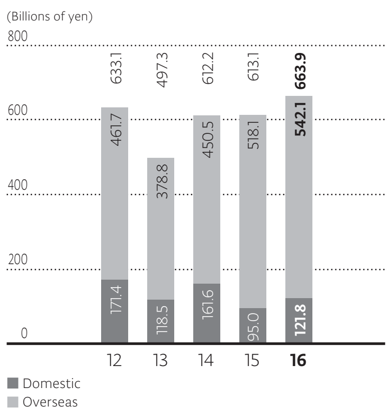
Reflecting the Company's firm business results, Tokyo Electron paid annual dividends for fiscal 2016 of ¥237 per share (for a payout ratio of 51.4%), its highest ever. In addition, the Company repurchased and cancelled stock (8.53% of issued shares before the cancellation).

* This lower limit may be revised in the event that the Company does not generate net income for two consecutive fiscal years.

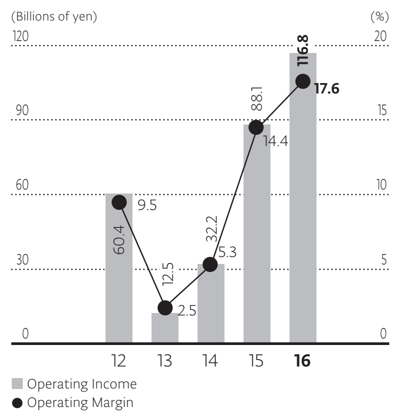
Millions of yen

Sales and Income	2012	2013	2014	2015	2016
Net sales	¥633,091	¥497,300	¥612,170	¥613,125	¥663,949
Gross profit	211,445	158,755	201,892	242,774	267,210
Gross profit margin	33.4%	31.9%	33.0%	39.6%	40.2%
Selling, general and administrative expenses	151,002	146,206	169,687	154,661	150,421
Operating income	60,443	12,549	32,205	88,113	116,789
Operating margin	9.5%	2.5%	5.3%	14.4%	17.6%
Income (loss) before income taxes	60,602	17,767	(11,756)	86,828	106,467
Net income (loss) attributable to owners of parent	36,726	6,076	(19,409)	71,888	77,892

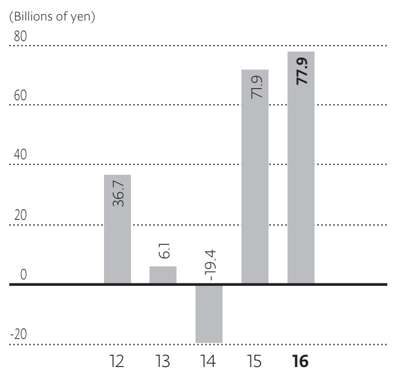
Domestic and Overseas Sales



Operating Income and Operating Margin



Net Income (Loss) Attributable to Owners of Parent



Financial Review

Performance by Segment

Semiconductor Production Equipment

In 2015, the SPE market was roughly level with the previous year. Demand for DRAM and NAND flash memory was firm, reflecting demand for higher performance in smartphones and the shipment growth of data center servers, with particular growth in capital investment for cutting-edge nodes by DRAM manufacturers. However, electronics demand grew less than anticipated, leading to restrained capital investment by logic chip manufacturers and foundries.

In these circumstances, Tokyo Electron's sales of deposition and cleaning systems, which it positions as key business areas, saw year-on-year growth. In deposition systems, the market position of the Company's batch and semi-batch systems used in ALD* processes improved. Adoption of the Company's cleaning systems in key logic chip and memory manufacturing processes also progressed. Sales of etch systems, however, fell slightly year on year, reflecting decreased investment by logic chip manufacturers and foundries, despite increased use in advanced patterning and 3D-NAND HARC processes**.

Sales in the field solutions business, which handles sales of parts and used equipment, modifications and maintenance services, rose 8% year on year, due to rising demand for used equipment and parts certified by highly reputable manufacturers.

Segment net sales to external customers increased 6.4% from fiscal 2015 to ¥613.0 billion in fiscal 2016. Segment profit declined 9.4% compared with fiscal 2015 to ¥123.2 billion, due in part to the recording of loss on impairment of goodwill as a result of revisions to business plans for TEL FSI, Inc. The segment profit margin fell from 23.6% in fiscal 2015 to 20.1%.

Orders received in this segment edged down 0.1% to ¥626.3 billion. The order backlog as of March 31, 2016 was up 5.1% year on year to ¥273.7 billion.

For a business overview of this segment, please see page 9.

* ALD (Atomic Layer Deposition): An atomic level film deposition technique
** HARC (High Aspect Ratio Contact) process: A deep hole etching process that requires advanced technology

FPD (Flat Panel Display) Production Equipment

Capital investment in the FPD production equipment market grew overall, as strong growth in investment in small- and medium-sized panels for mobile devices more than made up for a decrease in investment in large-sized panels. In this context, sales remained favorable, boosted by a gain in market share of Tokyo Electron's inductively coupled plasma (ICP) etch systems, which have a competitive edge among products for large-sized panels. The Company also recorded sales of its first inkjet printing system for manufacturing large-sized OLED panels for televisions.

Segment net sales to external customers increased 36.6% year on year to ¥44.7 billion. Segment profit amounted to ¥4.7 billion, a turnaround from a segment loss of ¥1.3 billion in fiscal 2015. The segment profit margin was 10.6%.

Orders received in this segment increased 43.1% year on year to ¥50.5 billion. The order backlog as of March 31, 2016 was up 18.4% to ¥37.4 billion.

