Management's Discussion and Analysis

Sales and Income

Business Environment

World economic trends during the fiscal year ended March 31, 2002 were marked by signs of a continuing global recession as the impact of the economic slowdown triggered by the collapse of the IT bubble in the U.S. rippled out to Europe and Asia. Japan's economy also faced harsh conditions as corporate performances continued to deteriorate.

In the electronics market, demand was stagnant for IT-related products, such as personal computers, mobile phones, and others, resulting in a sharp downturn of the semiconductor market, which provides the main components for these products. Accordingly, semiconductor and LCD manufacturers substantially cut their capital investments.

Entering 2002, however, semiconductor inventory build-ups caused by the imbalance in demand and supply began to clear and semiconductor-related markets started to show signs of recovery.

Sales

Significantly affected by the worsening global business climate mentioned above, consolidated net sales decreased 42.3 percent from the prior fiscal year to ¥417.8 billion for the fiscal year ended march 31, 2002.

Geographically, domestic sales declined 37.7 percent to ¥186.5 billion and overseas sales dropped 45.5 percent to ¥231.3 billion. As a result, the contribution of overseas sales to net sales declined to 55.4 percent from 58.7 percent in the previous fiscal year.

By division, Semiconductor Production Equipment (SPE) sales, which include sales of FPD production equipment, slipped 47.4 percent to ¥325.7 billion. Computer Network sales increased 21.2 percent to ¥17.0 billion, supported by growth in products for high-speed network technology and various server products. Electronic Components sales dropped 17.4 percent to ¥73.7 billion. For a more detailed description of divisional performances, please see the Review of Operations (pages 20 to 23). In addition to the sales of these three divisions, others sales contributed 0.3 percent of net sales, at ¥1.4 billion

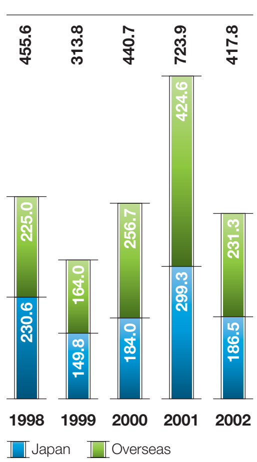
Consolidated orders received for the fiscal year under review totaled ¥295.3 billion, down 59.8 percent from the previous fiscal year, and balance of orders at the end of the fiscal year fell 44.5 percent to ¥152.8 billion. Despite the substantial decline, SPE orders rebounded in the fourth quarter after an interval of six quarters .

Cost of Sales, SG&A Expenses and Operating Income

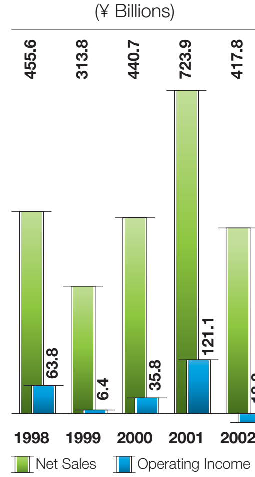
Although cost of sales fell 34.1 percent to ¥302.3 billion, cost of sales as a percentage of net sales surged to 72.3 percent from 63.4 percent for the prior fiscal year. This increase was attributed to the increase in the production fixed cost ratio caused by the decline in factory utilization together with inventory evaluation losses and inventory disposals totaling ¥10.3 billion. Consequently, the gross margin fell 8.9 points to 27.7 percent.

Selling, general and administrative expenses decreased 7.0 percent to ¥133.9 billion, primarily due to the reductions in personnel expenses. In consideration of their importance, research and development (R&D) expenses, which are included in SG&A expenses, were excluded from cost reduction efforts during the fiscal year. R&D expenses, therefore, edged up 1.7 percent to ¥53.8 billion, maintaining the record level as reported in the prior fiscal year. R&D expenses were allocated principally to the development of next generation products and processes, including 300 mm wafer equipment, and of new business fields. Despite the cost reduction efforts and a decline in SG&A expenses, operating income dropped ¥139.4 billion resulting in an operating loss of ¥18.3 billion because of the substantial impact of the drop in gross profit.

