NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tokyo Electron Limited and Subsidiaries

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 Law 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 accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

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, which is not required for fair presentation, 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 ¥100.19 to $1.00, the approximate rate as of March 31, 2008. 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 30 subsidiaries for the year ended March 31, 2008 and 2007.

Investments in affiliates in which the Company's ownership is 20% to 50% are accounted for by the equity method.

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

The fiscal year-end of all entities is March 31, except for 2 consolidated foreign subsidiaries, which use a December 31 year-end, and no significant transactions were noted between the different fiscal year-ends.

(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.

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 valuation and translation adjustments and minority interests in the consolidated financial statements.

(c) Investment securities

Tokyo Electron is required to examine the intent of holding each security and classify those securities as trading securities, held-to-maturity debt securities or other securities. Tokyo Electron has no trading or held-to-maturity debt securities. Other securities with market prices are valued at fair market value prevailing at the balance sheet date. The differences between the book and market prices of other securities, net of applicable income taxes, are presented in net assets as a component of valuation and translation adjustments. Other securities without market value are valued at cost using the weighted-average method.

The cost of sold securities is calculated using the weighted-average method.

(d) Inventories

Inventories other than raw materials are stated principally at cost, which is determined principally by the specific indentification method. Raw materials are stated principally at cost, which is determined principally by the moving-average method.

(e) 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 under the declining balance method, except for buildings acquired subsequent to March 31, 1998 which are depreciated under 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

(f) Intangible assets

Intangible assets, which primarily comprise of capitalized costs for computer software and goodwill, are amortized by the straight-line method over their estimated useful lives. Capitalized costs for computer software for internal use are amortized over a period of 2 to 5 years. Goodwill is evaluated on an individual basis and amortized over a period not exceeding 20 years.

(g) Impairment of property, plant and equipment

Tokyo Electron evaluates the carrying value of fixed assets to be 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, which are determined using the fair value less disposal costs and the total amount of discounted cash flows generated from the continuing use of the individual assets or the asset group and the disposal of the assets, respectively.

(h) 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.

(i) Accrued pension and severance costs

The Company and its domestic subsidiaries provide an accrual for employees' pension and severance costs based on the projected benefit obligation and pension assets on the account settlement date. Prior service costs are charged to income 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 income on a straight-line basis, beginning from the fiscal year after they are recognized, 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 statutory auditors 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 statutory auditors after April 1, 2005, and at the general shareholders' meeting in June 2005, it was resolved that the severance pay for directors and statutory auditors until March 31, 2005 would be paid at the termination of their service and the decision regarding the payment amount for each director and statutory auditor was delegated to the board of directors and statutory auditors, respectively. As discussed in note 10, the accruals for severance costs for directors and statutory auditors are included in accrued pension and severance costs in the consolidated balance sheets.

(j) Accrued warranty expenses

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

(k) Leases

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases), except for leases that transfer ownership to the lessee at the end of the lease, which are accounted for as finance leases.

(l) Derivatives and hedge accounting

The Company and a domestic subsidiary 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 the Company and the domestic subsidiary do not trade in derivatives for speculative purposes.

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

(m) Income taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise tax. Tokyo Electron records deferred tax assets and liabilities, which are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(n) Revenue recognition

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

(o) 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.

The Company applies "Accounting Standards Regarding Net Income per Share (Business Accounting Standards No. 2)" and "Practical Guidelines for Applying Accounting Standards Regarding Net Income per Share (Practical Guidelines for Applying Accounting Standards No. 4)" released by the Accounting Standards Board of Japan.

Dividends per share have been presented on an accrual 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.

(p) Research and development expenses

Research and development expenses are charged to income as incurred and amounted to ¥66,073 million ($659,477 thousand) and ¥56,962 million for the years ended March 31, 2008 and 2007, respectively.

(q) Accounting standard for statement of changes in net assets

Effective from the year ended March 31, 2007, the Company and its domestic subsidiaries adopted "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the "Implementation guidance for the accounting standard for statement of changes in net assets" (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005).