For a business overview of this segment, please see page 9.

Other

Tokyo Electron's photovoltaic panel production equipment business, from which it has been withdrawing, no longer meets the standards of importance specified by the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information. Accordingly, it has been removed from the reportable segments, and its results are now included under Other. Comparisons with the previous fiscal year hereinafter are based on recalculations of the fiscal 2015 results using the current segment classifications.

In addition to the abovementioned photovoltaic panel production equipment-related sales, other sales mainly include group-wide logistics services, facility maintenance and insurance. Net sales to external customers amounted to ¥6.2 billion, up 49.3% year on year.

Financial Position and Cash Flows

Assets, Liabilities and Net Assets

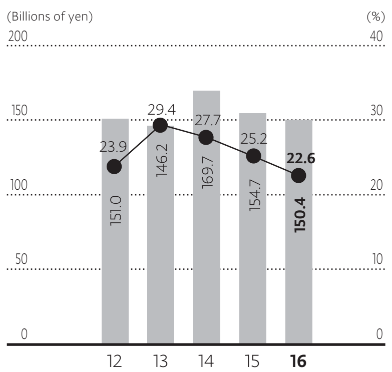
Assets

Current assets decreased ¥53.5 billion from the end of the previous fiscal year to ¥617.4 billion, reflecting decreases of ¥81.0 billion in total liquidity on hand (cash, cash equivalents and short-term investments with original maturities of less than one year) and ¥1.2 billion in prepaid expenses and other current assets, as well as increases of ¥19.5 billion in inventories

Segment Information

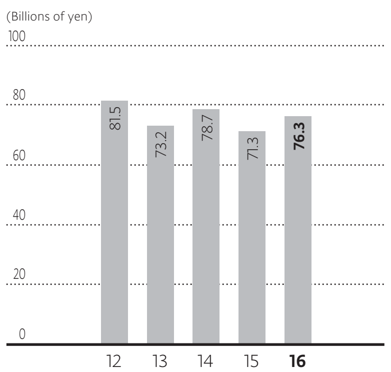
2016:	Reportable Segment: Semiconductor production equipment	Reportable Segment: FPD production equipment	Other	Total	Eliminations and Corporate	Consolidated
	Millions of yen					
Net sales						
Sales to external customers	¥613,033	¥44,687	¥ 6,229	¥663,949	¥ —	¥663,949
Intersegment sales or transfers	—	—	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

Selling, General and Administrative Expenses and Ratio to Net Sales

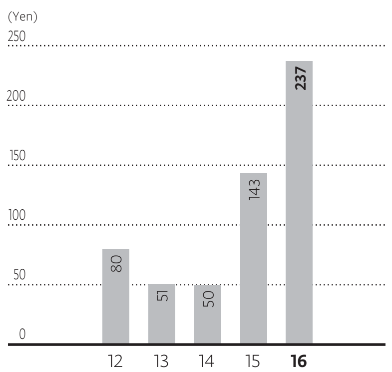


Selling, General and Administrative Expenses
Ratio to Net Sales

R&D Expenses

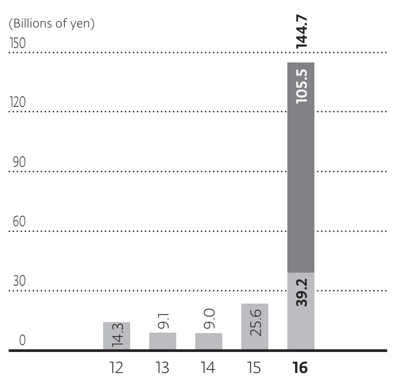


Cash Dividends per Share



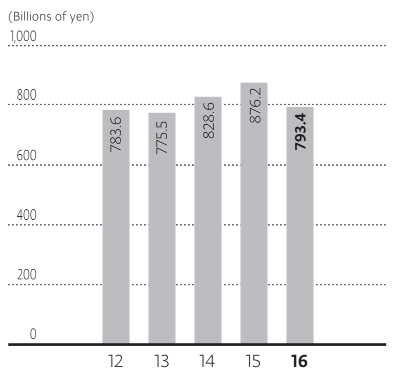
The fiscal 2013 annual dividend of ¥51 includes a commemorative 50 year anniversary dividend of ¥20.

Shareholder Returns

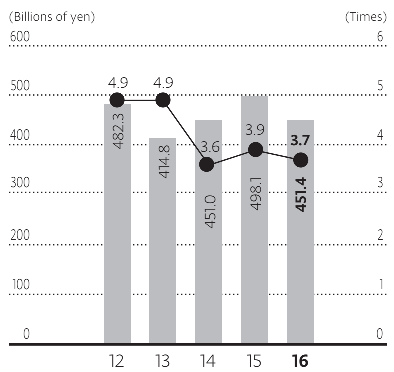


Cash Dividends
Share Repurchases

Total Assets



Working Capital and Current Ratio



Working Capital
Current Ratio

Financial Review

and ¥5.7 billion in trade notes and accounts receivable. The turnover period for trade notes and accounts receivable improved from 66 days in fiscal 2015 to 64 days in fiscal 2016, and the inventory turnover period worsened slightly from 105 days in fiscal 2015 to 107 days in fiscal 2016.

Net property, plant and equipment decreased ¥10.6 billion year on year to ¥96.3 billion due to ¥19.3 billion in depreciation and amortization as well as impairment related to TEL FSI, Inc. These factors more than offset ¥13.3 billion in new fixed asset acquisitions.

