

ANNUAL REPORT 2008

For the Year Ended March 31, 2008

INSPIRATION  INNOVATION

Advanced Technology for Manufacturing

TOKYO ELECTRON LIMITED

CONTENTS

1	PROFILE / TEL VALUES
2	CONSOLIDATED FINANCIAL HIGHLIGHTS
4	TO OUR STAKEHOLDERS
4	Tetsuro Higashi, Chairman & CEO
6	Kiyoshi Sato, President & COO
8	MANAGEMENT INTERVIEW
14	FEATURE
	Semiconductor Manufacturing Technology: Bringing Together Science's Best
16	TOKYO ELECTRON AT A GLANCE
18	RESEARCH AND DEVELOPMENT
20	CORPORATE GOVERNANCE
23	BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVE OFFICERS
24	ENVIRONMENTAL, HEALTH AND SAFETY ACTIVITIES
26	INTELLECTUAL PROPERTY REPORT
27	FINANCIAL SECTION
54	GROUP COMPANIES
55	INVESTOR INFORMATION

Disclaimer Regarding Forward-looking Statements

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

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

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

For details, please refer to Business-related and Other Risks on page 34.

PROFILE / TEL VALUES

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

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

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

TEL Values

We have defined and built TEL's values over the years, and we will continue to refine and build on them in the future.

Pride

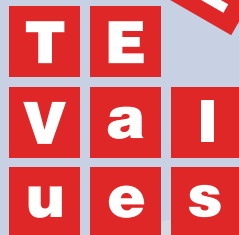
We take pride in providing high-value products and services.

Awareness

We must have awareness and accept responsibility for our behavior as respectful members of society.

Challenge

We accept the challenge of going beyond what others are doing in pursuing our goal of becoming number one globally.



Teamwork

We respect each other's individuality and we place a high priority on teamwork.

Ownership

We will keep ownership in mind as we think things through, and engage in thorough implementation in order to achieve our goals.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Years ended March 31	Millions of yen					Thousands of U.S. dollars
	2004	2005	2006	2007	2008	2008
For the year:						
Net sales.....	¥529,654	¥635,710	¥673,686	¥851,975	¥906,092	\$9,043,737
Operating income	22,280	63,983	75,703	143,979	168,498	1,681,785
Income before income taxes...	14,936	55,775	75,328	144,414	169,220	1,688,991
Net income	8,297	61,601	48,006	91,263	106,271	1,060,695
Depreciation and amortization	24,963	21,463	19,170	18,820	21,413	213,724
Capital expenditures	11,007	9,876	13,335	27,129	22,703	226,599
R&D expenses	44,150	43,889	49,182	56,962	66,073	659,477
Free cash flows.....	(661)	106,900	68,317	29,004	86,753	865,884
Operating margin	4.2%	10.1%	11.2%	16.9%	18.6%	
ROE.....	3.1%	20.3%	13.5%	21.8%	21.4%	
At year-end:						
Total assets.....	¥561,632	¥644,320	¥663,243	¥770,514	¥792,818	\$7,913,145
Total net assets (Total shareholders' equity) ...	275,800	332,165	376,900	469,811	545,245	5,442,110
Per share:						
Net income—Basic	¥ 46.37	¥ 343.63	¥ 267.61	¥ 511.27	¥ 594.01	\$ 5.93
Cash dividends	10.00	45.00	55.00	103.00	125.00	1.25

Notes: 1. U.S. dollar amounts are translated from yen, solely for convenience, at the prevailing exchange rate on March 31, 2008, of ¥100.19=U.S.\$1.

2. Depreciation and amortization does not include amortization and loss on impairment of goodwill.

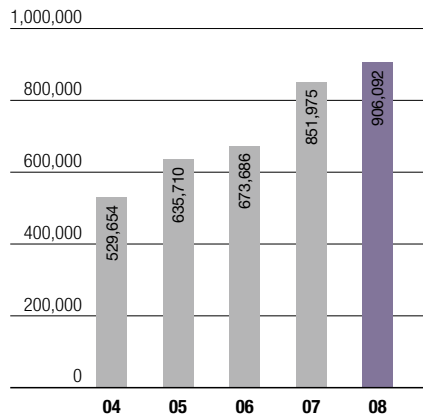
3. Effective from fiscal 2005, Tokyo Electron changed its method of revenue recognition upon receiving customer confirmation of product set-up and testing of products for Semiconductor and FPD production equipment. The effect of this change decreased net sales, operating income and income before income 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.

4. Effective from fiscal 2005, Tokyo Electron changed its method to account for after-sale repair expenses by recording accrued warranty expenses for Semiconductor and FPD production equipment. 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.

Record-high Sales and Earnings

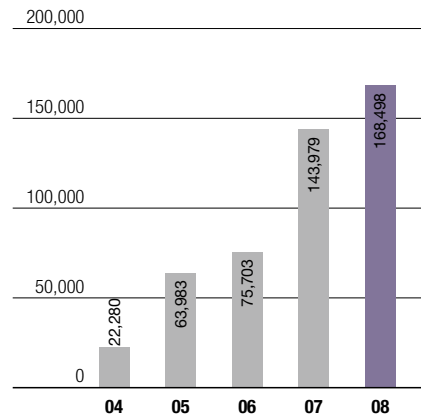
Net sales

(Millions of Yen)



