FINANCIAL REVIEW

Financial results in this section refer to the Company's performance for fiscal 2008, the year ended March 31, 2008. Percentage comparisons refer to year-on-year changes from fiscal 2007.

The Company adopted the following revised accounting standards and business segment.

- Effective from fiscal 2005, the policy for revenue recognition of semiconductor and FPD production equipment was changed from the time of shipment of products to, in principle, the time of confirmation of set-up and testing of products. The effect of this change decreased net sales, operating income and income before income taxes by ¥80,956 million, ¥20,541 million and ¥20,563 million, respectively, for fiscal 2005, compared with the corresponding amounts which would have been recorded if the previous method had been applied.
- Effective from fiscal 2005, the accounting treatment of after-sale repair expenses incurred during the warranty period for semiconductor and FPD production equipment was changed. In the past, the Company charged such expenses to income as incurred. Effective from the fiscal year ended March 31, 2005, the Company provides accrued warranty expenses for estimated expenses, calculated on the basis of after-sale repair expenses incurred in the past. The effect of this change decreased operating income and income before income taxes by ¥635 million and ¥13,106 million, respectively, for the year ended March 31, 2005, compared with the corresponding amounts which would have been recorded if the previous method had been applied.
- On October 1, 2006, Tokyo Electron's computer networks division was transferred to Tokyo Electron Device Limited. Accordingly, sales from computer networks, which were formerly included in the industrial electronic equipment segment, are now included as part of the electronic components and computer networks segment (formerly the electronic components segment), effective from fiscal 2007.

Sales and Income

Operating Environment

During the fiscal year ended March 31, 2008, the global economy turned in a steady performance in the first half of the fiscal year on the back of high growth in China and solid growth in Asian nations. From the mid-point of the fiscal year onward, the outlook for the global economy became increasingly unclear, with the U.S. economy showing signs of slowing, and the global financial markets thrown into turmoil by the sub-prime mortgage issue. In Japan, in the first half of the fiscal year, moderate economic expansion was sustained by higher exports, better corporate profits and brisk capital expenditures. In the second half, however, the Japanese economy showed signs of deceleration due to sharp price increases in crude oil and raw materials, coupled with rapid appreciation of the yen to the U.S. dollar.

In the electronics industry, in which the Group operates, shipments of PCs, telecommunication devices including mobile phones and digital home electronics continued to expand, due in part to the effects of growing demand among emerging economies, centered on the BRICs nations. However, signs of slowing economic growth appeared in the second half of the fiscal year. Looking at the situation for capital expenditures, which have a direct impact on the Company's earnings, investment in the semiconductor industry was robust in the first half of the year, but slowed in the second half. Meanwhile, capital investment related to LCD panels was weak throughout the entire fiscal year.

(Millions of Yen)

	2004	2005	2006	2007	**2008**
Net sales	¥529,654	¥635,710	¥673,686	¥851,975	**¥906,092**
Gross profit	140,155	175,913	189,732	272,649	**311,298**
Gross profit margin	26.5%	27.7%	28.2%	32.0%	**34.4%**
Selling, general and administrative expenses	117,875	111,930	114,029	128,670	**142,800**
Operating income	22,280	63,983	75,703	143,979	**168,498**
Operating margin	4.2%	10.1%	11.2%	16.9%	**18.6%**
Income before income taxes	14,936	55,775	75,328	144,414	**169,220**
Net income	8,297	61,601	48,006	91,263	**106,271**

Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed in this financial review.

Sales

Consolidated net sales grew 6.4% year on year, to a second consecutive record high of ¥906.1 billion. Domestic sales increased 3.2% year on year to ¥323.9 billion, while overseas sales rose 8.2% to ¥582.1 billion, with particular contributions from sales of semiconductor production equipment in Taiwan. Overseas net sales increased as a share of consolidated net sales, to 64.2% compared with 63.2% in fiscal 2007.

Meanwhile, consolidated orders received fell by 23.8% year on year, to ¥744.8 billion, and the consolidated order backlog at the end of fiscal 2008 declined 33.2%, to ¥325.0 billion, reflecting lower sales in the fiscal year ending March 31, 2009.

Gross Profit, SG&A Expenses and Operating Income

The cost of sales increased by 2.7% year on year, to ¥594.8 billion, and gross profit rose 14.2%, to ¥311.3 billion. The gross profit margin improved by 2.4 percentage points to 34.4%, mainly the result of the launch of new products in the semiconductor production equipment field, which pushed up average unit prices, a decline in warranty expenses and after-warranty expenses, and improvements to production efficiency that lowered the cost of sales.