Investments and other assets decreased ¥18.7 billion year on year to ¥79.6 billion. This was mainly attributable to a ¥10.0 billion decrease in intangible assets, due in part to loss on impairment at TEL FSI, Inc., as well as a ¥7.2 billion decrease in net asset for defined benefits and a ¥4.0 billion decrease in investment securities due to sales of stocks held.

As a result, total assets as of March 31, 2016 stood at ¥793.4 billion, down ¥82.8 billion year on year.

■ Liabilities and Net Assets

Current liabilities decreased ¥6.8 billion from the end of fiscal 2015 to ¥166.1 billion at the end of fiscal 2016. This was mainly due to a ¥19.3 billion decrease in accrued expenses and other current liabilities accompanying a decrease in customer advances, a ¥1.8 billion decrease in accrued warranty expenses and a ¥1.4 billion decrease in trade notes and accounts payable.

Non-current liabilities increased ¥0.9 billion year on year to ¥63.1 billion, due to an increase in net liability for defined benefits of ¥4.2 billion and a decrease in other liabilities of ¥3.3 billion.

Total liabilities (current liabilities and non-current liabilities) stood at ¥229.1 billion, down ¥5.9 billion from the end of the previous fiscal year.

Net assets came to ¥564.2 billion at the end of fiscal 2016, down ¥76.9 billion from the end of fiscal 2015. This was mainly due to a ¥61.2 billion decrease in retained earnings, reflecting the recording of ¥77.9 billion in net income attributable to owners of the parent and ¥33.0 billion paid in cash dividends (¥12.2 billion for the fiscal 2015 year-end dividend and ¥20.8 billion for the fiscal 2016 interim dividend), as well as a ¥9.6 billion decrease in accumulated remeasurements of defined benefit plans and a ¥5.7 billion decrease in foreign currency translation adjustments due to the appreciation of the yen.

As a result, the equity ratio fell 2.1 percentage points from the end of March 2015 to 70.9% at the end of March 2016. ROE climbed to 13.0% from 11.8% in fiscal 2015.

Capital Expenditures* and Depreciation and Amortization**

Capital expenditures were ¥13.3 billion in fiscal 2016, a 1.2% year-on-year increase. Main factors in these expenditures were the acquisition of process evaluation equipment and R&D machinery and equipment, primarily for key areas with high growth potential in the SPE business as part of efforts to achieve the goals of the medium-term management plan.

Depreciation and amortization decreased 7.8% to ¥19.3 billion, reflecting continued low levels of capital investment.

* Capital expenditures represent only the gross increase in property, plant and equipment.
** Depreciation and amortization does not include amortization of goodwill or losses on impairment.

Cash Flows

Net cash provided by operating activities came to ¥69.4 billion, down ¥2.4 billion from fiscal 2015. Major contributors were ¥106.5 billion in income before income taxes, ¥19.3 billion in depreciation and amortization and ¥9.7 billion in loss on impairment. Major negative factors included a ¥23.5 billion increase in inventories, ¥15.4 billion in income taxes paid and a ¥15.0 billion decrease in customer advances.

Net cash used in investing activities was ¥150.0 billion, compared with ¥155.7 billion provided in the previous fiscal year. Major outflows included a ¥141.0 billion net increase in short-term investments and ¥11.3 billion used as payment for purchases of property, plant and equipment.

Cash used in financing activities came to ¥138.6 billion, compared with ¥18.2 billion in fiscal 2015. Major outflows included ¥105.5 billion used in payment for repurchases of treasury stock and ¥33.0 billion in dividends paid.

The balance of cash and cash equivalents at the end of March 2016 stood at ¥95.6 billion, a decrease of ¥222.0 billion from the end of fiscal 2015. Total liquidity on hand, which consists of cash, cash equivalents and short-term investments with original maturities of less than one year, decreased ¥81.0 billion year on year to ¥236.7 billion at the end of March 2016.

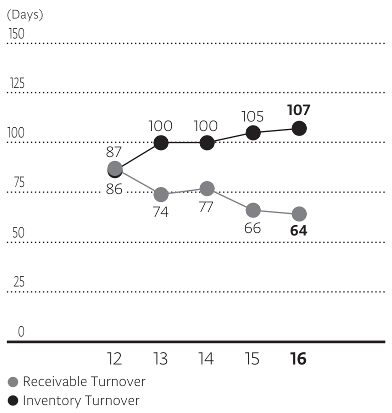
Millions of yen

Financial Position	2012	2013	2014	2015	2016
Total current assets	¥607,051	¥521,501	¥621,492	¥670,883	¥617,416
Net property, plant and equipment	126,885	135,698	112,344	106,896	96,317
Total investments and other assets	49,675	118,329	94,756	98,375	79,635
Total assets	783,611	775,528	828,592	876,154	793,368
Total current liabilities	124,794	106,670	170,510	172,812	166,061
Total liabilities	185,008	170,401	237,978	234,991	229,129
Total net assets (Total shareholders' equity)	598,603	605,127	590,614	641,163	564,239