(r) Cash equivalents

For purposes of the consolidated statements of cash flows, Tokyo Electron considers all highly-liquid instruments purchased with original maturities of three months or less to be cash equivalents.

(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, 2008.

3. Changes in Accounting Policies

(a) Accounting policy for depreciation method

Effective from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries changed their depreciation method for tangible fixed assets acquired on or after April 1, 2007 in accordance with the revision of Japanese Corporate Tax Law (Partial Revision of Income Tax Law, Law No. 6 of March 30, 2007; Partial Revision of Income Tax Law Enforcement Ordinance, Cabinet Order No. 83 of March 30, 2007). As a result of this change, operating income and income before income taxes decreased by ¥1,429 million ($14,263 thousand), compared with the corresponding amounts that would have been recorded under the previous accounting method.

(b) Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Company and its domestic subsidiaries adopted “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the “Implementation guidance for the accounting standard for presentation of net assets in the balance sheet” (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005).

The adoption of the accounting standard and the implementation guidance had no impact on the consolidated statement of income for the year ended March 31, 2007.

(c) Accounting standard for business combination

Effective from the year ended March 31, 2007, “Accounting Standard for Business Combination” issued by the Business Accounting Standards Board of Japan was adopted. The change had no significant impact on the consolidated financial statements.

(d) Accounting standard for decrease of treasury stock and legal reserve

Effective from the year ended March 31, 2007, “Accounting Standard for Decrease of Treasury Stock and Legal Reserve” issued by the Accounting Standards Board of Japan was adopted. The change had no impact on the consolidated financial statements.

(e) Accounting standard for stock option

Effective from the year ended March 31, 2007, “Accounting Standard for Stock Option” issued by the Accounting Standards Board of Japan was adopted. Upon adoption, operating income and income before income taxes decreased by ¥118 million compared to the amounts that would have been recorded under the previous accounting standards.

(f) Accounting standard for director’s bonus

Effective from the year ended March 31, 2007, “Accounting Standard for Director’s Bonus” issued by the Accounting Standards Board of Japan was adopted. Upon adoption, operating income and income before income taxes decreased by ¥652 million compared to the amounts that would have been recorded under the previous accounting standards.

(g) Change in business segment classification

As of October 1, 2006, the Company’s computer systems and networks business was transferred to its subsidiary, Tokyo Electron Device Limited. The computer systems and networks business, which was previously classified as part of the “Industrial electronic equipment” segment, was reclassified to the “Electronic components” segment, which was renamed to the “Electronic components and computer networks” segment, to more appropriately present the business segments in line with similarities in types of products and operations.

4. Acquisition

Tokyo Electron U.S. Holdings, Inc., a wholly-owned subsidiary of the Company, acquired all the shares of Epion Corporation (renamed TEL Epion, Inc.) in the amount of ¥4,526 million on December 19, 2006 (see note 17). The acquisition was accounted for using the purchase method in accordance with U.S. generally accepted accounting standards. Negative goodwill generated from the acquisition was deducted from the intangible assets related to the acquired developed technology. The intangible assets, with a net amount of ¥4,985 million, are being amortized over 10 years.

5. Investment Securities

Investment securities, which solely comprise of other securities, as of March 31, 2008 and 2007 are as follows:

	Millions of yen	
2008:	Cost	Carrying value
Securities with market prices		
Equity securities	**¥4,504**	**¥8,139**
Other	**100**	**101**
Securities without market prices		
Unlisted stock	**579**	**579**
Other	**18**	**18**
Total	**¥5,201**	**¥8,837**

	Millions of yen	
2007:	Cost	Carrying value
Securities with market prices		
Equity securities	¥4,517	¥14,338
Other (Note)	114	120
Securities without market prices		
Unlisted stock	2,015	183
Other	21	21
Total	¥6,667	¥14,662

Note: Bond investment trust of ¥19 million classified in prepaid expenses and other current assets as of March 31, 2007 is included.