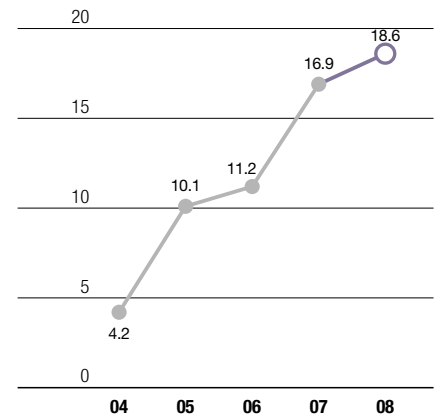
Operating income

(Millions of Yen)



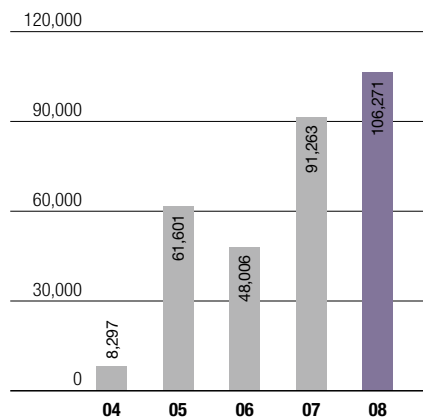
Operating margin

(%)



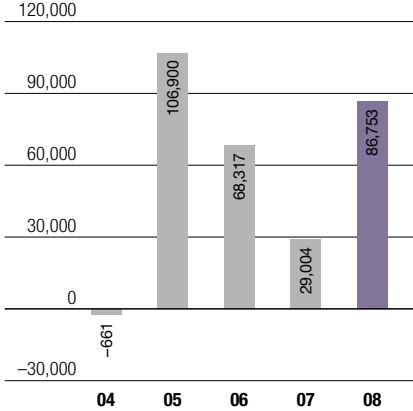
Net income

(Millions of Yen)



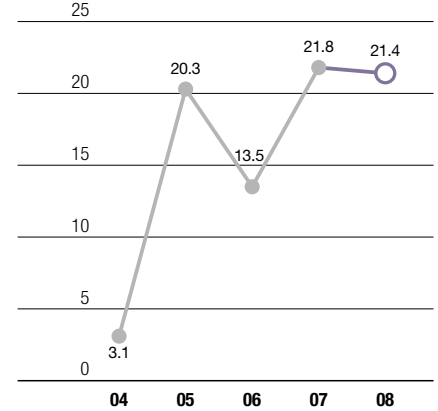
Free cash flows

(Millions of Yen)



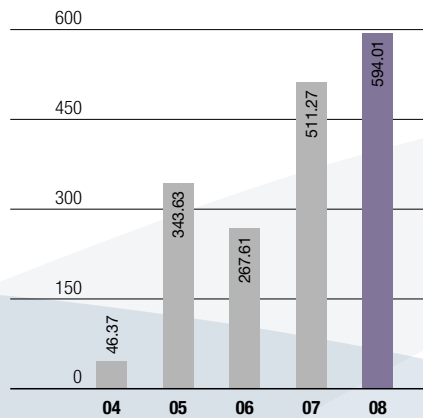
ROE

(%)



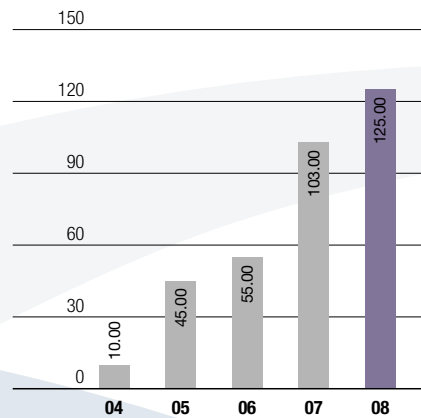
Net income per share

(Yen)



Cash dividends per share

(Yen)



TO OUR STAKEHOLDERS



In fiscal 2008, the year ended March 31, 2008, Tokyo Electron posted net sales of ¥906.1 billion, operating income of ¥168.5 billion and net income of ¥106.3 billion. All of these figures represent new record highs for the Company. With this performance, we believe that the Company's overall growth framework for the future has been demonstrably strengthened. We increased the dividend by ¥22 from last year to ¥125 per share, which is the largest dividend in the Company's history. We are deeply grateful to all of you for your continued support.

Turning attention to future market trends, the IT market, in which the Company operates, has entered an adjustment phase, and the environment remains harsh. However, forecasts are for the IT market to recover and return to a growth track from 2009 onward.

Under these conditions, Tokyo Electron redoubled its efforts in R&D, the source of future growth, and took steps to further enhance its financial structure. We also started considering new strategies for achieving growth over the medium to long term. An overview of these measures is provided below. We remain committed to working in unison to build a company full of vision and energy under the key words 'innovation,' 'growth' and 'environment.'

Overview of Tokyo Electron's New Growth Strategies

The electronics industry, in which Tokyo Electron operates, and the information and telecommunications technology field in particular, is becoming increasingly important globally. The reason is that it supplies core technologies for various industries expected to demonstrate high growth in the future, including the medical, educational, financial, automotive, aerospace, safety and environmental fields. As core technologies supporting these industries, Tokyo Electron's products have contributed greatly to the development of industry along with its technological innovations. Looking ahead, the technological innovation of these



Aiming to further enhance ***Corporate Value***
through ***'Innovation'*** and ***'Growth'***

Tetsuro Higashi, Chairman & CEO

fields themselves is expected to be accompanied by additional growth supported by new advances incorporating technologies in the adjacent fields of nanotechnology, biotechnology and MEMS technology. Tokyo Electron reaffirms its commitment to continue its unremitting endeavors with regard to the existing products and technologies that are the cornerstone of its business, as well as new fields adjacent to them. In this way, we will take the lead on a worldwide scale through 'Innovation' and 'Growth.'