Domestic and Overseas Sales
(¥ Billions)



Net Sales & Operating Income
(¥ Billions)



Other Income (Expenses) and Net Income

Net other expenses improved by ¥17.3 billion to ¥4.6 billion, despite posting an extraordinary loss of ¥2.7 billion related to restructuring expenses, which included the disposal of assets and additional personnel expenses incurred during the restructuring of a part of our domestic and overseas bases. This improvement resulted from the lack of any major expenses, such as the ¥16.0 billion charge related to the difference due to the application of new accounting standards for retirement benefits recorded in the previous fiscal year. Income before income taxes fell ¥122.1 billion from the prior fiscal year to a loss of ¥22.9 billion.

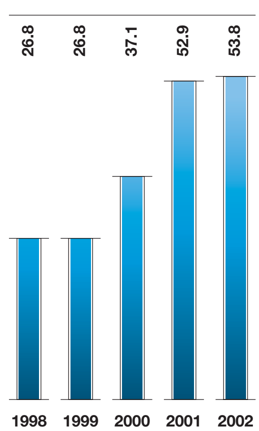
Net income reversed from ¥62.0 billion in the prior fiscal year to a loss of ¥19.9 billion in the fiscal year under review. Similarly, net income per share slid from ¥353.76 to a net loss per share of ¥113.85. Despite posting a loss, Tokyo Electron continued to return profits to shareholders, paying annual cash dividends of ¥8.00 per share compared with ¥38.00 per share in the prior fiscal year.

Impact of Fluctuation in Foreign Exchange Rates on Performance

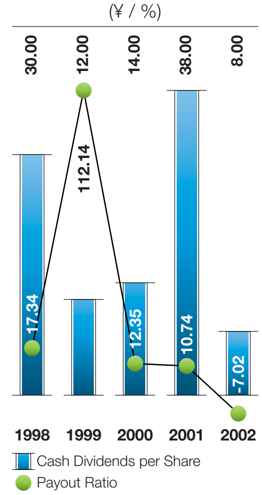
Changes in exchange rates have no material effect on Tokyo Electron's results because exports from Japan are generally denominated in yen. While some settlements are denominated in U.S. dollars, exchange risk is hedged by concluding forward exchange contracts individually at the time of orders are received. Also, contribution of U.S. dollar-denominated transactions involving foreign-made merchandise imported to Japan is comparatively low and did not have a material effect in the year ended March 31, 2002.

	Millions of yen (percentage of net sales)						Thousands of U.S. dollars
	2002		2001		2000		**2002**
Net sales	**¥417,825**	**(100.0)**	¥723,880	(100.0)	¥440,729	(100.0)	**$3,136,831**
Cost of sales	**302,270**	**(72.3)**	458,902	(63.4)	303,839	(68.9)	**2,269,298**
Gross profit	**115,555**	**(27.7)**	264,978	(36.6)	136,890	(31.1)	**867,533**
SG&A expenses	**133,865**	**(32.0)**	143,892	(19.9)	101,074	(23.0)	**1,005,000**
Operating income (loss)	**(18,310)**	**–**	121,086	(16.7)	35,816	(8.1)	**(137,467)**
Other income (expenses)	**(4,609)**	**–**	(21,954)	–	(6,127)	–	**(34,603)**
Income (loss) before income taxes	**(22,919)**	**–**	99,132	(13.7)	29,689	(6.7)	**(172,070)**
Provision for income taxes	**(2,990)**	**–**	37,099	(5.1)	9,836	(2.2)	**(22,447)**
Minority interest	**8**	**(0.0)**	21	(0.0)	5	(0.0)	**62**
Net income (loss)	**(19,938)**	**–**	¥ 62,012	(8.6)	¥ 19,848	(4.5)	**(149,685)**

R&D Expenses
(¥ Billions)



Cash Dividends per Share & Payout Ratio
(¥ / %)



Financial Position and Cash Flows

Financial Position

Current assets at March 31, 2002 decreased 35.5 percent year on year to ¥353.4 billion, primarily because of a decrease in trade notes and accounts receivable and inventories along with the decrease in sales. Inventory turnover fell to 2.89 times compared with 5.27 times in the previous fiscal year. Trade notes and accounts receivable turnover was 1.77 times, compared with 3.03 times for the prior fiscal year.