	Thousands of U.S. dollars	
2008:	Cost	Carrying value
Securities with market prices		
Equity securities	**$44,954**	**$81,235**
Other	**998**	**1,008**
Securities without market prices		
Unlisted stock	**5,779**	**5,779**
Other	**180**	**180**
Total	**$51,911**	**$88,202**

Gross realized gains on sales of other securities are ¥135 million ($1,347 thousand) for the year ended March 31, 2008. Gross realized gains and losses on sales of other securities are ¥1,244 million and ¥19 million, respectively, for the year ended March 31, 2007.

6. Inventories

Inventories as of March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finished products	¥ 97,722	¥102,515	$ 975,367
Work in process, raw materials and supplies	63,430	92,325	633,097
Total	¥161,152	¥194,840	$1,608,464

7. Impairment of Property, Plant and Equipment

For assessing fixed asset impairment, the Company generally groups fixed assets used for normal operations at a business unit level of which profits are reasonably controllable. Also, the Company assesses the recoverability of individual assets not used in normal operations or that are idle.

During the year ended March 31, 2008, the Company determined to close the domestic manufacturing facilities and impairment losses were recognized mainly for buildings of ¥808 million ($8,065 thousand). These charges were presented in other income (expenses) in the consolidated statement of income for the year ended March 31, 2008.

No impairment loss of property, plant and equipment was recognized in 2007.

8. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2008 and 2007.

9. Short-term Borrowings and Long-term Debt

Short-term borrowings represent by 365-day notes issued by Tokyo Electron to banks and bore interest at an average annual rate of 1.26% and 2.61% as of March 31, 2008 and 2007, respectively.

Long-term debt as of March 31, 2008 and 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
0.72% unsecured bonds due 2008	¥ 30,000	¥30,000	$ 299,431
0.86% unsecured bonds with warrants due 2007	–	5,500	–
Other loans from banks	–	3,000	–
Current portion	(30,000)	(8,500)	(299,431)
Total	¥ –	¥30,000	$ –

As of March 31, 2008, Tokyo Electron has unused lines of credit amounting to ¥129,736 million ($1,294,900 thousand).

The maturities of long-term debt are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31	2008	2008
2009	¥30,000	$299,431
2010	–	–
2011	–	–
2012	–	–
2013 and thereafter	–	–
Total	¥30,000	$299,431

10. Accrued Pension and Severance Costs

The Company and its domestic subsidiaries have defined benefit plans (cash balance plan and noncontributory retirement and severance benefit plans) covering substantially all their employees who meet eligibility requirements. The benefits under the plans are based on length of service and certain other factors.

The cash balance plan provides for pension or lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause. Under the cash balance plan, each participant has an account which is credited yearly based on the current rate of pay and market-related interest rate. The noncontributory plans provide for lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause. Certain foreign subsidiaries have noncontributory retirement and severance benefit plans that provide for pension or lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause.

The funded status of the defined benefit plans, a substantial portion of which consists of domestic benefit plans, as of March 31, 2008 and 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Benefit obligation	¥(74,733)	¥(69,414)	$(745,913)
Fair value of plan assets	34,298	30,812	342,330
Funded status	(40,435)	(38,602)	(403,583)
Unrecognized actuarial difference	618	(2,113)	6,168
Unrecognized prior service cost	1,114	1,662	11,119
Net amount recognized	(38,703)	(39,053)	(386,296)
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid pension and severance costs (Note 1)	5,001	966	49,915
Accrued pension and severance costs (Note 2)	(43,704)	(40,019)	(436,211)
Net amount recognized	¥(38,703)	¥(39,053)	$(386,296)

Notes: 1 The prepaid pension and severance costs in 2008 and 2007 is included in other assets in the consolidated balance sheets.
2 The provision for accrued pension and severance costs for directors and statutory auditors (¥666 million ($6,647 thousand) in 2008 and ¥667 million in 2007) is not included.