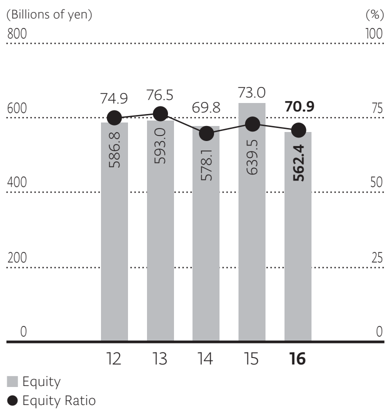
Millions of yen

Cash Flows	2012	2013	2014	2015	2016
Cash flows from operating activities	¥ 29,712	¥ 84,267	¥ 44,449	¥ 71,806	¥ 69,398
Cash flows from investing activities	(8,352)	(141,769)	(19,599)	155,738	(150,014)
Cash flows from financing activities	(27,335)	(10,625)	(187)	(18,214)	(138,601)
Cash and cash equivalents at end of year	158,776	85,314	104,797	317,632	95,638

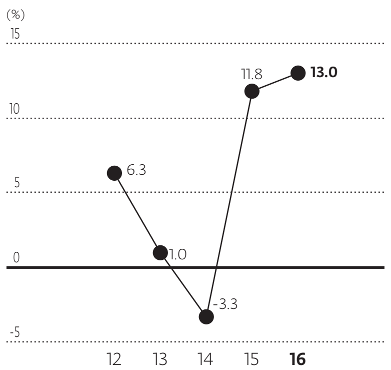
■ Receivable Turnover and Inventory Turnover



■ Equity and Equity Ratio

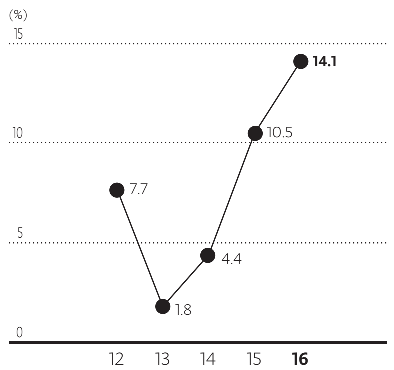


■ ROE



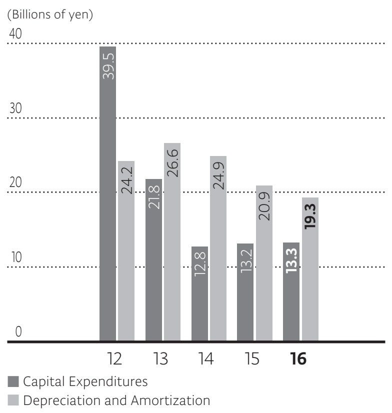
ROE = Net income (loss) attributable to owners of parent / Average total equity x 100

■ ROA

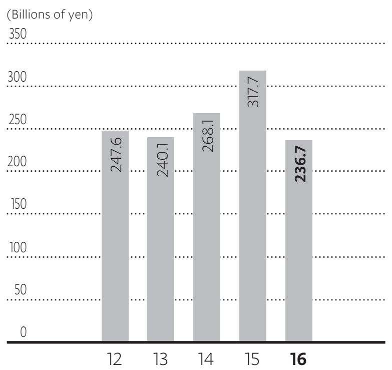


ROA = (Operating income or loss + Interest and dividend income) / Average total assets x 100

■ Capital Expenditures and Depreciation and Amortization



■ Total Liquidity on Hand



Total liquidity on hand = Cash and cash equivalents + Short-term investments

Financial Review

Business-related and Other Risks

The following risks may have a material impact on Tokyo Electron's business performance, stock price, or financial position.

(1) Impact from Changes in the Semiconductor Market

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

(2) Impact from Concentration of Transactions on Particular Customers

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

(3) Impact from Research and Development

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

(4) Safety-related Impact

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

(5) Impact from Quality Issues

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

(6) Impact of Intellectual Property Rights

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

(7) Impact of Fluctuating Foreign Exchange Rates

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

(8) Influence of Corporate Acquisitions

As part of its business strategy, Tokyo Electron conducts corporate acquisitions in order to expand into new business areas, secure new technologies and business platforms, and strengthen the competitiveness of existing businesses. The Company conducts due diligence and carefully deliberates each specific acquisition. However, in the event that the results following an acquisition do not meet expectations, Tokyo Electron's business performance could be adversely affected.

(9) Impact from Major Lawsuits or Legal Actions

Tokyo Electron is not currently involved in any lawsuits or other legal actions that are likely to significantly influence its business results. However, in the event that the Company's business or other activities become the subject of a major lawsuit or other legal action, depending on the outcome of such action, Tokyo Electron's business results could be adversely affected.