Property, plant and equipment increased 7.8 percent to ¥134.5 billion year on year. Gross increase of property, plant and equipment during the fiscal year was ¥30.9 billion, consisting primarily of the increase in measuring equipment for evaluation and capitalization of the Company's own products for research and development.

Investments and other assets rose 22.0 percent to ¥69.0 billion. The main factor in this increase was the ¥15.2 billion rise in deferred tax assets compared with the previous fiscal year related to losses carryforward. Investments in securities decreased ¥2.1 billion from a year earlier. Total assets declined 23.7 percent to ¥556.9 billion, primarily because of the drop in current assets.

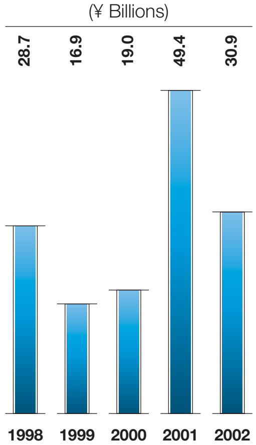
Current liabilities declined 54.1 percent to ¥109.5 billion. Major factors were a decrease in trade notes and accounts payable due to less procurement of materials under lower production levels and a reduction in short-term borrowings and commercial paper. In addition, accrued income taxes fell in line with Tokyo Electron's lower income as did allowance for employees' bonuses. Working capital contracted to ¥243.9 billion from ¥309.8 billion in the previous fiscal year, but the current ratio improved to 3.2 to 1 from 2.3 to 1 a year earlier.

Tokyo Electron's long-term debt declined 11.4 percent year on year to ¥139.8 billion. Although the Company did receive proceeds of ¥5.5 billion from the issue of 5th bonds with warrants, the shift of the current portion of long-term debt to current liabilities and the repayment of loans resulted in an overall decrease in long-term debt.

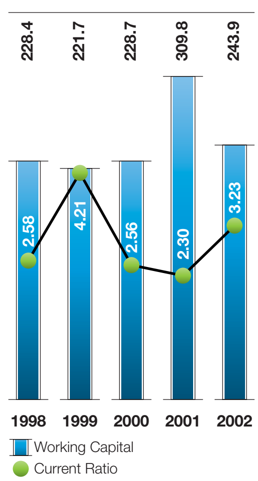
Outstanding balance of equity-linked bonds at March 31, 2002 was ¥25.5 billion. The potential number of shares of all convertible bonds and bonds with warrants at the balance sheet date represented 3.3 percent of total common stock issued and outstanding.

Shareholders' equity decreased 7.7 percent to ¥307.6 billion, due to the contraction in retained earnings. However, as a percentage of total assets, shareholders' equity rose to 55.2 percent from 45.7 percent a year earlier. Return on average total shareholders' equity fell to minus 6.2 percent from a positive 20.4 percent in the previous fiscal year.