Net pension cost of the plans is as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Service cost	**¥5,198**	¥4,912	**$51,881**
Interest cost	**1,375**	1,281	**13,724**
Expected return on plan assets	**(616)**	(499)	**(6,148)**
Amortization of actuarial difference	**(629)**	391	**(6,278)**
Amortization of prior service cost	**950**	1,526	**9,482**
Net pension cost	**¥6,278**	¥7,611	**$62,661**

Significant assumptions of domestic pension plans used to determine the above amounts are as follows:

	2008 and 2007
Allocation method of benefit obligation	**Straight-line method**
Discount rate	**2.00%**
Expected rate of return on plan assets	**2.00%**
Amortization period of prior service cost	**4 years**
Amortization period of actuarial difference	**4 years**

11. Income Taxes

Significant components of the deferred tax assets and liabilities of Tokyo Electron as of March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets			
Accrued pension and severance costs	**¥17,529**	¥16,032	**$174,958**
Elimination of unrealized profit on inventories	**9,018**	10,463	**90,009**
Accrued employees' bonuses	**5,116**	5,736	**51,063**
Devaluation of inventories	**3,158**	2,713	**31,520**
Accrued warranty expenses	**3,146**	4,737	**31,400**
Accrued enterprise taxes	**2,418**	3,890	**24,134**
Net operating loss carryforwards	**1,564**	1,966	**15,610**
Other	**5,995**	7,579	**59,837**
Total gross deferred tax assets	**47,944**	53,116	**478,531**
Less valuation allowance	**(2,116)**	(1,952)	**(21,120)**
Total deferred tax assets	**45,828**	51,164	**457,411**
Deferred tax liabilities			
Undistributed earnings of foreign subsidiaries	**(4,026)**	(3,517)	**(40,183)**
Prepaid pension and severance costs	**(2,005)**	(368)	**(20,012)**
Net unrealized gains on investment securities	**(1,470)**	(3,975)	**(14,672)**
Reserves under Special Taxation Measures Law	**(1,003)**	(1,932)	**(10,011)**
Other	**(1,475)**	(1,917)	**(14,722)**
Total gross deferred tax liabilities	**(9,979)**	(11,709)	**(99,600)**
Net deferred tax assets	**¥35,849**	¥ 39,455	**$357,811**

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

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those 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 deferred tax assets are deductible, management believes Tokyo Electron will realize the benefits of these deferred tax assets, net of valuation allowance, as of March 31, 2008 and 2007.

The Company is subject to a corporate tax, an inhabitants' tax and a deductible enterprise tax, which in the aggregate resulted in a statutory income tax rate of approximately 40.69% for the years ended March 31, 2008 and 2007.

Significant components of the difference between the statutory and effective tax rates for the years ended March 31, 2008 and 2007 are as follows:

	2008	2007
Statutory tax rate in Japan	**40.69%**	40.69%
Adjustments:		
Tax credits for research and development costs, etc	**(5.33)**	(5.21)
Difference in statutory tax rates of consolidated subsidiaries	**(1.06)**	(1.06)
Loss on impairment of goodwill	**0.98**	–
Prior year's corporate tax	**(0.95)**	(0.12)
Dividends from foreign subsidiaries	**0.76**	0.57
Expenses not deductible for tax purposes	**0.54**	0.56
Amortization of goodwill	**0.38**	0.54
Increase in deferred tax liabilities on undistributed earnings of foreign subsidiaries	**0.30**	0.52
Gain on sale of shares of consolidated subsidiary	**–**	0.73
Others, net	**0.30**	(0.80)
Effective tax rate	**36.61%**	36.42%

12. Net Assets

Net assets comprises four subsections, which are shareholders' equity, valuation and translation adjustments, share subscription rights and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

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.

Under the Law, 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.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal reserve until the total of legal reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the board of directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, 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 maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the general shareholders' meeting on June 23, 2006, in accordance with the Law, the Company altered its articles to 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.

At the board of directors' meeting held on May 13, 2008, the distribution of cash dividends amounting to ¥9,841 million ($98,223 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008 since they are recognized in the period in which they are resolved at the board of directors' meeting.

13. Share Subscription Rights

Tokyo Electron has two types of stock-based compensation plans as incentive plans for directors and selected employees. The stock-based compensation plans include stock options ("Stock option plan") and bonds with detachable warrants ("Warrant plan").