Furthermore, while technological development contributes to an improved quality of life for humans, it can also have an adverse impact upon safety and the environment, and if not addressed, this situation could speed up the depletion of global energy resources and the degradation of the global environment. Tokyo Electron intends to contribute to the healthy development of humankind, and the Company acknowledges that one of its most important missions is to contribute to reducing environmental impact, both as a global phenomenon, and as an issue inherent within the technological fields in which it is active.

I would like to thank all of our stakeholders for their ongoing support, and their belief in Tokyo Electron's potential for further growth.



Tetsuro Higashi, Chairman & CEO



Addressing environmental issues with advanced technologies
and supplying the world with ***High-value-added technologies***
and ***services***

Kiyoshi Sato, President & COO

Supported by brisk semiconductor capital expenditures over the past several years, Tokyo Electron posted higher sales and earnings again in fiscal 2008, posting record high numbers for the second consecutive year. By application, capital investment was concentrated on DRAM and NAND flash memory, and these categories were the major sales drivers. By region, sales increased in Asia and Japan but contracted in Europe and the U.S., indicative of further progress in the shift of semiconductor manufacturing to Asia. In 2007, the supply-demand balance for memory chips destabilized, and semiconductor production equipment orders started to decelerate. However, because of our ample order backlog, we were still able to clear our semiconductor production equipment sales target. Conversely, sales in the FPD production equipment division were weak. However, orders rebounded in the second half of the fiscal year, and this should contribute to sales in fiscal 2009. As a result, we achieved our initial target for sales of ¥900 billion and surpassed our target for the operating income margin with 18.6%. We thank all of you for your support in achieving and surpassing our goals.

For the fiscal year ending March 31, 2009, given that we are starting with a low order backlog, we assume that conditions will be challenging. Even so, because of the cyclical nature of the semiconductor and FPD production equipment markets, we are taking additional steps to control expenses while moving aggressively ahead with R&D aiming to generate substantial growth during the next upturn in the cycle.

Accomplishments outside of financial performance in the previous fiscal year include progress in plant reform. On the manufacturing side, we started operations at a new facility at Tokyo Electron Kyushu Limited, commencing high-efficiency production of key products. Moving forward with our objective of realizing plants with even higher efficiency, we procured a site for a new facility in Miyagi Prefecture, with plans to complete construction in 2010. On the development side, we established Tokyo Electron Technology Development Institute, Inc., and worked to develop product groups centered on new plasma technologies. We expect



these products to become the nucleus for the creation of new businesses. We also made inroads into new fields by establishing a joint venture with Sharp Corporation for the development of photovoltaic cell production equipment. Having declared improvement of the global environment as one of its corporate missions, Tokyo Electron views equipment for manufacturing energy-saving devices and photovoltaic cells in particular as fields in which it could apply its technologies. We intend to aggressively pursue these fields, as they have the potential to address societal demands as well as expand into major businesses over the long term.

With these moves, we are laying various stepping stones for Tokyo Electron to grow over the medium to long term. We ask for your continued support.

A handwritten signature in black ink that reads "Kiyoshi Sato". The signature is written in a cursive, flowing style.

Kiyoshi Sato, President & COO

MANAGEMENT INTERVIEW



Tetsuro Higashi
Chairman & CEO

Question & Answer

In this section, Chairman Higashi and President Sato are asked about market trends and Tokyo Electron's strategies and actions.



Kiyoshi Sato
President & COO

Q1: Tokyo Electron posted record earnings in the fiscal year to March 31, 2008. How would you sum up the year?

>> The various reforms we have been implementing produced enormous benefits during the fiscal year.

Tokyo Electron achieved record earnings on all counts – sales of ¥906.1 billion, operating income of ¥168.5 billion and net income of ¥106.3 billion. I think we can be very proud of these record profit and margin levels, which were achieved as a result of determined efforts to enhance profitability during the three years or so covered by our first medium-term business plans.

Broadly speaking, two areas of strategic focus led to this improvement in profitability.

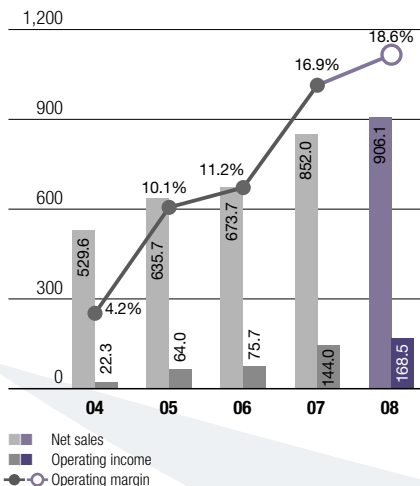
First, the creation of new, high-value-added products. As semiconductor manufacturing processes have become more sophisticated and customer needs have diversified, we have developed products with higher performance and higher productivity and delivered them to the market in a timely manner. As these products entered the volume production phase last year, significant improvement in sales and profitability was achieved.

The second area of focus was the strengthening of our manufacturing capability. By overhauling all of our processes, including development, design, procurement and production technology, we have improved efficiency in the manufacturing process while at the same time shortening the manufacturing lead time and startup period after product delivery. We were also able to realize both cost reduction and customer satisfaction, through quality-enhancing measures such that enable us to reduce the warranty expenses incurred at our customers' site.

Thanks to reforms such as these, we achieved an operating margin of 18.6%, far exceeding the 17.0% medium-term target we set three years ago. One of the important issues we have been continuously tackling is to generate cash synchronized with sales. Here too, there was a substantial increase in free cash flow to ¥86.8 billion, in spite of greater demand for working capital.

Net Sales, Operating Income and Operating Margin

(Billions of yen)



Note: Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed in the notes to consolidated financial highlights.

