

Consolidated Financial Review for the Second Quarter Ended September 30, 2013

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

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

1. Financial highlights for the six months ended September 30, 2013

(1) Operating results (Cumulative)

	Six months ended	
	September 30, 2012	September 30, 2013
Net sales (Millions of yen)	266,600	254,500
Operating income (Millions of yen)	12,202	(1,822)
Ordinary income (Millions of yen)	15,459	588
Net income (Millions of yen)	6,090	2,476
Net income per share (Yen)	33.99	13.82
Fully diluted net income per share (Yen)	33.94	13.79
Comprehensive income:	Six months ended September 30, 2013: 8,789 million yen Six months ended September 30, 2012: 1,898 million yen	

(2) Financial position

	As of March 31, 2013	As of September 30, 2013
Total assets (Millions of yen)	775,527	798,814
Net assets (Millions of yen)	605,127	607,490
Equity ratio (%)	76.5	74.5
Equity: 595,213 million yen (as of September 30, 2013) 593,032 million yen (as of March 31, 2013)		

2. Dividends

	Year ended March 31, 2013	Year ending March 31, 2014
2Q-end dividend per share (Yen)	25.00	25.00
Year-end dividend per share (Yen)	26.00	25.00 (Forecast)
Annual dividend per share (Yen)	51.00	50.00 (Forecast)

Note: Revision of dividends forecast : None

The interim dividend for the second quarter ended September 2012 is made up of ordinary dividend 15 yen and commemorative dividend 10 yen.

The year-end dividend for the year ended March 2013 is made up of ordinary dividend 16 yen and commemorative dividend 10 yen.

3. Earnings forecasts for the year ending March 31, 2014

	Year ending March 31, 2014
Net sales (Millions of yen)	605,000
Operating income (Millions of yen)	30,000
Ordinary income (Millions of yen)	33,000
Net income (Millions of yen)	23,000
Net income per share (Yen)	128.36

Note: Revision of earnings forecast : None

4. Others

- (1) Important changes in subsidiaries during the current period: None
- (2) Adoption of special accounting method in preparing quarterly financial statement: Yes
- (3) Changes in accounting policies, accounting estimation, and restatement
1. Changes in accounting policies along with changes in accounting standards: None
 2. Other changes of accounting policies besides number 1 above: None
 3. Changes in accounting estimates: None
 4. Restatement: None
- (4) Number of shares outstanding (common stock)
1. Number of shares issued and outstanding (including treasury stock)

As of September 30, 2013:	180,610,911 shares
As of March 31, 2013:	180,610,911 shares
 2. Number of shares of treasury stock

As of September 30, 2013:	1,422,727 shares
As of March 31, 2013:	1,424,203 shares
 3. Average number of shares outstanding

Six months ended September 30, 2013:	179,187,591 shares
Six months ended September 30, 2012:	179,172,561 shares

Notification of the status of quarterly financial review procedures:

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

Explanations on the appropriate use of earnings forecast:

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

1. Qualitative Information on Financial Results for the Second Quarter

(1) Description of Operating Results

During the first half of the current fiscal year, the economies of the United States and Japan were in recovery trends, and although China's economy slowed, growth was maintained. In Europe, Germany and the United Kingdom showed signs of improvement. Overall, the global economy is on a recovery track.

In the electronics industry, the primary area of the Tokyo Electron (TEL) Group's business activities, demand for smartphones continues to grow, particularly in emerging economies, and sales of mobile devices including tablet PCs is firm. As a result of the global expansion of mobile devices, cloud services are growing, and demand for memory used by data centers is rising.

Given these circumstances, consolidated orders for the TEL Group have been recovering since the previous fourth quarter, and consolidated net sales for the first half of this current fiscal year were 254,500 million yen (down 4.5% from the same period of the previous fiscal year), consolidated operating loss was 1,822 million yen (compared to operating income of 12,202 million yen for the same period in the previous fiscal year), and consolidated ordinary income was 588 million yen (down 96.2% from the same period of the previous fiscal year). Meanwhile, the net income was 2,476 million yen (down 59.3% from the same period of the previous fiscal year).