(10) Other Risks

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

Consolidated Eleven-Year Summary

Tokyo Electron Limited and Subsidiaries
As of and for the years ended March 31

	Thousands of U.S. dollars	Millions of yen										
	2016	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Net sales[1]	$5,892,341	¥663,949	¥613,125	¥612,170	¥497,300	¥633,091	¥668,722	¥418,637	¥508,082	¥906,092	¥851,975	¥673,686
Semiconductor production equipment	5,440,477	613,033	576,242	478,842	392,027	477,873	511,332	262,392	325,383	726,440	642,625	486,883
FPD production equipment	396,583	44,687	32,710	28,317	20,077	69,889	66,721	71,361	88,107	68,016	100,766	81,176
PV production equipment	—	—	3,618	3,806	83	—	—	—	—	—	—	—
Computer networks	—	—	—	—	—	—	—	—	—	—	19,169	17,497
Electronic components and computer networks	—	—	—	100,726	84,665	84,868	90,216	84,473	94,207	111,181	88,294	86,881
Other	55,281	6,229	555	479	448	461	453	411	385	455	1,121	1,249
Operating income (loss)	1,036,466	116,789	88,113	32,205	12,549	60,443	97,870	(2,181)	14,711	168,498	143,979	75,703
Income (loss) before income taxes	944,862	106,467	86,828	(11,756)	17,767	60,602	99,579	(7,768)	9,637	169,220	144,414	75,328
Net income (loss) attributable to owners of parent	691,267	77,892	71,888	(19,409)	6,076	36,726	71,924	(9,033)	7,543	106,271	91,263	48,006
Comprehensive income (loss)[2]	541,214	60,984	80,295	(10,889)	15,826	36,954	69,598	(4,751)	—	—	—	—
Domestic sales	1,081,008	121,808	95,046	161,631	118,504	171,364	182,165	162,609	208,871	323,946	313,816	262,532
Overseas sales	4,811,333	542,141	518,079	450,539	378,796	461,727	486,557	256,028	299,211	582,146	538,159	411,154
Depreciation and amortization[3]	170,900	19,257	20,878	24,888	26,631	24,198	17,707	20,002	23,068	21,413	18,820	19,170
Capital expenditures[4]	118,397	13,341	13,184	12,799	21,774	39,541	39,140	14,919	18,108	22,703	27,129	13,335
R&D expenses	677,023	76,287	71,350	78,664	73,249	81,506	70,568	54,074	60,988	66,073	56,962	49,182
Total assets	7,040,895	793,368	876,154	828,592	775,528	783,611	809,205	696,352	668,998	792,818	770,514	663,243
Total net assets[5]	5,007,446	564,239	641,163	590,614	605,127	598,603	584,802	523,370	529,265	545,245	469,811	376,900
Number of employees		10,629	10,844	12,304	12,201	10,684	10,343	10,068	10,391	10,429	9,528	8,901
	U.S. dollars	Yen										
Net income (loss) per share of common stock:												
Basic	$ 4.09	¥ 461.10	¥ 401.08	¥ (108.31)	¥ 33.91	¥ 205.04	¥ 401.73	¥ (50.47)	¥ 42.15	¥ 594.01	¥ 511.27	¥ 267.61
Diluted[6]	4.08	460.00	400.15	—	33.85	204.72	401.10	—	42.07	592.71	509.84	267.32
Net assets per share of common stock	30.43	3,428.37	3,567.23	3,225.92	3,309.58	3,275.14	3,198.66	2,859.37	2,896.55	2,989.70	2,573.72	2,112.30
Cash dividends per share of common stock	2.10	237.00	143.00	50.00	51.00	80.00	114.00	12.00	24.00	125.00	103.00	55.00
Number of shares outstanding (thousands)		165,211	180,611	180,611	180,611	180,611	180,611	180,611	180,611	180,611	180,611	180,611
Number of shareholders		24,664	20,829	30,563	41,287	42,414	44,896	39,285	42,509	43,324	41,289	46,272
		%										
ROE		13.0	11.8	(3.3)	1.0	6.3	13.3	(1.8)	1.4	21.4	21.8	13.5
Operating margin		17.6	14.4	5.3	2.5	9.5	14.6	(0.5)	2.9	18.6	16.9	11.2
Equity ratio		70.9	73.0	69.8	76.5	74.9	70.8	73.5	77.5	67.5	59.7	56.8
Asset turnover (times)		0.80	0.72	0.76	0.64	0.79	0.89	0.61	0.70	1.16	1.19	1.03
		Thousands of yen										
Net sales per employee	$ 554,366	¥ 62,466	¥ 56,540	¥ 49,754	¥ 40,759	¥ 59,256	¥ 64,655	¥ 41,581	¥ 48,896	¥ 86,882	¥ 89,418	¥ 75,687

1 From fiscal 2008 to 2014, Computer networks was included in Electronic components and computer networks. Electronic components and computer networks were excluded from fiscal 2015 because Tokyo Electron Device Limited, a former consolidated subsidiary, become an equity method affiliate. Photovoltaic panel (PV) production equipment was included in FPD production equipment until fiscal 2012. From fiscal 2016, PV production equipment is included in Other.
2 From fiscal 2011, the Company applied "Accounting Standards for Presentation of Comprehensive Income" (Statement No. 25) released by the Accounting Standards Board of Japan (ASBJ). Accordingly, comprehensive income (loss) has been disclosed from fiscal 2010.
3 Depreciation and amortization does not include amortization and loss on impairment of goodwill.
4 Capital expenditures only represent the gross increase in property, plant and equipment.
5 From fiscal 2007, "Total net assets" has been disclosed in accordance with "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Guidance No. 8) released by the ASBJ. "Total net assets" through fiscal 2006 represents "Total shareholders' equity" under the former accounting standards.
6 From fiscal 2011, The Company calculated net income per share of common stock (diluted) in accordance with "Accounting Standard for Earning Per Share" (Statement No. 2) and "Guidance on Accounting Standard for Earnings Per Share" (Guidance No. 4) released by the ASBJ. Dilution is not assumed for the years ended March 31, 2014 and 2010.