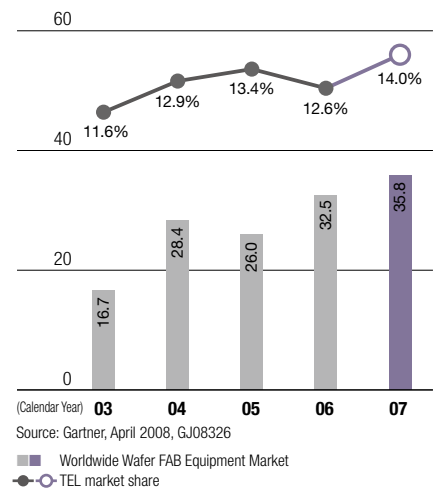
Q2: Tokyo Electron's share of the global front-end semiconductor production equipment (SPE) market has grown even further. What are the reasons for this?

>> New products tailored to our customers' requirements have been widely adopted, especially in the rapidly growing markets in the Asian region, enabling us to increase our share of the front-end SPE market.

During the fiscal year, investment in cutting-edge facilities for the production of high-capacity DRAM and NAND flash memory increased in the Asia region, including in Japan. We provide extremely significant backup capabilities for our customers in Asia, and customers demanding high-performance equipment have welcomed our products. I believe that this has driven our growth.

Demand for our products from memory manufacturers who require both advanced process performance and higher productivity is rising. In particular, our sales in Taiwan, with its concentration of DRAM manufacturers, increased about 1.8-fold year on year.

Worldwide Wafer FAB Equipment Market and TEL Market Share
(Billions of US\$)



Q3: There has been a shift in the order volume since around autumn 2007. What are your views on future market trends?

>> There will be a dip in capital expenditure in the SPE market this year, but the flat panel display (FPD) production equipment market is headed for substantial growth.

Aggressive capital expenditure in 2007 on high expectations of growth in demand for memory products disrupted the supply/demand balance in the memory market, so 2008 is likely to be a difficult year in terms of capital investment. However, as storage media for consumer devices, DRAM and NAND flash memory are likely to propel the market going forward, which should lead to improvement in the supply/demand situation followed by a recovery in customers' capital expenditure in the not-too-distant future.

In the FPD production equipment market, meanwhile, liquid crystal panel makers are ramping up capital investment to meet the expansion in demand for digital TVs, with a focus on equipment primarily for the production of large substrates, so there will probably be a shift to significant growth from the latter half of 2008.



Q4: What initiatives are you implementing to achieve even greater growth when the next silicon cycle peaks?

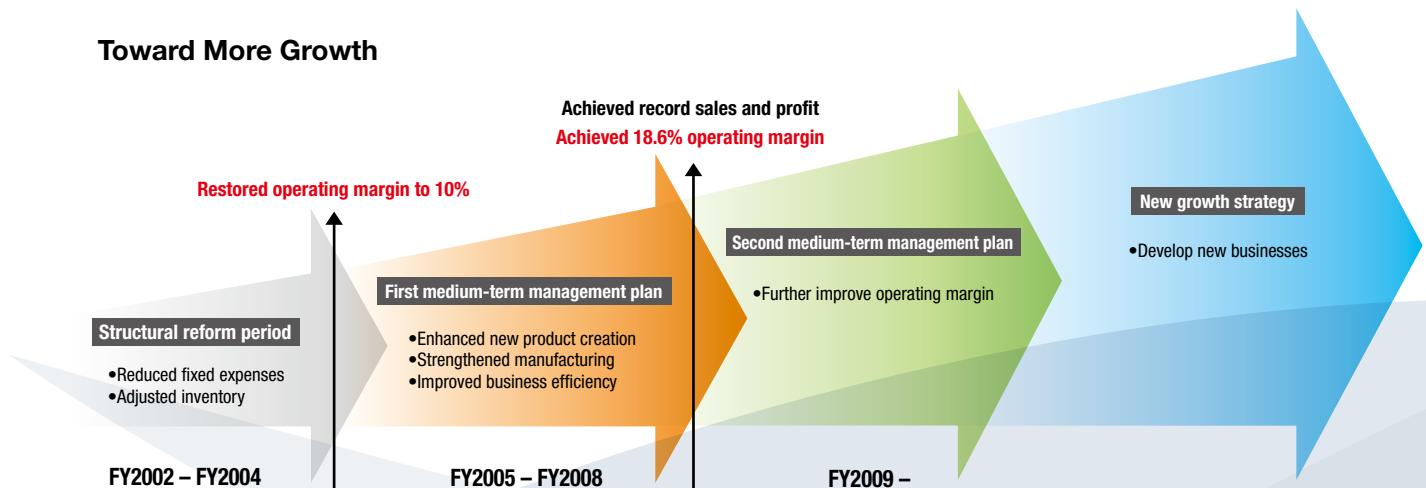
>> We are aiming to further strengthen process development so that we can surge ahead when the next growth period comes and bolster R&D in order to cultivate new fields. We are also looking to enhance our manufacturing technology so as to achieve maximum manufacturing efficiency.

The first initiative is growth in existing fields. We will develop technologies that meet our customers' requirements, including further miniaturization and technologies for devices with lower power consumption, and roll them out in new products. Needless to say, technological development will be the source of growth. Particularly in semiconductor process development, it used to be that customers took the lead role in development, but now many customers are focusing on circuit design and software development, and equipment



manufacturers are expected to undertake part of the process development. Over the past few years, we have refocused our attention on strengthening our process development capabilities, with a certain level of success. Still, I think there is room for us to do more in this area. From a medium-term perspective, I therefore think it will be important for us to strengthen collaboration with universities and R&D bodies, as well as to reinforce our process development engineering.