Selling, general and administrative (SG&A) expenses increased by 11.0% year on year, to ¥142.8 billion, while the ratio of SG&A expenses to net sales increased to 15.8%, compared with 15.1% in fiscal 2007. R&D expenses, which are included in general and administrative expenses, rose by ¥9.1 billion and were the major reason for the increase in SG&A expenses.

As a result, operating income grew 17.0% year on year, to ¥168.5 billion. The operating margin improved by 1.7 percentage points, to 18.6%. Both marked the second consecutive year of record highs for the Company.

Research and Development

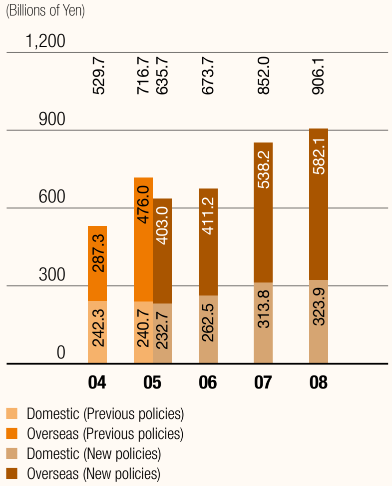
R&D expenses, as noted earlier, rose by ¥9.1 billion, or 16.0% year on year, to ¥66.1 billion.

In semiconductor production equipment, R&D efforts focused on the development of new technologies and products responsive to rising market demands, not only for equipment that responds to finer design rules of semiconductor devices, but also for responses to new materials for realizing higher speeds and lower power consumption. As a result of ongoing R&D efforts, the Company launched three new models during fiscal 2008: the TELINDY PLUS™ thermal processing system, which boasts further reductions in overhead time and other enhancements in basic performance; the Trias™ High-k CVD, a single-wafer CVD system for high-k metal film deposition; and the CELLESTA™+ wafer cleaning system, which offers industry leading wafer throughput. In FPD production equipment, the Company continued to focus on the development of equipment to accommodate large substrates.

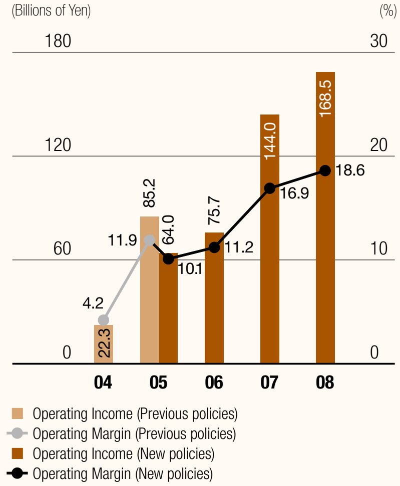
In addition to R&D spending to develop new technologies and products in existing areas of operation, the Company also invested in creating new businesses, including the development of equipment that applies RLSA*1 plasma source, which has superior characteristics, OLED*2 production equipment, and MEMS*3-related products.

*1 RLSA: Radial Line Slot Antenna
*2 OLED: Organic Light-Emitting Diode
*3 MEMS: Micro Electro Mechanical System

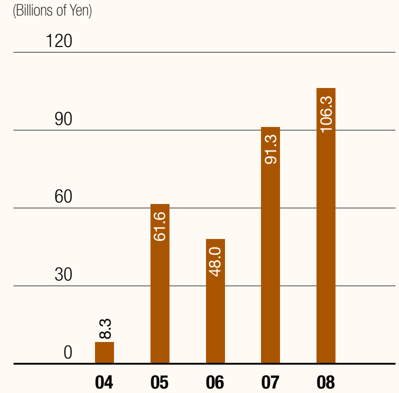
Domestic and Overseas Sales
(Billions of Yen)



Operating Income and Operating Margin
(Billions of Yen) (%)



Net Income
(Billions of Yen)



Other Income (Expenses) and Net Income

In fiscal 2008, the Company recorded net non-operating income of ¥0.7 billion. On the non-operating expense side, the Company incurred ¥4.1 billion for loss on impairment of goodwill associated with the revaluation of Timbre Technologies, Inc., a wholly owned subsidiary acquired in February 2001. In non-operating income items, the Company received ¥2.2 billion in revenue from development grants and booked ¥2.4 billion on the gain on sale of property, plant and equipment. As a result, income before income taxes rose 17.2% year on year to ¥169.2 billion.