TEL and Applied Materials, Inc. (AMAT) announced a definitive agreement to create a global innovator in semiconductor and display manufacturing technology via an all-stock combination which values the new combined company on 24th September, 2013. This combination brings together complementary leading technologies and products to create an expanded set of capabilities that are strategically important for customers. The closing of the transaction is subject to customary conditions, including approval by AMAT's and TEL's shareholders and review by regulators. The companies expect the transaction to close in mid to second half of 2014. For further details, please refer to the release "Notice Regarding the Execution of an Agreement to Combine Tokyo Electron Limited and Applied Materials, Inc." on 24th September, 2013.

The overview of each business segment is as described below.

From the first quarter of the current fiscal year, revisions have been made to the reportable segments based on "Accounting Standards for Disclosures about Segments of an Enterprise and Related Information." Figures for the corresponding period of the previous fiscal year listed below for comparison have been adjusted in accordance with the new business segments.

(i) Semiconductor Production Equipment

The balance of supply and demand for DRAM and NAND flash memory is tightening, and investment to increase production by memory makers that postponed investment in a long while has started to resume, and as a result, orders are improving. Capital investment in logic semiconductors by semiconductor makers, particularly for mobile devices, is robust. Consequently, net sales from external customers in this segment during the first half of the current fiscal year were 194,773 million yen (down 9.3% compared to the same period of the previous fiscal year).

(ii) FPD (Flat Panel Display) Production Equipment

Capital investment by LCD panel makers was relatively strong, particularly in China, and it appears that the FPD production equipment market is emerging from the significant correction phase in the previous fiscal year. Given these circumstances, net sales from external customers in this segment during the first half of the current fiscal year were 9,393 million yen (up 2.5% compared to the same period of the previous year).

(iii) PV (Photovoltaic Panel) Production Equipment

The TEL Group made efforts to develop a new customer base in the Sun Belt regions, but new orders were not obtained during the first half of the current fiscal year. Under these circumstances, the TEL Group is working to improve the conversion efficiency of thin-film silicon photovoltaic panels. Net sales from external customers in this segment during the first half of the current fiscal year were 3,288 million yen (compared to net sales of 64 million yen in the same period of the previous fiscal year).

(iv) Electronic Components and Computer Networks

In the electronic components segment, there is recovery in demand for automotive and industrial equipment. In the computer networks segment, sales of computer system equipment were nearly flat from the previous year. Given these circumstances, net sales from external customers in this segment during the first half of the current fiscal year were 46,786 million yen (up 10.2% compared to the same period of the previous year).

(v) Others

Net sales from external customers in this segment during the first half of the current fiscal year were 258 million yen (up 8.2% compared to the same period of the previous year).

(For reference)

Consolidated Operating Results

(Millions of yen)

	FY2013 1H	FY2013 2H	FY2014		
			1H	1Q	2Q
Net Sales	266,600	230,699	254,500	103,452	151,048
Semiconductor Production Equipment	214,666	177,359	194,773	74,944	119,828
Japan	20,218	20,059	33,233	11,648	21,585
U.S.	55,782	61,310	44,817	15,101	29,715
Europe	23,402	15,299	13,575	5,666	7,909
Korea	38,677	18,833	28,864	11,184	17,679
Taiwan	58,795	46,591	56,059	24,509	31,550
China	11,863	8,088	9,635	4,711	4,924
S.E.Asia	5,927	7,177	8,587	2,123	6,463
FPD Production Equipment	9,166	10,911	9,393	4,906	4,486
PV Production Equipment	64	19	3,288	2,062	1,225
Electronic Components & Computer Networks	42,465	42,199	46,786	21,426	25,359
Others	238	209	258	111	146
Operating Income (Loss)	12,202	346	(1,822)	(9,646)	7,824
Ordinary Income (Loss)	15,459	1,237	588	(9,898)	10,487
Net Income (Loss)	6,090	(14)	2,476	(2,976)	5,452

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

Production and Order Performance

1. Production

(Millions of yen)

	FY2013 1H	FY2013 2H	FY2014		
			1H	1Q	2Q
Semiconductor Production Equipment	184,976	158,899	185,142	79,358	105,784
FPD Production Equipment	6,565	10,432	10,815	6,037	4,777
PV Production Equipment	67	3	3,358	2,146	1,212
Total	191,609	169,335	199,316	87,542	111,774

Note: 1. Amounts are based on sales prices.