Toward More Growth





The second initiative is the scale of expansion through new business development. In addition to our mainstay semiconductor and FPD production equipment operations, in the environmental/clean energy field we will press ahead with the commercialization of CVD (chemical vapor deposition) systems for thin-film PV (photovoltaic) cells. For making SiC (Silicon carbide) devices which contribute to energy saving, we will also develop SiC epitaxial equipment, and help to realize the practical use of SiC devices at higher quality and lower cost. We are also tackling environmental issues through technology, with a focus on designing equipment to meet environmental standards.

The third initiative is manufacturing reform. In August 2007, our new No. 3 factory at the Koshi Plant became operational, and subcontractors previously dispersed around the Kyushu region were consolidated there. This move eliminated time needed for truck transportation, packing/unpacking and delivery inspections, and has contributed to shorter manufacturing lead time, lower distribution costs and enhanced quality. These positive results are now benefiting other group plants.

Q5: Tokyo Electron is planning to construct a plant in Miyagi Prefecture to function as a new production base. Please tell us about your plans for this plant.

>>The etch system market is expected to grow significantly in the medium to long term. By integrating our technology development and production bases, which are currently separated, we are aiming to further increase the scale of our revenues and raise profitability.

Going forward, we anticipate continued strong growth in the SPE market, with substantial growth in the etch systems market in particular. Thus far, we have carried out the development and production of etch systems – one of Tokyo Electron’s mainstay businesses – at several different sites. However, due to increasing space constraints, we are constructing a new base in Miyagi Prefecture where we will consolidate our etch system operations.

In the SPE sector, technological innovation is fast paced, and as our business relies on the development of new technologies, it is vital for us to secure outstanding human resources. We already have an operational base in Miyagi Prefecture, and we expect the region to also provide us with strong backup resources, enabling us to develop cutting-edge technologies through the recruitment of talented personnel from the region's many educational institutions, as well as through industrial-academic collaboration.

At the new plant, which is scheduled to commence operations in 2010, we intend to establish a structure for manufacturing the highest-quality equipment in the world with even greater efficiency. In constructing a base that integrates technology development, design and mass production, we aim to establish a competitive edge and enhance productivity. The Kyushu Plant initiatives mentioned above will also be developed at the new plant, and we will be looking to shorten manufacturing lead time and cut logistics costs by consolidating production within the plant with the participation of our suppliers. We plan not only to alleviate the environmental impact in terms of logistics, but also to tackle environmental issues proactively in areas such as energy-saving design. We are very excited about the prospects for future business expansion that our new 21st century plant will bring.



Q6: Please tell us about Tokyo Electron's environmental initiatives.

>> *It is crucial for management to tackle environmental issues, and there are also significant business opportunities.*

Climate change and global warming are issues of great concern, and there have been calls for concrete measures to be adopted to tackle global

warming in the industrial sector. A wide range of measures and regulations has been drafted, but only technological innovation in terms of emissions reduction and energy conservation can resolve these issues. Developing these technologies into a large-scale business in response to global demands will make a significant contribution to society.

For Tokyo Electron, an important issue is how to develop products that have a low environmental impact, and particularly how to cut down on energy consumption. It is also important to reduce the gasses, chemicals and water used in semiconductor manufacturing processes. Moreover, we can have a much broader social impact by developing equipment and processes that help to reduce the amount of power consumption of semiconductor and display products themselves. I also think we can do more in terms of product transportation, as there are many other possible solutions to tackle global warming, such as switching from air to sea transport and choosing plant locations that minimize the distance traveled by trucks.



Another important initiative is helping to tackle global warming through the solar PV production equipment market. PV cells are attracting interest as clean energy devices, and efforts are being stepped up to apply this technology to large-scale power generation. Given the ideal environmental performance of this technology, we anticipate strong growth in the PV market over the longer term, and hence also in the market for PV production equipment. The goal is to achieve a power generation cost equivalent to thermal power by 2030. A wide range of technological innovations can be expected during this time, in turn providing numerous opportunities to enhance production equipment technology.

We had already conducted extensive exploratory research into PV production equipment when we announced our entry into the PV production equipment market in February 2008. Together with Sharp Corporation, we have established a new joint venture company, specializing in development, to commercialize plasma CVD systems for use in thin-film silicon PV cells. The thin-film silicon PV cell, a type of solar cell containing a thin layer of silicon deposited on a glass substrate, has attracted much interest in recent years. These cells can be produced inexpensively and could become widespread in the future. We plan to develop high-productivity plasma CVD systems for thin-film silicon PV, shipping the first products in 2009.

Addressing Environmental Issues With Technology

Our mission and responsibility—and a major business opportunity



Enhance the energy efficiency of Tokyo Electron products

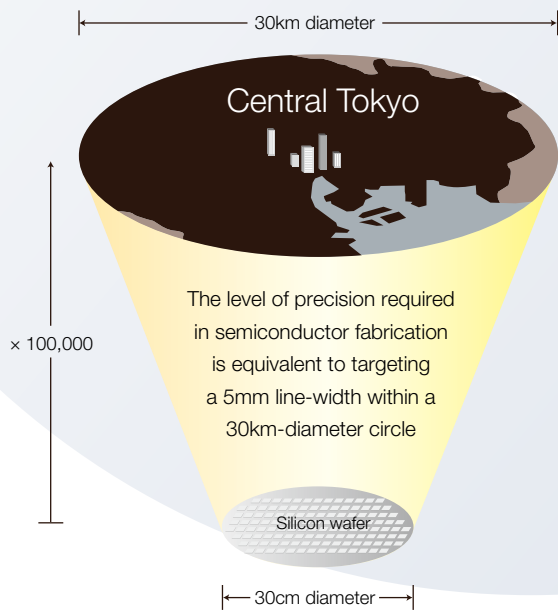
Provide manufacturing equipment for
energy-saving devices