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 cumulative number of outstanding shares authorized up to the year ended March 31, 2006 totaled 2,691,200, with the weighted-average exercise price of ¥7,225. Options to purchase 66,900 shares of the Company were authorized and granted at an exercise price of ¥1 for the year ended March 31, 2007. Options to purchase 100,400 shares of the Company were authorized and granted at an exercise price of ¥1 for the year ended March 31, 2008. The options under the plans vest immediately with restriction on exercise up to 2 or 3 years after the date of grant, and have an exercise period of 8 to 20 years from the date of grant.

Shareholders of Tokyo Electron Device Limited ("TED"), a domestic listed subsidiary, have approved annual stock option plans for directors and selected employees since the year ended March 31, 2005. As of April 1, 2006 and March 31, 2008, there were outstanding granted stock options for 650 shares with a weighted-average exercise price of ¥308,698 ($3,081.13).

Warrant plan

In June 2000 and 2001, the Company issued unsecured bonds with detachable warrants. Upon issuance of the unsecured bonds with detachable warrants, the Company purchased all of the detachable warrants and distributed them to directors and selected employees. As noted above, the stock option plan granted stock options at an exercise price of ¥1 and to be in accordance with the Warrant plan, the exercise prices of warrants issued in 2001 were adjusted to ¥9,601 in 2007. The number of outstanding granted options increased by 139 shares in 2007, as a result of this adjustment to the exercise price of the warrant.

The warrants vest immediately with restriction on exercise up to 2 years after the date of grant, and have an exercise period of 6 years from the date of grant. For financial reporting purposes, these transactions were accounted for as an issuance of debt to third parties and separately as the issuance of warrants to directors and selected employees.

By exercising the warrant, directors and selected employees can purchase the common stock of the Company, the numbers of which were 319,829 shares and 572,439 shares at an exercise price of ¥14,070 and ¥9,608 for warrants issued in June 2000 and 2001, which were forfeited and recognized a gain of ¥526 million in 2007 and ¥467 million ($4,661 thousand) in 2008, respectively.

As of April 1, 2006, there were outstanding granted stock options, including warrants, to purchase 3,367,898 shares of the Company, with a weighted-average exercise price of ¥8,015. For the year ended March 31, 2007, options to purchase 322,560 shares were forfeited and options to purchase 530,900 shares were exercised. For the year ended March 31, 2008, options to purchase 486,277 shares were forfeited and options to purchase 139,100 shares were exercised. As of March 31, 2008, there were outstanding granted stock options to purchase 2,056,500 shares with a weighted-average exercise price of ¥6,889 ($68.76).

14. Leases

Pro forma information of leased property including acquisition cost, accumulated depreciation, obligation under finance leases, and depreciation expense of finance leases that do not transfer ownership of leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2008 and 2007 are as follows:

Leased assets not recorded in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Acquisition cost	**¥1,089**	¥1,538	**$10,869**
Accumulated depreciation	**303**	1,104	**3,024**
Net leased property	**¥ 786**	¥ 434	**$ 7,845**

Future minimum lease payments:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Due within one year	**¥189**	¥121	**$1,886**
Due over one year	**597**	313	**5,959**
Total	**¥786**	¥434	**$7,845**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥156 million ($1,557 thousand) and ¥274 million, which approximated the corresponding depreciation on the respective leased property computed by the straight-line method over the lease terms for the years ended March 31, 2008 and 2007, respectively.

Future minimum lease payments on non-cancelable operating leases:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Due within one year	**¥ 661**	¥ 733	**$ 6,597**
Due over one year	**628**	920	**6,268**
Total	**¥1,289**	¥1,653	**$12,865**

15. Derivative Financial Instruments

The Company and a domestic subsidiary enter into forward foreign exchange contracts in order to hedge risks of adverse fluctuations in foreign currency exchange rates associated with export-import transactions, but do not enter into such transactions for speculative purposes. The Company and the domestic subsidiary are exposed to credit risk in the event of nonperformance by the counterparties to the derivative transactions, but any such risk is considered to be immaterial because the Company and the domestic subsidiary only enter into transactions with financial institutions with high credit ratings. Execution and management of all derivative transactions are conducted pursuant to the internal management rule for derivatives by the finance division and the effectiveness of derivative transactions is reported on a semiannual basis to the board of directors.