Consolidated Balance Sheets

Tokyo Electron Limited and Subsidiaries
As of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
ASSETS	2016	2015	2016
Current assets:			
Cash and cash equivalents	¥ 95,638	¥317,632	$ 848,757
Short-term investments	141,035	283	1,251,642
Trade notes and accounts receivable	116,503	110,845	1,033,928
Allowance for doubtful accounts	(48)	(379)	(426)
Inventories	195,080	175,588	1,731,274
Deferred income taxes	31,204	27,672	276,926
Prepaid expenses and other current assets	38,004	39,242	337,274
Total current assets	617,416	670,883	5,479,375
Property, plant and equipment:			
Land	23,868	25,022	211,821
Buildings	147,653	152,979	1,310,375
Machinery and equipment	129,169	132,411	1,146,335
Construction in progress	3,774	2,424	33,493
Total property, plant and equipment	304,464	312,836	2,702,024
Less: Accumulated depreciation	208,147	205,940	1,847,240
Net property, plant and equipment	96,317	106,896	854,784
Investments and other assets:			
Investment securities	19,914	23,935	176,730
Deferred income taxes	20,782	18,348	184,434
Net asset for defined benefits	1,623	8,817	14,404
Intangible assets	17,603	27,567	156,221
Other assets	21,538	21,592	191,143
Allowance for doubtful accounts	(1,825)	(1,884)	(16,196)
Total investments and other assets	79,635	98,375	706,736
Total assets	¥793,368	¥876,154	$7,040,895

	Millions of yen		Thousands of U.S. dollars
LIABILITIES AND NET ASSETS	2016	2015	2016
Current liabilities:			
Trade notes and accounts payable	¥ 55,050	¥ 56,479	$ 488,552
Income taxes payable	22,461	6,197	199,334
Accrued employees' bonuses	11,624	12,111	103,159
Accrued warranty expenses	8,687	10,442	77,095
Other accrued expenses and other current liabilities	68,239	87,583	605,600
Total current liabilities	166,061	172,812	1,473,740
Non-current liablities:			
Net liablitiy for defined benefits	55,677	51,480	494,116
Other liabilities	7,391	10,699	65,593
Total non-current liabilities	63,068	62,179	559,709
Total liabilities	229,129	234,991	2,033,449
Net assets:			
Shareholders' equity			
Common stock Authorized: 300,000,000 shares Issued: 165,210,911 and 180,610,911 shares as of March 31, 2016 and 2015, respectively	54,961	54,961	487,762
Capital surplus	78,023	78,023	692,430
Retained earnings	427,618	488,816	3,794,977
Treasury stock, at cost 1,176,800 and 1,344,892 shares as of March 31, 2016 and 2015, respectively	(8,051)	(9,064)	(71,450)
Accumulated other comprehensive income			
Net unrealized gains on investment securities	7,903	9,463	70,137
Net deferred gains on hedging instruments	50	122	444
Foreign currency translation adjustments	6,743	12,481	59,842
Accumulated remeasurements of defined benefit plans	(4,878)	4,682	(43,291)
Share subscription rights	1,641	1,421	14,563
Non-controlling interests	229	258	2,032
Total net assets	564,239	641,163	5,007,446
Total liabilities and net assets	¥793,368	¥876,154	$7,040,895

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net sales	¥663,949	¥613,125	$5,892,341
Cost of sales	396,739	370,351	3,520,935
Gross profit	267,210	242,774	2,371,406
Selling, general and administrative expenses	150,421	154,661	1,334,940
Operating income	116,789	88,113	1,036,466
Other income (expenses):			
Interest and dividend income	856	1,281	7,597
Foreign exchange gain, net	886	1,575	7,863
Revenue from grants	400	629	3,550
Gain on sales of property, plant and equipment	1,025	1,840	9,097
Gain on sales of investment securities	446	55	3,958
Commission for purchases of treasury stocks	(662)	—	(5,875)
Maintenance cost for domestic closed facilities	(147)	(48)	(1,305)
Loss on impairment of property, plant and equipment, goodwill and other assets	(9,727)	(2,506)	(86,324)
Loss on business restructuring	(2,235)	—	(19,835)
Loss on liquidation for subsidiaries	—	(1,070)	—
Restructuring expenses on facilities	—	(1,046)	—
Additional payment of customs tax	—	(1,003)	—
Other, net	(1,164)	(992)	(10,330)
Income before income taxes	106,467	86,828	944,862
Income taxes:			
Current	32,560	14,726	288,960
Deferred	(4,029)	173	(35,756)
Net income	77,936	71,929	691,658
Net income attributable to non-controlling interests	44	41	391
Net income attributable to owners of parent	¥ 77,892	¥ 71,888	$ 691,267

	Yen		U.S. dollars
Per share of common stock:			
Net income — basic	¥ 461.10	¥ 401.08	$ 4.09
Net income — diluted	460.00	400.15	4.08
Net assets	3,428.37	3,567.23	30.43
Cash dividends	237.00	143.00	2.10

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net income	¥77,936	¥71,929	$691,658
Other comprehensive income (loss):			
Net unrealized gains (losses) on investment securities	(1,556)	3,868	(13,809)
Net deferred gains (losses) on hedging instruments	(112)	69	(994)
Foreign currency translation adjustments	(5,706)	6,643	(50,639)
Remeasurements of defined benefit plans	(9,233)	(2,270)	(81,940)
Share of other comprehensive income of associates accounted for using equity method	(345)	56	(3,062)
Total other comprehensive income (loss)	(16,952)	8,366	(150,444)
Comprehensive income	60,984	80,295	541,214
Total comprehensive income attributable to:			
Owners of parent	60,962	80,224	541,019
Non-controlling interests	22	71	195