Provide manufacturing equipment for clean energy

FEATURE

Semiconductor Manufacturing Technology: Bringing Together Science's Best

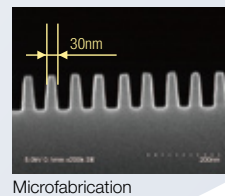
Fabrication of LSI circuits requires precision equivalent to targeting a 5mm line-width within a 30km-diameter circle



LSI circuits of approximately 1 cm² are formed from disc-shaped silicon wafers 30cm in diameter. The most advanced manufacturing technologies enable fabrication of transistors in an LSI circuit on a scale as small as less than 50 nanometers (nm),*¹ allowing several hundred million transistors to be incorporated into one LSI.

In terms of precision, 50nm LSI circuit fabrication on a silicon wafer 30cm in diameter is equivalent to 5mm fabrication on a circle 30km in diameter—an area that would hold the 23 wards of Central Tokyo.

*¹ 1 nanometer=1 billionth of a meter



Tokyo Electron develops and supplies semiconductor production

LSI fabrication involves the formation of transistors or interconnects on a silicon wafer through repeated circuit pattern formation processes including lithography, etching, cleaning, deposition, doping, planarization and other processes.

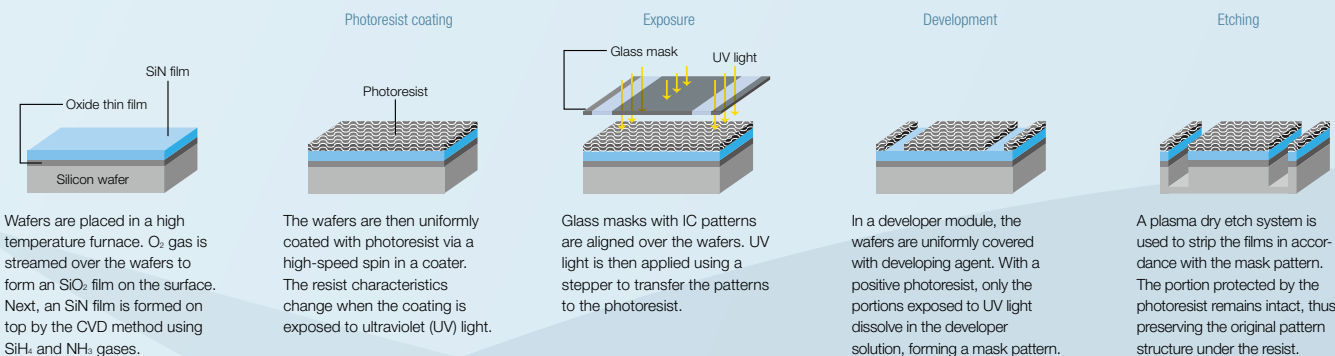
The lithography process involves a series of pattern transcription steps including coating a photoresist (light-sensitive agent) onto a silicon wafer, projecting a mask pattern onto the wafer using a stepper/scanner, expos-

ing the pattern to light, and then developing the exposed pattern. A coater/developer is used in the lithography process to evenly apply the photoresist while spinning the wafer at a high speed and then to develop the pattern.

Following the lithography sequence, the wafer is etched to create circuit elements. Sections of the films not covered by the resist are removed using etching gas in a plasma state in the reaction chamber of an etching system.

Semiconductor Manufacturing Process Flow

Oxide film formation, Nitride film formation



* Patterning: The process of forming circuit patterns by means of a photolithography method. Patterning takes place at a number of stages during front-end processing.

Semiconductors, LCD Panels and Photovoltaic Cells— Different Products, Similar Fabrication Technologies

The front-end processing (wafer processing) that takes place in semiconductor manufacturing is highly similar to that performed when manufacturing LCD panels (TFT*¹ array processing). Lithography, etching, and thin-film formation and other techniques used in semiconductor production are also used in the manufacturing of LCD panels.

The difference is that while semiconductors are formed on a substrate consisting of a 300mm round silicon wafer, LCD panels are formed on quite large sheets of rectangular glass that can be up to two meters on each side. Moreover, semiconductors, which require high integration, are fabricated on an ultra-precise nanometer*² scale, while LCD panels are fabricated on a micrometer*³ level.

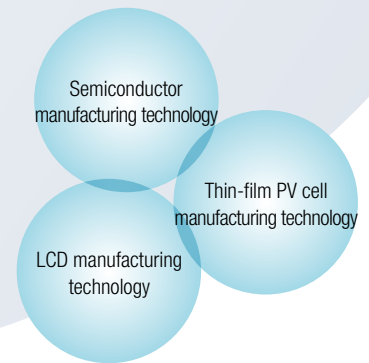
The manufacturing method for these LCD panels is also similar to that for producing thin-film silicon photovoltaic (PV) cells, which are drawing significant attention as a clean energy technology. Processing these PV cells does not require fine patterning, but it is based on a technique in which a thin film of silicon is formed on a glass substrate via a plasma CVD method, which uses almost the same materials.

In semiconductors, technological themes are miniaturization, higher speed, and lower energy consumption. Themes for LCD panels are larger sizes and higher resolution, while high conversion efficiency is the key objective with PV cells. Making these attributes possible in a highly reliable manner is the role of production equipment manufacturers, and these themes will also be the driving force for growth in each respective equipment market.