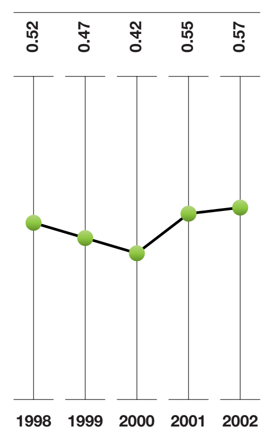
Capital Expenditures for Property, Plant and Equipment
(¥ Billions)



Working Capital & Current Ratio
(¥ Billions / Times)



Debt-to-Equity Ratio
(Times)



Cash Flows

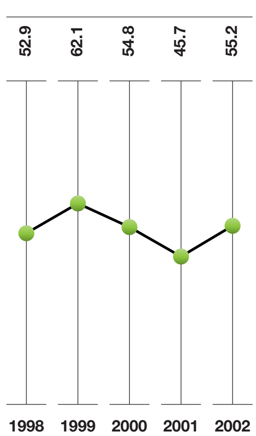
Net cash provided by operating activities amounted to ¥77.6 billion, improving significantly from net cash used of ¥29.4 billion a year earlier. The sum of net income and depreciation and amortization dropped substantially to ¥6.4 billion from ¥83.7 billion, but the decreases in trade notes and accounts receivable and inventories reduced working capital substantially, contributing to an improvement in operating cash flow.

Net cash used in investing activities was ¥35.8 billion, down from ¥62.4 billion in the prior fiscal year. Investment in property, plant and equipment totaling ¥31.0 billion mainly comprised the purchase of equipment for R&D.

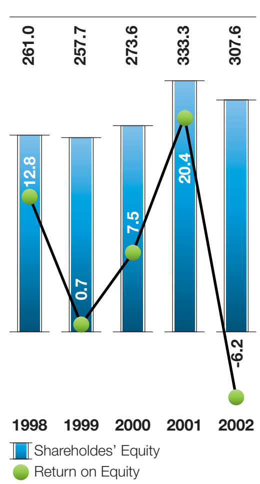
Net cash used in financing activities amounted to ¥57.2 billion compared with net cash provided by financing activities of ¥77.2 billion a year earlier. Although Tokyo Electron raised ¥5.5 billion from the issue of 5th bond with warrants, there was no other corporate bond funding, and redemption of commercial paper and redemption of borrowings resulted in a net cash use. Cash and cash equivalents at the end of the year totaled ¥48.4 billion, down 25.9 percent from ¥65.3 billion at the end of the prior fiscal year.

	Millions of yen (percentage of total assets)				Thousands of U.S. dollars
	2002		2001		**2002**
Total assets	**¥556,915**	**(100.0)**	¥729,511	(100.0)	**$4,181,046**
Cash and cash equivalents	**48,409**	**(8.7)**	65,320	(9.0)	**363,433**
Trade notes and accounts receivable	**167,982**	**(30.2)**	302,953	(41.5)	**1,261,128**
Inventories	**127,352**	**(22.9)**	161,981	(22.2)	**956,099**
Investments and other assets	**68,981**	**(12.4)**	56,549	(7.8)	**517,875**
Property, plant and equipment	**134,511**	**(24.2)**	124,721	(17.1)	**1,009,842**
Total liabilities	**249,278**	**(44.8)**	396,172	(54.3)	**1,871,460**
Short-term borrowings	**13,924**	**(2.5)**	48,462	(6.6)	**104,534**
Trade notes and accounts payable	**41,053**	**(7.4)**	87,350	(12.0)	**308,202**
Accrued income taxes	**1,663**	**(0.3)**	41,440	(5.7)	**12,486**
Long-term debt, less current portion	**105,452**	**(18.9)**	126,348	(17.3)	**791,680**
Shareholders' equity	**¥307,579**	**(55.2)**	¥333,281	(45.7)	**$2,309,148**

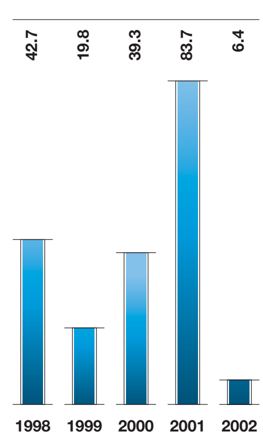
Shareholders' Equity Ratio
(%)



Shareholders' Equity & ROE
(¥ Billions / %)



Net Cash Flow
(¥ Billions)



Net Cash Flow =
Net income + Depreciation and Amortization