Net income grew 16.4% year on year, to ¥106.3 billion, a second consecutive record high for the Company. Net income per share increased from ¥511.27 in the previous fiscal year to ¥594.01 in fiscal 2008.

Dividend Policy and Dividend

The fundamental policy regarding return of profit to shareholders is to pay dividends linked to business performance and backed by earnings. The Company applies a dividend policy that aims at a payout ratio of 20% of consolidated net income. On this basis, the Company increased the cash dividend per share by ¥22, to ¥125 per share, representing a dividend payout ratio of 21.0% on a consolidated basis.

Meanwhile, the company uses retained earnings for R&D and capital investment aimed at further growth.

Performance by Segment

Industrial Electronic Equipment Segment

Segment sales (including intersegment sales) rose 6.6% year on year in fiscal 2008, to ¥796.0 billion. Segment operating income grew 17.4%, to ¥164.8 billion, and the operating margin improved by 1.9 percentage points, to 20.7%.

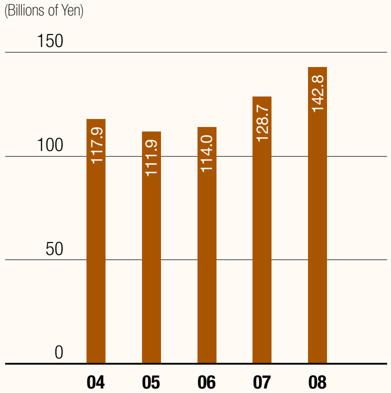
Semiconductor Production Equipment

Sales to external customers in fiscal 2008 increased 13.0% year on year, to ¥726.4 billion.

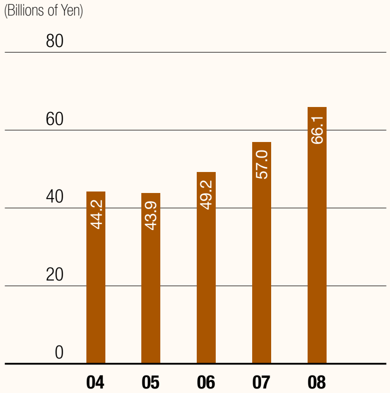
Higher global demand for mobile phones and PCs and increased market penetration for digital consumer electronics fueled strong demand for NAND flash memory and DRAM used in these devices. In the first half of the fiscal year, expectations of further growth in demand resulted in brisk capital investment. In the second half, however, falling DRAM prices associated with deterioration in the semiconductor supply-demand balance led to a gradual slowdown in semiconductor capital spending, pushing the equipment market into an adjustment phase.

By region, sales of semiconductor production equipment jumped 79.8% in Taiwan and increased 9.2% in Japan. Sales increased 2.9% in the U.S., fell 23.0% in Europe, dropped 31.0% in Korea, rose 0.7% in China, and decreased 13.7% in Southeast Asia.

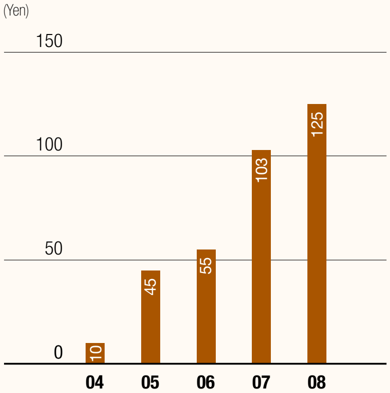
Selling, General and Administrative Expenses
(Billions of Yen)



R&D Expenses
(Billions of Yen)



Cash Dividends per Share
(Yen)



By product group, except for wafer probers, sales of all equipment types increased year on year, with the single-wafer CVD system demonstrating particularly sharp sales growth.

Reflecting steep declines in semiconductor memory prices and slowing demand from the first half of the fiscal year, division orders declined 37.0% year on year, to ¥504.1 billion, and the order backlog at the end of fiscal 2008 fell 54.6% compared with the end of the previous fiscal year, to ¥184.6 billion.

FPD Production Equipment

Sales to external customers declined 32.5% year on year, to ¥68.0 billion.

Flat-panel TVs equipped with LCD panels are seeing rapid market penetration against the backdrop of falling unit prices and the shift to digital broadcasting, pushing up demand for panels. Under these circumstances, LCD panel makers in China, Japan, South Korea and Taiwan invested to increase production capacity in 2006. This expansion resulted in deterioration in the panel supply-demand balance in 2007 and curtailed capital expenditures in fiscal 2008.