Going forward, in addition to semiconductor and FPD production equipment, Tokyo Electron will look to PV cell production equipment as another new pillar for growth.

*1 TFT: Thin Film Transistor
*2 1 nanometer=1 billionth of a meter
*3 1 micrometer=1 millionth of a meter

Common production technologies



equipment capable of nanoscale microfabrication

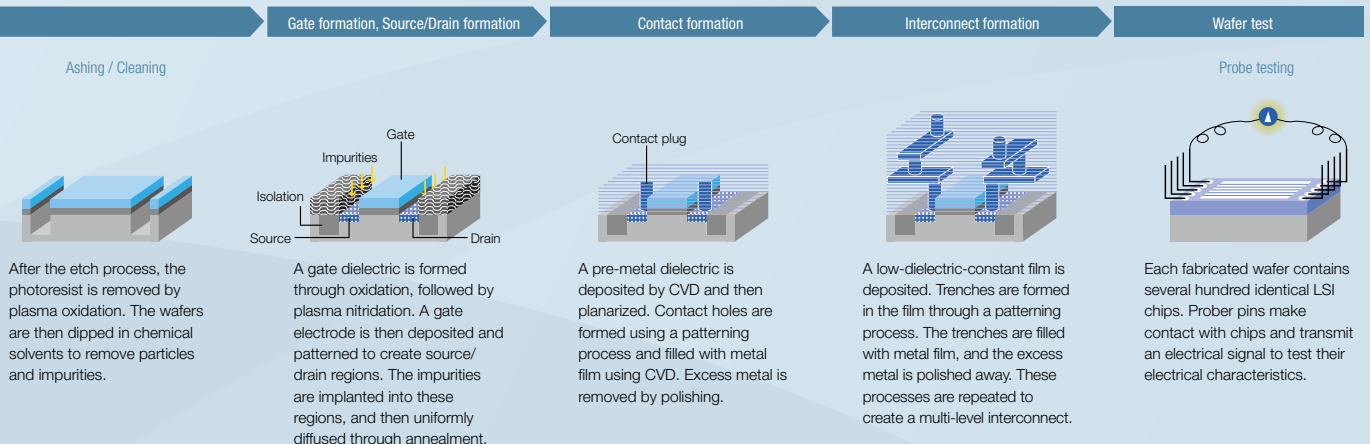
Oxidation/diffusion systems or LPCVD (low-pressure chemical vapor deposition) systems, thermal processing systems, are used to form oxide or nitride dielectric films on the wafer.

A cleaning system is used to remove residual materials or particles following the processes of photoresist strip, CVD and others.

Single wafer CVD systems create metal films that form the contacts between the transistors and interconnects using titanium (Ti or TiN) or

tungsten (W), for example. CVD is a method of forming layers of thin films on a wafer using heat or plasma energy to cause a chemical reaction with the gas materials used.

Focusing on the wafer fabrication processes, Tokyo Electron supplies a wide range of products that play key roles in manufacturing advanced semiconductors.



TOKYO ELECTRON AT A GLANCE

Semiconductor Production Equipment

Semiconductor devices (IC chips) are the key components of PCs, mobile phones and other digital products. Tokyo Electron offers a wide range of equipment for producing these devices, which it provides to semiconductor manufacturers around the world together with superior technical support and service.

Tokyo Electron has a lineup of six product groups that includes coater/developer, plasma etch system, thermal processing system, single wafer deposition system and cleaning system used in wafer processes, as well as wafer prober used in testing processes.

Main Products

- **Coater/Developer**
- **Plasma Etch System**
Dielectric Etch System, Silicon Etch System
- **Thermal Processing System**
- **Single Wafer Deposition System**
CVD System, Plasma Processing System
- **Cleaning System**
Auto Wet Station, Single Wafer Cleaning System, Pre-clean System, Scrubber System
- **Wafer Prober**
- **Imported Product**



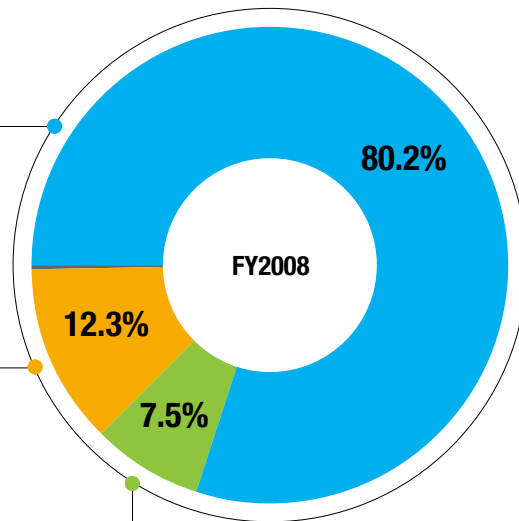
Coater/Developer
CLEAN TRACK™ LITHIUS Pro™



Thermal Processing System
TELINDY PLUS™



Auto Wet Station
EXPEDIUS™+



Electronic Components and Computer Networks

Tokyo Electron has developed a new type of model for this business, consisting of a “trading business” for sales, in which it acts as a distributor of a wide array of sophisticated electronic components together with a “development business” that designs and develops products in response to customer needs, as well as our own in-house brand products. Business operations for this segment are handled by Tokyo Electron Device Limited.

Main Products

- **Semiconductor Products**
- **Computer Networks**
- **Software**
- **Boards and General Electronic Components**



inrevium™
Developed by Tokyo Electron Device Limited

FPD Production Equipment

Tokyo Electron supplies LCD panel manufacturers with flat-panel display (FPD) production equipment used to manufacture displays for PCs, LCD TVs and other electronic devices, along with solid technical support and service.