The estimated fair values of the derivative financial instruments as of March 31, 2008 and 2007 are as follows:

	Millions of yen		
2008:	Contract amount	Fair value	Unrealized gains (losses)
Sell U.S. dollars	**¥7,239**	**¥6,847**	**¥392**
Buy U.S. dollars	**409**	**386**	**(23)**

	Millions of yen		
2007:	Contract amount	Fair value	Unrealized gains (losses)
Sell U.S. dollars	¥41,648	¥44,142	¥(2,494)
Buy U.S. dollars	1,770	1,870	100

	Thousands of U.S. dollars		
2008:	Contract amount	Fair value	Unrealized gains (losses)
Sell U.S. dollars	**$72,253**	**$68,340**	**$3,913**
Buy U.S. dollars	**4,083**	**3,853**	**(230)**

The contract amounts of the forward foreign exchange contracts presented above exclude those entered into to hedge receivables and payables denominated in foreign currencies which have been translated and are reflected at their corresponding contracted rates in the accompanying consolidated balance sheets. In addition, the disclosure of the fair value for derivatives, which are accounted for as hedges is omitted.

16. Other Income (Expenses)

The Company recognized goodwill generated from the acquisition of Timbre Technologies, Inc. ("TTI") during the year ended March 31, 2001 and this goodwill was being amortized over 10 years. During the year ended March 31, 2008, the Company recognized loss on impairment of goodwill in the amount of ¥4,072 million ($40,643 thousand) based on the revision to the future plan for TTI's business.

Gain on sale of property, plant and equipment of ¥2,365 million ($23,605 thousand) for the year ended March 31, 2008 mainly consists of gains on sale of land and buildings of overseas subsidiaries.

Equity in loss of affiliated company of ¥1,442 million, which is included in other income (expenses) for the year ended March 31, 2007, mainly consists of the liquidation of a 42.9% owned affiliated company (e-BEAM Corporation).

19,247 shares of Tokyo Electron Device Limited, a domestic listed subsidiary, were sold for ¥4,169 million in March 2007, and a gain of ¥528 million was recognized for the year ended March 31, 2007. As a result, the Company's ownership interest in Tokyo Electron Device Limited decreased to 55.4%.

17. Cash Flows Information

As discussed in note 4, Tokyo Electron U.S. Holdings, Inc., acquired all the shares of Epion Corporation (renamed TEL Epion, Inc.) in December 2006. The summary of the assets and liabilities of TEL Epion, Inc. on the date of acquisition was as follows:

	Millions of yen
	2007
Current assets	¥ 548
Intangible and other non-current assets	6,159
Current liabilities	(168)
Non-current liabilities	(2,013)
Acquisition cost	4,526
Cash and cash equivalents of TEL Epion, Inc.	(2)
Net payment for acquisition	¥4,524

18. Segment Information

Business segment information as of and for the years ended March 31, 2008 and 2007 is as follows:

	Millions of yen				
	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
2008:					
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**

	Millions of yen				
2007:	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	¥744,512	¥107,463	¥851,975	¥ –	¥851,975
(2) Intersegment sales or transfers	2,382	1,247	3,629	(3,629)	–
Total	746,894	108,710	855,604	(3,629)	851,975
Operating expenses	606,540	104,740	711,280	(3,284)	707,996
Operating income	¥140,354	¥ 3,970	¥144,324	¥ (345)	¥143,979
2. Assets, depreciation and amortization expenses and capital expenditures					
Assets	¥728,236	¥ 46,730	¥774,966	¥(4,452)	¥770,514
Depreciation and amortization expenses	20,061	360	20,421	–	20,421
Capital expenditures, including intangible and other assets	34,795	274	35,069	–	35,069