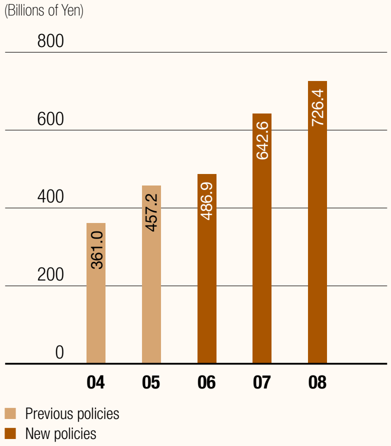
Amid this environment, the Company worked to expand sales, centered on equipment used for seventh-generation and eighth-generation large glass substrates. Sales fell 17.1% year on year in Japan, declined 63.1% in Taiwan, increased 7.7% in South Korea, and dropped 29.4% in other regions.

In the second half of the fiscal year, the LCD panel supply-demand balance improved and orders from panel makers resumed. Division orders received increased by 94.2% year on year, to ¥129.9 billion, and the order backlog rose 94.9%, to a record-high ¥127.1 billion at the end of fiscal 2008.

Others

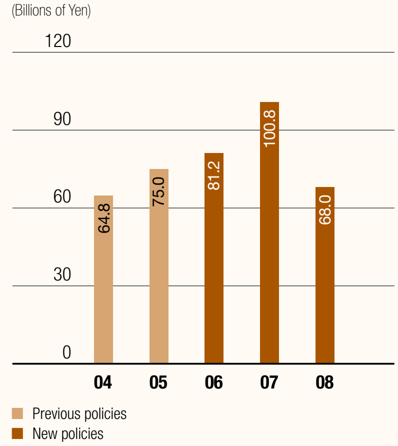
Other sales consist primarily of in-house services, such as non-life insurance and travel services. Sales declined by 59.4% year on year, to ¥0.5 billion.

Semiconductor Production Equipment Sales
(Billions of Yen)



Notes: 1. Since fiscal 2005, sales of FPD production equipment have been shown separately from SPE Division sales, in which they were previously included. In the left graph, SPE sales for fiscal 2004 exclude FPD production equipment sales on a nonconsolidated basis for the convenience of readers. (These figures are unaudited.)
2. Effective from fiscal 2005, the Company made certain changes in accounting polices as discussed on page 28.

FPD Production Equipment Sales
(Billions of Yen)



Notes: 1. Since fiscal 2005, sales of FPD production equipment have been shown separately from SPE Division sales, in which they were previously included. In the left graph, FPD production equipment sales for fiscal 2004 are on a nonconsolidated basis, while those from fiscal 2005 are on a consolidated basis.
2. Effective from fiscal 2005, the Company made certain changes in accounting polices as discussed on page 28.

Electronic Components and Computer Networks (Tokyo Electron Device Limited)

In fiscal 2008, net sales in this segment, including intersegment sales, increased by 3.1% year on year, to ¥112.1 billion. Operating income declined by 7.8%, to ¥3.7 billion, and the operating margin declined 0.4 percentage points, to 3.3%. Net sales in this segment to outside customers rose by 3.5% to ¥111.2 billion.

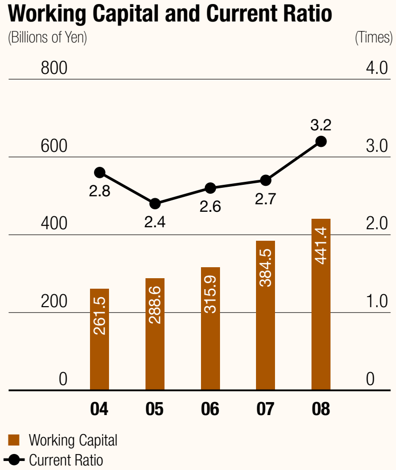
Along with signs of deterioration in the Japanese economy from the second half of the fiscal year, the domestic semiconductor market slowed somewhat. However, IT investment was brisk due to the strengthening of legislation related to corporate governance and information security.

The main strategic market for this segment is the industrial equipment industry, where sales focus on custom ICs, analog ICs and other high-value-added devices. Tokyo Electron Device Limited also concentrates on increasing orders for contract semiconductor design services and stepping-up efforts to develop its own products (under the brand name "*Inrevium*™"). In computer network equipment and IT-related software, the company strives to strengthen its sales and maintenance service capabilities to provide solutions that are optimally configured for the business strategies of customers.