2. The above amounts do not include consumption taxes.

2. Orders Received

(Millions of yen)

	FY2013 1H	FY2013 2H	FY2014		
			1H	1Q	2Q
Semiconductor Production Equipment	142,957	199,589	251,898	97,708	154,189
FPD Production Equipment	10,850	11,031	20,843	14,491	6,351
PV Production Equipment	64	19	2,286	1,185	1,101
Electronic Components & Computer Networks	43,290	42,376	48,607	23,872	24,735
Others	238	209	258	111	146
Total	197,401	253,225	323,893	137,369	186,524

Note: 1. Offset elimination has been carried out on the dealing between segments.

2. The above amounts do not include consumption taxes.

3. Orders Backlog

(Millions of yen)

	FY2013 1H	FY2013 2H	FY2014	
			1Q	2Q
Semiconductor Production Equipment	118,702	141,616	164,587	198,948
FPD Production Equipment	15,885	16,005	25,584	27,449
PV Production Equipment	-	8,421	7,618	7,494
Electronic Components & Computer Networks	14,608	14,785	17,231	16,606
Others	-	-	-	-
Total	149,196	180,829	215,022	250,499

Note: 1. Offset elimination has been carried out on the dealing between segments.

2. The above amounts do not include consumption taxes.

(2) Description of Financial Conditions

(i) Financial Conditions

Current assets at the end of the second quarter of the current fiscal year were 543,906 million yen, up 22,405 million yen compared to the end of the previous fiscal year. The major factors influencing this result were a 17,214 million yen increase in trade notes and accounts receivable, a 20,311 million yen increase in inventories, and a 16,488 million yen decrease in short-term investments included in securities.

Tangible fixed assets decreased by 3,881 million yen from the end of the previous fiscal year, to 131,816 million yen.

Intangible fixed assets increased by 1,394 million yen from the end of the previous fiscal year, to 61,312 million yen.

Investments and other assets increased by 3,368 million yen from the end of the previous fiscal year, to 61,779 million yen.

As a result, total assets increased by 23,286 million yen compared to the end of the previous fiscal year, to 798,814 million yen.

Current liabilities were up 16,829 million yen compared to the end of the previous fiscal year, to 123,499 million yen. The major factors causing the increase were a 10,033 million yen increase in notes payable and accounts payable and a 9,086 million yen increase in customer advances.

Long-term liabilities were up 4,094 million yen compared to the end of the previous fiscal year, to 67,824 million yen.

Net assets were 607,490 million yen, up 2,363 million yen from the end of the previous fiscal year. The main factors were an increase due to a reported quarterly net income of 2,476 million yen, a decrease due to payment of 4,658 million yen in year-end dividends for the previous fiscal year, a decrease of retained earnings of 3,244 million yen due to changes in accounting periods at consolidated subsidiaries and an increase of 7,199 million yen from translation adjustments due to effects from the depreciation of the yen and other factors. The equity ratio was 74.5%.

(ii) Cash Flow

Cash and cash equivalents at the end of the second quarter of the current fiscal year increased by 4,668 million yen compared to the end of the previous fiscal year, to 89,982 million yen. The combined balance including the 140,876 million yen in time deposits and short-term investments with periods to maturity or redemption of at least three months that are not included in cash and cash equivalents, was 230,858 million yen, down 9,271 million yen from the end of the previous fiscal year. The overall situation regarding cash flow during the first half of the current fiscal year is as described below.

Cash flow from operating activities decreased by 74,137 million yen compared to the same period of the previous fiscal year to negative 217 million yen. The main positive factors included 12,749 million yen in depreciation and amortization, a 9,058 million yen increase in accounts payable, an 8,201 million yen increase in customer advances, and a 7,529 million yen decrease in prepaid consumption tax. The main negative factors were a 20,314 million yen increase in inventories and a 16,352 million yen increase in trade notes and accounts receivables.

Cash flow from investing activities was positive 7,148 million yen, compared to negative 84,218 million yen in the same period of the previous financial year. This primary positive factor was a 13,935 million yen decrease in time deposits and short-term investments. The primary negative factor was 5,246 million yen in payments for purchase of tangible fixed assets.

Cash flow from financing activities was positive 1,102 million yen, compared to negative 6,473 million yen in the same period of the previous fiscal year. This was primarily the result of a 4,101 million yen increase in short-term borrowings, a 2,000 million yen increase in long-term borrowings, and payment of 4,658 million yen in dividends.