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

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

Millions of yen

	Shareholders' equity				Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on investment securities	Net deferred gains on hedging instruments	Foreign currency translation adjustments	Accumulated remeasurements of defined benefit plans	Share subscription rights	Non-controlling interests	Total net assets
Balance as of March 31, 2014	¥54,961	¥78,023	¥436,174	¥ (9,479)	¥5,593	¥ 60	¥ 5,777	¥ 6,982	¥1,644	¥10,879	¥590,614
Cumulative effect of changes in accounting policies	—	—	(1,102)	—	—	—	—	—	—	(211)	(1,313)
Restated balance	54,961	78,023	435,072	(9,479)	5,593	60	5,777	6,982	1,644	10,668	589,301
Cash dividends	—	—	(17,923)	—	—	—	—	—	—	—	(17,923)
Net income attributable to owners of parent	—	—	71,888	—	—	—	—	—	—	—	71,888
Repurchase of treasury stocks	—	—	—	(183)	—	—	—	—	—	—	(183)
Disposal of treasury stocks	—	—	(221)	598	—	—	—	—	—	—	377
Other, net	—	—	—	—	3,870	62	6,704	(2,300)	(223)	(10,410)	(2,297)
Balance as of March 31, 2015	¥54,961	¥78,023	¥488,816	¥(9,064)	¥9,463	¥122	¥12,481	¥ 4,682	¥1,421	¥ 258	¥641,163
Cash dividends	—	—	(33,013)	—	—	—	—	—	—	—	(33,013)
Net income attributable to owners of parent	—	—	77,892	—	—	—	—	—	—	—	77,892
Repurchase of treasury stocks	—	—	—	(105,810)	—	—	—	—	—	—	(105,810)
Disposal of treasury stocks	—	—	(726)	1,472	—	—	—	—	—	—	746
Cancellation of treasury stocks	—	—	(105,351)	105,351	—	—	—	—	—	—	—
Other, net	—	—	—	—	(1,560)	(72)	(5,738)	(9,560)	220	(29)	(16,739)
Balance as of March 31, 2016	¥54,961	¥78,023	¥427,618	¥ (8,051)	¥7,903	¥ 50	¥ 6,743	¥(4,878)	¥1,641	¥ 229	¥564,239

Thousands of U.S. dollars

	Shareholders' equity				Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on investment securities	Net deferred gains on hedging instruments	Foreign currency translation adjustments	Accumulated remeasurements of defined benefit plans	Share subscription rights	Non-controlling interests	Total net assets
Balance as of March 31, 2015	$487,762	$692,430	$4,338,090	$ (80,440)	$ 83,981	$1,083	$110,765	$ 41,551	$12,611	$2,290	$5,690,123
Cash dividends	—	—	(292,980)	—	—	—	—	—	—	—	(292,980)
Net income attributable to owners of parent	—	—	691,267	—	—	—	—	—	—	—	691,267
Repurchase of treasury stocks	—	—	—	(939,031)	—	—	—	—	—	—	(939,031)
Disposal of treasury stocks	—	—	(6,443)	13,064	—	—	—	—	—	—	6,621
Cancellation of treasury stocks	—	—	(934,957)	934,957	—	—	—	—	—	—	—
Other, net	—	—	—	—	(13,844)	(639)	(50,923)	(84,842)	1,952	(258)	(148,554)
Balance as of March 31, 2016	$487,762	$692,430	$3,794,977	$ (71,450)	$70,137	$ 444	$ 59,842	$(43,291)	$14,563	$2,032	$5,007,446

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes	¥106,467	¥ 86,828	$ 944,862
Depreciation and amortization	19,257	20,878	170,900
Loss on impairment of property, plant and equipment, goodwill and other assets	9,727	2,506	86,324
Amortization of goodwill	970	1,150	8,608
Increase (decrease) in accrued warranty expenses	(1,686)	259	(14,963)
Interest and dividend income	(856)	(1,281)	(7,597)
Gain on sales of property, plant and equipment	(899)	(1,820)	(7,978)
Loss on sales of affiliates' shares	1,111	1,609	9,860
Increase in trade notes and accounts receivable	(8,650)	(1,318)	(76,766)
Increase in inventories	(23,535)	(26,850)	(208,866)
Increase in trade notes and accounts payable	31	9,432	275
Increase in prepaid consumption tax	(1,910)	(11,384)	(16,951)
Increase (decrease) in accrued consumption tax	(1,022)	2,707	(9,070)
Increase (decrease) in customer advances	(15,004)	12,912	(133,156)
Other, net	(203)	(1,203)	(1,801)
Subtotal	83,798	94,425	743,681
Receipts from interest and dividends	957	1,621	8,493
Income taxes paid	(15,357)	(24,240)	(136,288)
Net cash provided by operating activities	69,398	71,806	615,886
Cash flows from investing activities:			
Payment for purchases of short-term investments	(209,491)	(24,997)	(1,859,168)
Proceeds from maturities of short-term investments	68,505	188,302	607,961
Payment for purchases of property, plant and equipment	(11,294)	(11,899)	(100,231)
Proceeds from sales of property, plant and equipment	2,151	2,549	19,089
Payment for acquisition of intangible assets	(708)	(422)	(6,283)
Proceeds from sales of investment securities	1,330	1,093	11,803
Proceeds from sales of affiliates' shares	—	1,726	—
Other, net	(507)	(614)	(4,499)
Net cash provided by (used in) investing activities	(150,014)	155,738	(1,331,328)
Cash flows from financing activities:			
Payment for purchases of treasury stock	(105,532)	(183)	(936,564)
Dividends paid	(33,013)	(17,923)	(292,980)
Other, net	(56)	(108)	(497)
Net cash used in financing activities	(138,601)	(18,214)	(1,230,041)
Effect of exchange rate changes on cash and cash equivalents	(2,777)	3,505	(24,645)
Net increase (decrease) in cash and cash equivalents	(221,994)	212,835	(1,970,128)
Cash and cash equivalents at beginning of year	317,632	104,797	2,818,885
Cash and cash equivalents at end of year	¥ 95,638	¥317,632	$ 848,757

See accompanying Notes to Consolidated Financial Statements.