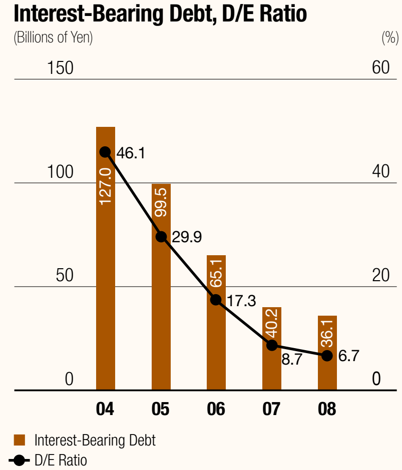
Business Segment Information

	Millions of yen				
2008:	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	¥794,911	¥111,181	¥906,092	¥ –	¥906,092
(2) Intersegment sales or transfers	1,117	948	2,065	(2,065)	–
Total	796,028	112,129	908,157	(2,065)	906,092
Operating expenses	631,220	108,470	739,690	(2,096)	737,594
Operating income	164,808	3,659	168,467	31	168,498
2. Assets, depreciation and amortization expenses, impairment losses and capital expenditures					
Assets	¥744,280	¥ 51,459	¥795,739	¥(2,921)	¥792,818
Depreciation and amortization expenses	22,649	365	23,014	–	23,014
Loss on impairment of goodwill	4,072	–	4,072	–	4,072
Loss on impairment of property, plant and equipment	808	–	808	–	808
Capital expenditures, including intangible and other assets	26,924	924	27,848	–	27,848

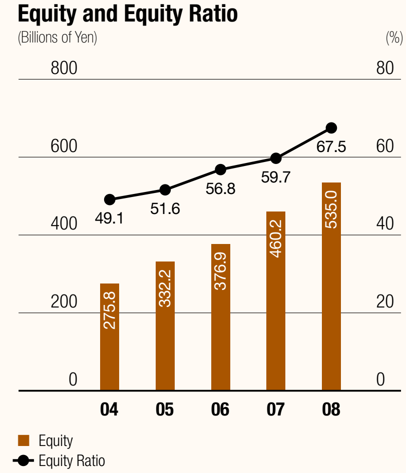
Working Capital and Current Ratio



Interest-Bearing Debt, D/E Ratio



Equity and Equity Ratio



Financial Position and Cash Flows

Assets, Liabilities and Net Assets

Assets

At March 31, 2008, total assets stood at ¥792.8 billion, an increase of ¥22.3 billion from the end of March 2007.

Current assets increased by ¥29.9 billion, to ¥640.2 billion. Reflecting the collection of trade notes and accounts receivable, cash and deposits (which includes certificate of deposits) increased by ¥69.2 billion. Meanwhile, inventories declined by ¥33.7 billion due to reductions in work in process at plant and inventories of products shipped but yet-to-be installed toward the end of the fiscal year.

Net property, plant and equipment declined ¥0.8 billion year on year to ¥104.1 billion, mainly reflecting ¥22.7 billion in new acquisitions, less an impairment loss of ¥0.8 billion associated with the closure of the Kumamoto Plant of Tokyo Electron Kyushu Limited and depreciation of ¥21.4 billion.

Investments and other assets declined ¥6.7 billion, to ¥48.5 billion. A major factor was ¥4.1 billion in loss on impairment of goodwill due to the business revaluation of Timbre Technologies, Inc., a wholly owned subsidiary acquired in February 2001.

Liabilities and Net Assets

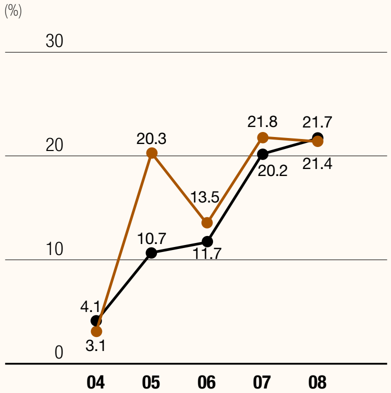
Total liabilities fell by ¥53.1 billion, to ¥247.6 billion.

Current liabilities declined by ¥27.0 billion, to ¥198.8 billion. The main reasons for the decline were a ¥30.1 billion decrease in trade notes and accounts payable and a ¥17.4 billion reduction in income taxes payable. The current portion of long-term debt increased ¥21.5 billion to ¥30.0 billion. There was a ¥5.5 billion redemption of the No. 5 issue of unsecured bonds with warrants and a ¥3.0 billion repayment of borrowings by Tokyo Electron Device, but the due date for the No. 11 issue of unsecured bonds fell to less than one year, and ¥30.0 billion was transferred to current liabilities as a result.