2008:	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
	Thousands of U.S. dollars				
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	**$7,934,035**	**$1,109,702**	**$9,043,737**	**$ –**	**$9,043,737**
(2) Intersegment sales or transfers	**11,149**	**9,462**	**20,611**	**(20,611)**	**–**
Total	**7,945,184**	**1,119,164**	**9,064,348**	**(20,611)**	**9,043,737**
Operating expenses	**6,300,230**	**1,082,643**	**7,382,873**	**(20,921)**	**7,361,952**
Operating income	**$1,644,954**	**$ 36,521**	**$1,681,475**	**$ 310**	**$1,681,785**
2. Assets, depreciation and amortization expenses, impairment losses and capital expenditures					
Assets	**$7,428,686**	**$513,614**	**$7,942,300**	**$(29,155)**	**$7,913,145**
Depreciation and amortization expenses	**226,060**	**3,643**	**229,703**	**–**	**229,703**
Loss on impairment of goodwill	**40,643**	**–**	**40,643**	**–**	**40,643**
Loss on impairment of property, plant and equipment	**8,065**	**–**	**8,065**	**–**	**8,065**
Capital expenditures, including intangible and other assets	**268,728**	**9,222**	**277,950**	**–**	**277,950**

Notes: 1. Method of classifying business segments: Business segments are classified after considering similarities in types of products and services, as well as sales methods.

2. Major products in each business segment:

Business segment	*Major products*
Industrial electronic equipment	*Semiconductor production equipment, FPD production equipment and others*
Electronic components and computer networks	*Semiconductor products, computer networks, middleware/software, and other electronic components*

3. Depreciation expenses and capital expenditures include those for long-term prepaid expenses.

4. Changes in accounting policies

(1) Accounting policy for depreciation method

Effective from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries changed their depreciation method for tangible fixed assets acquired on or after April 1, 2007 in accordance with the revision of Japanese Corporate Tax Law (Partial Revision of Income Tax Law, Law No. 6 of March 30, 2007; Partial Revision of Income Tax Law Enforcement Ordinance, Cabinet Order No. 83 of March 30, 2007). The effect of change increased operating expenses and decreased operating income for the industrial electronic equipment segment and the electronic components and computer networks segment by ¥1,412 million ($14,093 thousand) and ¥17 million ($170 thousand), respectively, for the year ended March 31, 2008, compared wth the corresponding amounts that would have been recorded under the previous accounting method.

(2) Accounting standard for stock options

Effective from the year ended March 31, 2007, "Accounting Standard for Stock Option" issued by the Accounting Standards Board of Japan was adopted. The adoption of the new standards increased operating expenses and decreased operating income for the industrial electronic equipment by ¥118 million for the year ended March 31, 2007, compared with the corresponding amounts that would have been recorded if the previous method had been applied. The change did not affect the figures of the electronic components and computer networks segment.

(3) Accounting standard for director's bonus

Effective from the year ended March 31, 2007, "Accounting Standard for director's bonus" issued by the Accounting Standards Board of Japan was adopted. The effect of change increased operating expenses and decreased operating income for the industrial electronic equipment segment and the electronic components and computer networks segment by ¥626 million and ¥26 million, respectively, for the year ended March 31, 2007, compared with the corresponding amounts that would have been recorded if the previous method had been applied.

Geographical segment information as of and for the years ended March 31, 2008 and 2007 are as follows:

2008:	Japan	Other regions	Total	Eliminations and corporate	Consolidated
	Millions of yen				
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	**¥806,193**	**¥ 99,899**	**¥ 906,092**	**¥ –**	**¥906,092**
(2) Intersegment sales or transfers	**71,960**	**54,186**	**126,146**	**(126,146)**	**–**
Total	**878,153**	**154,085**	**1,032,238**	**(126,146)**	**906,092**
Operating expenses	**718,193**	**142,760**	**860,953**	**(123,359)**	**737,594**
Operating income	**¥159,960**	**¥ 11,325**	**¥ 171,285**	**¥ (2,787)**	**¥168,498**
2. Assets	**¥752,739**	**¥ 80,363**	**¥ 833,102**	**¥ (40,284)**	**¥792,818**

2007:	Japan	Other regions	Total	Eliminations and corporate	Consolidated
	Millions of yen				
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	¥749,282	¥102,693	¥851,975	¥ –	¥851,975
(2) Intersegment sales or transfers	69,936	48,526	118,462	(118,462)	–
Total	819,218	151,219	970,437	(118,462)	851,975
Operating expenses	683,389	140,782	824,171	(116,175)	707,996
Operating income	¥135,829	¥ 10,437	¥146,266	¥ (2,287)	¥143,979
2. Assets	¥740,970	¥ 95,183	¥836,153	¥ (65,639)	¥770,514