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

For the current fiscal year ending March 31, 2014, since sales for the second half of the fiscal year are expected to increase principally due to favorable orders of the semiconductor production equipment business, the consolidated forecast for the full year was revised up as follows in “Announcement on Financial Forecast Revision” published on October 23, 2013.

Consolidated Forecast	(Billions of yen, Y/Y change)	
	FY2014(E)	
Net Sales	605.0	21.7%
Semiconductor Production Equipment	475.0	21.2%
FPD Production Equipment	26.0	29.5%
PV Production Equipment	7.0	
Electronic Components & Computer Networks	96.5	14.0%
Others	0.5	11.6%
Operating Income	30.0	139.1%
Ordinary Income	33.0	97.6%
Net Income	23.0	278.5%

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

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

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

Consolidated Balance Sheet

	(Millions of yen)	
	As of March 31, 2013	As of September 30, 2013
ASSETS		
Current assets		
Cash and deposit	49,632	56,849
Trade notes and accounts receivable	100,500	117,715
Securities	190,497	174,009
Merchandise and finished goods	87,397	100,659
Work in process	33,402	40,513
Raw materials and supplies	14,898	14,836
Others	46,351	39,813
Allowance for doubtful accounts	(1,179)	(490)
Total current assets	521,501	543,906
Long-term assets		
Tangible fixed assets	135,697	131,816
Intangible fixed assets		
Goodwill	38,372	38,972
Others	21,545	22,340
Total intangible fixed assets	59,918	61,312
Investments and other assets		
Others	60,522	63,707
Allowance for doubtful accounts	(2,112)	(1,927)
Total investments and other assets	58,410	61,779
Total long-term assets	254,026	254,908
Total assets	775,527	798,814

Consolidated Balance Sheet

	(Millions of yen)	
	As of March 31, 2013	As of September 30, 2013
LIABILITIES		
Current liabilities		
Trade notes and accounts payable	36,261	46,294
Accrued warranty expenses	8,344	8,732
Other allowance	6,908	6,817
Others	55,155	61,656
Total current liabilities	106,670	123,499
Long-term liabilities		
Accrued pension and severance costs	56,643	58,155
Other allowance	580	576
Others	6,505	9,093
Total long-term liabilities	63,730	67,824
Total liabilities	170,400	191,324
NET ASSETS		
Shareholders' equity		
Common stock	54,961	54,961
Capital surplus	78,023	78,023
Retained earnings	467,920	462,490
Treasury stock	(9,588)	(9,576)
Total shareholders' equity	591,315	585,898
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,214	4,578
Deferred gains or losses on hedges	(14)	20
Translation adjustments	(2,483)	4,715
Total accumulated other comprehensive income	1,716	9,314
Subscription rights to shares	1,374	1,559
Minority interests	10,720	10,718
Total net assets	605,127	607,490
Total liabilities and net assets	775,527	798,814

Consolidated Statement of Income

	(Millions of yen)	
	Six months ended September 30, 2012	Six months ended September 30, 2013
Net sales	266,600	254,500
Cost of sales	180,963	174,453
Gross profit	85,637	80,046
Selling, general & administrative expenses		
Research and development expenses	37,417	38,440
Others	36,017	43,428
Total selling, general & administrative expenses	73,434	81,869
Operating income (loss)	12,202	(1,822)
Non-operating income		
Dividend revenue	204	1,747
Revenue from development grants	790	907
Others	2,390	1,327
Total non-operating income	3,385	3,981
Non-operating expenses		
Foreign currency translation loss	-	1,338
Others	127	232
Total non-operating expenses	127	1,570
Ordinary income (loss)	15,459	588
Unusual or infrequent profit		
Gain on sale of fixed assets	283	79
Others	-	18
Total unusual or infrequent profit	283	98
Unusual or infrequent loss		
Loss on impairment	4	873
Reorganization costs	132	-
Others	66	135
Total unusual or infrequent loss	203	1,009
Income (loss) before income taxes	15,539	(321)
Income taxes	7,057	(2,903)
Prior year's corporate tax	2,194	-
Income (loss) before minority interests	6,287	2,582
Minority interests	196	105
Net income (loss)	6,090	2,476

Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	Six months ended September 30, 2012	Six months ended September 30, 2013
Income (loss) before minority interests	6,287	2,582
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,993)	368
Deferred gains or losses on hedges	78	65
Translation adjustments	(2,474)	5,773
Total other comprehensive income	(4,388)	6,206
Comprehensive income	<u>1,898</u>	<u>8,789</u>
(Breakdown)		
Comprehensive income attributable to owners	1,681	8,619
Comprehensive income attributable to minority interests	217	169

Consolidated Cash Flow

TOKYO ELECTRON

(Millions of yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Cash flow from operating activities		
Income (loss) before income taxes	15,539	(321)
Depreciation and amortization	11,789	12,749
Amortization of goodwill	689	2,139
Increase in accrued pension and severance costs (decrease)	919	1,474
Increase in allowance for doubtful accounts (decrease)	(575)	(1,014)
Increase in accrued employees' bonuses (decrease)	(1,996)	(328)
Increase in accrued warranty expenses (decrease)	(832)	99
Interest and dividend revenue	(847)	(2,424)
Decrease in trade notes and accounts receivable (increase)	54,615	(16,352)
Decrease in inventories (increase)	14,836	(20,314)
Increase in accounts payable (decrease)	(14,319)	9,058
Decrease in prepaid consumption tax (increase)	10,118	7,529
Increase in accrued consumption tax (decrease)	(25)	(1,263)
Increase in customer advances (decrease)	(12,318)	8,201
Others	(2,434)	(2,043)
Subtotal	75,156	(2,811)
Receipts from interest and dividends	651	2,262
Interest paid	(20)	(39)
Income taxes (paid) refund	(1,867)	371
Net cash generated by operating activities	73,920	(217)
Cash flow from investing activities		
Decrease in time deposits (increase)	(5,227)	(48)
Decrease in short-term investments (increase)	(50,499)	13,984
Payment for purchase of tangible fixed assets	(11,811)	(5,246)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(15,830)	-
Payments for transfer of business	(1,097)	-
Others	248	(1,540)
Net cash used in investing activities	(84,218)	7,148
Cash flow from financing activities		
Net increase in short-term borrowings (decrease)	(1,308)	4,101
Proceeds from long-term borrowings	-	2,000
Dividends paid	(4,837)	(4,658)
Others	(328)	(339)
Net cash generated by financing activities	(6,473)	1,102
Effect of exchange rate changes on cash and cash equivalents	(352)	(2,158)
Net increase in cash and cash equivalents (decrease)	(17,125)	5,875
Cash and cash equivalents at beginning of period	158,776	85,313
Increase in cash and cash equivalents from changes in accounting periods at consolidated subsidiaries (decrease)	-	(1,206)
Cash and cash equivalents at end of period	141,651	89,982

Segment Information

(i) Overview of reportable segments

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

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

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

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

The PV Production Equipment segment consists of photovoltaic panel production equipment used in the manufacturing of thin film silicon photovoltaic panels, and we are engaged in the development, manufacturing, sales and provision of maintenance services, etc. for such products.

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

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

Six months ended September 30, 2013

(Millions of yen)

	Reportable Segments				Others	Total
	Semiconductor Production Equipment	FPD Production Equipment	PV Production Equipment	Electronic Components & Computer Networks		
Net sales	194,792	9,393	3,288	47,208	5,702	260,385
Segment income (loss)	21,532	(753)	(5,722)	226	718	16,000

	Eliminations	Consolidated Total
Net sales	(5,885)	254,500
Segment income (loss)	(16,321)	(321)

Notes:

- The "Others" segment includes all other businesses which are not included in the reported business segments, such as the transportation of products, etc. of the Tokyo Electron Group companies, equipment leasing and insurance, etc.
- The eliminations of segment income (loss) amounting to 16,321 million yen includes corporate expenses pertaining to the corporate account which are not allocated to any specific reportable segments. The corporate account expenses are mainly R&D expenses of 9,806 million yen, pertaining to fundamental research and element research conducted by the company not related to any of the reportable segments.
- Segment income (loss) is adjusted against loss before income taxes in consolidated statement of income.

Segment Information

(iii) Items Related to Changes in Reportable Segments

With the acquisition of TEL Solar Holding AG as a consolidated subsidiary, from the first quarter of the current fiscal year, the reportable segment has been changed from FPD/PV Production Equipment to FPD Production Equipment, and PV Production Equipment.

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

Significant impairment losses related to fixed assets: None

Significant changes in goodwill amount: None

Significant income related to negative goodwill: None