Total net assets increased ¥75.4 to ¥545.2 billion, bolstered mainly by an ¥82.8 billion year-on-year rise in retained earnings. As a result, the equity ratio rose 7.8 percentage points, to 67.5%, and return on equity (ROE) declined by 0.4 percentage points year on year, to 21.4%.

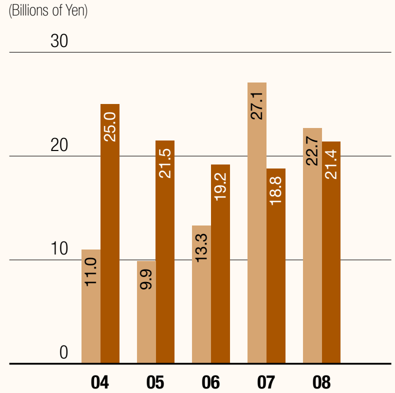
Total interest-bearing debt consisting of short-term and long-term debt combined was ¥36.1 billion at the end of the fiscal year. Long-term debt was zero, reflecting the due date for the redemption of the No. 11 issue of unsecured bonds falling to less than one year; therefore, this figure comprises the total of short-term borrowings and the current portion of long-term debt. As a result, the debt-to-equity ratio (interest-bearing debt/equity) fell to 6.7%, compared with 8.7% at the end of fiscal 2007.

ROE and ROA
(%)



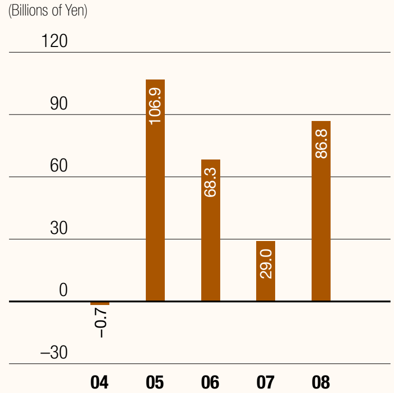
Return on equity ratio (ROE)
Return on assets ratio (ROA)
ROA=(Operating income+Interest and dividend income)/Average total assets x100

Capital Expenditures and Depreciation and Amortization
(Billions of Yen)



Capital Expenditures
Depreciation and Amortization

Free Cash Flows
(Billions of Yen)



Free Cash Flows=Cash Flows From Operating Activities+Cash Flows From Investing Activities

Capital Expenditures*[1] and Depreciation and Amortization*[2]

Capital expenditures decreased by 16.3% year on year to ¥22.7 billion. Major capital expenditure items included the purchase of evaluation equipment and measuring equipment for R&D on semiconductor and FDP production equipment and the acquisition of buildings. Depreciation and amortization expenses increased 13.8%, to ¥21.4 billion.

*[1] Capital expenditures only represent the gross increase in property, plant and equipment.
*[2] Depreciation and amortization does not include amortization and loss on impairment of goodwill.

Cash Flows

Cash flow from operating activities in fiscal 2008 was ¥116.9 billion, ¥62.6 billion more than in fiscal 2007. The main sources of cash were ¥169.2 billion from income before income taxes, depreciation and amortization of ¥21.4 billion and a ¥2.5 billion decrease in trade notes and accounts receivable, and a ¥28.3 billion decrease in inventories. The main uses of cash, meanwhile, included a ¥27.4 billion decrease in trade notes and accounts payable and ¥73.7 billion for the payment of income taxes.

Investing activities used net cash of ¥30.2 billion, ¥4.9 billion more than in fiscal 2007. The main use of cash was ¥19.3 billion for the purchase of property, plant and equipment, including evaluation equipment and measuring equipment for R&D intended to promote the Company's future growth, and ¥10.1 billion for deposits with a maturity of more than three months.

Financing activities used net cash of ¥27.0 billion, ¥7.7 billion less than the outflow in fiscal 2007. The Company used ¥5.5 billion in cash to redeem its No. 5 issue of unsecured bonds with warrants and ¥23.4 billion in cash to pay dividends.

As a result, the balance of cash and cash equivalents increased by ¥59.1 billion year on year, to ¥193.5 billion at the end of March 2008.

Business-related and Other Risks

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

(1) Impact 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.

(2) 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.

(3) 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 could adversely affect Tokyo Electron's business performance.

(4) 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.

(5) Safety-related Impacts

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 problems or other problems related to Tokyo Electron's products could adversely affect Tokyo Electron's business performance.

(6) 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.

(7) 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. However, 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.

(8) Other Risks

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