2008:	Japan	Other regions	Total	Eliminations and corporate	Consolidated
	Thousands of U.S. dollars				
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	$8,046,641	$ 997,096	$ 9,043,737	$ –	$9,043,737
(2) Intersegment sales or transfers	718,236	540,832	1,259,068	(1,259,068)	–
Total	8,764,877	1,537,928	10,302,805	(1,259,068)	9,043,737
Operating expenses	7,168,310	1,424,893	8,593,203	(1,231,251)	7,361,952
Operating income	$1,596,567	$ 113,035	$ 1,709,602	$ (27,817)	$1,681,785
2. Assets	$7,513,115	$ 802,106	$ 8,315,221	$ (402,076)	$7,913,145

Notes: 1. For the reporting of geographical segment information, net sales and operating income are separated based on the location of the Company and its subsidiaries. Assets are separated by geographic location.

2. Other regions comprises primarily the United States of America, Europe and Korea.

3. Changes in accounting policies

(1) Accounting policy for depreciation method

Effective from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries changed their depreciation method for tangible fixed assets acquired on or after April 1, 2007 in accordance with the revision of Japanese Corporate Tax Law (Partial Revision of Income Tax Law, Law No. 6 of March 30, 2007; Partial Revision of Income Tax Law Enforcement Ordinance, Cabinet Order No. 83 of March 30, 2007). The effect of change increased operating expenses and decreased operating income for the Japan segment by ¥1,429 million ($14,263 thousand), for the year ended March 31, 2008, compared with the corresponding amounts that would have been recorded under the previous accounting method.

(2) Accounting standard for stock options

Effective from the year ended March 31, 2007, "Accounting Standard for Stock Option" issued by the Accounting Standards Board of Japan was adopted. The adoption of the new standards increased operating expenses and decreased operating income for the Japan segment by ¥118 million for the year ended March 31, 2007, compared with the corresponding amounts that would have been recorded if the previous method had been applied.

(3) Accounting standard for director's bonus

Effective from the year ended March 31, 2007, "Accounting Standard for director's bonus" issued by the Accounting Standards Board of Japan was adopted. The effect of change increased operating expenses and decreased operating income for the Japan segment by ¥652 million for the year ended March 31, 2007, compared with the corresponding amounts that would have been recorded if the previous method had been applied.

Domestic and overseas net sales by destination for the years ended March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
Net sales	2008	2007	2008
Japan	¥323,946	¥313,816	$3,233,317
Taiwan	272,221	182,918	2,717,048
United States of America	108,760	105,717	1,085,537
Korea	90,940	122,628	907,675
Others	110,225	126,896	1,100,160
Total	¥906,092	¥851,975	$9,043,737

Notes: 1. For the reporting of domestic and overseas sales, overseas sales (other than Japan) include export sales of the Company and its domestic subsidiaries and sales of foreign subsidiaries, except for export sales to Japan.

2. Others comprises primarily China, Singapore and Germany.

19. Subsequent Event

Grant of stock options under the stock option plans

On May 13, 2008, the Company's board of directors decided to submit a resolution to the general shareholders' meeting for approval of the issuance of stock subscription rights to directors and selected employees of Tokyo Electron. The issuance of stock subscription rights is intended to enable the grant of stock options. Under this stock option plan, options to purchase the shares of the Company at an exercise price of ¥1 ($0.01), up to 67,000 shares will be granted to directors of the Company (excluding outside directors) and options to purchase the shares of the Company at an exercise price of ¥1 ($0.01), up to 150,000 shares will be granted to executive officers of the Company, directors and executive officers of domestic subsidiaries, the chairman, presidents, vice presidents, executives (including corporate officers) and senior executives of its overseas subsidiaries as of March 31, 2008. This grant of stock options was approved at the general meeting of the shareholders of the Company on June 20, 2008.