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

Notes to Consolidated Financial Statements

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

Notes to Consolidated Financial Statements

6. Securities

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

	Millions of yen	
2016:	Cost	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

	Millions of yen	
2015:	Cost	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

	Thousands of U.S. dollars	
2016:	Cost	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		Thousands of U.S. dollars
	2016	2015	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	Gain on sale	Loss on sale
Equity securities	¥1,275	¥446	¥247
Total	¥1,275	¥446	¥247

	Thousands of US dollars		
	Amount of sale	Gain on sale	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		Thousands of U.S. dollars
	2016	2015	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.

			Loss on impairment	
Location	Use	Type of Asset	Millions of yen	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

			Loss on impairment
Location	Use	Type of Asset	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 relating to the 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		Thousands of U.S. dollars
	2016	2015	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

Notes to Consolidated Financial Statements

(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

2015:	Millions of yen 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

Consolidated Subsidiaries (As of March 31, 2016)

▶▶ JAPAN

- Tokyo Electron Yamanashi Limited
- Tokyo Electron Kyushu Limited
- Tokyo Electron Tohoku Limited
- Tokyo Electron Miyagi Limited
- Tokyo Electron FE Limited
- Tokyo Electron BP Limited
- Tokyo Electron Agency Limited

▶▶ U.S.

- Tokyo Electron U.S. Holdings, Inc.
- Tokyo Electron America, Inc.
- TEL Technology Center, America, LLC
- TEL Venture Capital, Inc.
- TEL Epion Inc.
- TEL NEXX, Inc.
- TEL FSI, Inc.

▶▶ EUROPE

- Tokyo Electron Europe Limited
- Tokyo Electron Israel Limited
- TEL Magnetic Solutions Limited

▶▶ ASIA

- Tokyo Electron Korea Limited
- Tokyo Electron Taiwan Limited
- Tokyo Electron (Shanghai) Limited
- Tokyo Electron (Kunshan) Limited
- Tokyo Electron Singapore Pte. Limited

37 consolidated subsidiaries in total, including the above 22 companies

Investor Information (As of March 31, 2016)

Corporate Name and Head Office:
Tokyo Electron Limited
Akasaka Biz Tower
3-1 Akasaka 5-chome, Minato-ku,
Tokyo 107-6325, Japan

Established:
November 11, 1963

Annual General Meeting of Shareholders:
June

Common Stock:

Stock trading unit	100 shares
Authorized	300,000,000 shares
Issued*	165,210,911 shares
Number of shareholders	24,664

* Due to the cancellation of treasury stock, the number of shares has decreased 15,400,000 from March 31, 2015.

Common Stock Listed on:
The Tokyo Stock Exchange 1st Section
(Stock code: 8035)

Independent Auditors:
KPMG AZSA LLC

Administrator of Shareholders' Register:
Sumitomo Mitsui Trust Bank, Limited
4-1 Marunouchi 1-chome, Chiyoda-ku,
Tokyo Japan

Direct mail and inquiries to:
Sumitomo Mitsui Trust Bank, Limited
8-4 Izumi 2-chome, Suginami-ku,
Tokyo 168-0063, Japan
Tel (toll free): 0120-782-031 (available only in Japan)

For Further Information, Contact:
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3-1 Akasaka 5-chome, Minato-ku,
Tokyo 107-6325, Japan
Tel: +81-3-5561-7000

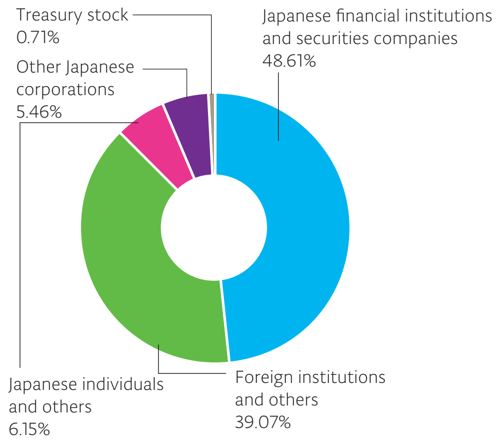
URL:
http://www.tel.com/

Principal Shareholders:

	Number of shares held (thousands)	Voting share ratio (%)
The Master Trust Bank of Japan Limited (trust account)	24,158	14.72
Japan Trustee Services Bank Limited (trust account)	17,385	10.59
Tokyo Broadcasting System Holdings, Inc.	7,727	4.71
State Street Bank and Trust Company	4,346	2.64
Trust & Custody Services Bank, Ltd. (securities investment trust account)	3,583	2.18
Japan Trustee Services Bank Limited (trust account 4)	3,282	2.00
BNP Paribas Securities (Japan) Limited	2,645	1.61
State Street Bank and Trust Company 505225	2,634	1.60
State Street Bank West Client Treaty 505234	2,450	1.49
Goldman Sachs Japan Co. Ltd.	2,329	1.42

Notes: 1. Shares of less than one thousand have been rounded down in the "Number of shares held."
2. Voting share ratio is calculated excluding treasury stock (1,176,800 shares). Figures are truncated after the second decimal place.

Distribution of Ownership among Shareholders:



Stock Price and Trading Volume