The product lineup includes FPD coater/developer and FPD plasma etch/ash system. The size of substrates handled by such equipment is increasing each year with the growing popularity of large-screen LCD TVs.

Main Products

- **FPD Coater/Developer**
- **FPD Plasma Etch/Ash System**



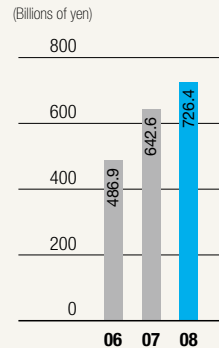
FPD Plasma Etch/Ash System
Impressio™

Semiconductor Production Equipment

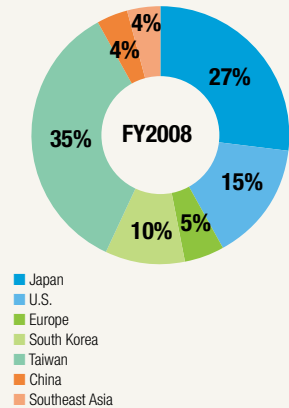
Overview of FY2008

- Business environment: The first half was robust due to active capital investment, mainly for semiconductor memory products. The second half saw deterioration of the supply/demand balance and scaling back of investment.
- Sales: Up 13.0% year on year to ¥726.4 billion
- Sales to Taiwan rose the most at 79.8% year on year, followed by a 9.2% rise in sales within Japan.
- Sales were up for all product lines, with the exception of wafer probers.
- Orders entered an adjustment period from the first half of the period, and the value of orders for a full year declined 37.0% year on year to ¥504.1 billion.

Net Sales



Sales by Region

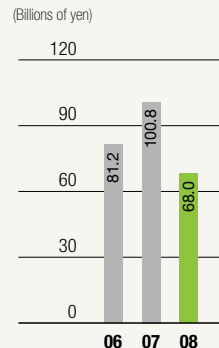


FPD Production Equipment

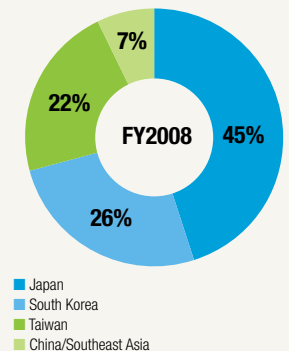
Overview of FY2008

- Business environment: Capital investment was sluggish due to the deterioration in the supply/demand balance for LCD panels, which has continued since the latter half of 2006.
- Sales: Down 32.5% year on year to ¥68.0 billion
- Sales to Taiwan dropped 63.1% year on year
- Sales were concentrated in products for 7th- and 8th-generation large substrates.
- Orders recovered in the second half as the supply/demand balance for LCD panels improved, increasing full-year orders by 94.2% to ¥129.9 billion.

Net Sales



Sales by Region

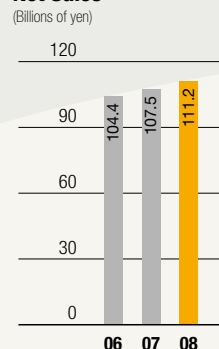


Electronic Components and Computer Networks

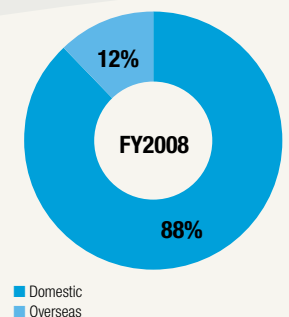
Overview of FY2008

- Business environment: Signs of weakening of the Japanese economy during the second half of the period led to a slight slowdown in the semiconductor market, but IT investment was strong as companies focused on information security and legal compliance related to internal controls.
- Sales: Up 3.5% year on year to ¥111.2 billion
- In semiconductor products, which account for more than 70% of sales, we focused on sales of high-value-added devices, as well as took steps to expand contract design of semiconductors, and strengthen development of our *inrevium*™ brand products.

Net Sales



Sales by Region



RESEARCH AND DEVELOPMENT

The objectives of Tokyo Electron's group-wide R&D efforts are to further enhance the Company's competitiveness in the core businesses of semiconductor and FPD production equipment, and to develop the new products and businesses that will support the Company's further growth in years to come.

Broad Research Themes for Semiconductor Production Equipment

Semiconductor manufacturers, our customers, require production equipment that allows them to achieve finer geometries, higher speed, lower power consumption and higher productivity. SPE manufacturers are playing an increasingly important role in supporting semiconductor manufacturers in this regard. We believe Tokyo Electron's competitiveness is based on our capability to provide production equipment that can realize the process performance customers require. Tokyo Electron therefore collaborates closely with customers in developing new production equipment.

Accelerating R&D Efforts to Develop New Businesses That Can Support Future Growth

In addition to efforts to enhance existing products, Tokyo Electron is also developing new products and business arenas that can contribute to growth 5 and even 10 years into the future.

One example is the area of photovoltaic (PV) cells, which have strong potential as a solution to environmental and energy-related issues. After conducting extensive exploratory research on PV cell production equipment, in February 2008, the Company established Tokyo Electron PV Limited to develop and commercialize plasma CVD (Chemical Vapor Deposition) systems for the thin-film silicon PV market. Thin-film silicon PV cells, solar cells containing a thin layer of silicon deposited on a glass substrate, have attracted significant interest in recent years. Tokyo Electron will develop high-productivity CVD systems by utilizing vacuum plasma production equipment technology developed from its semiconductor and FPD production equipment businesses.

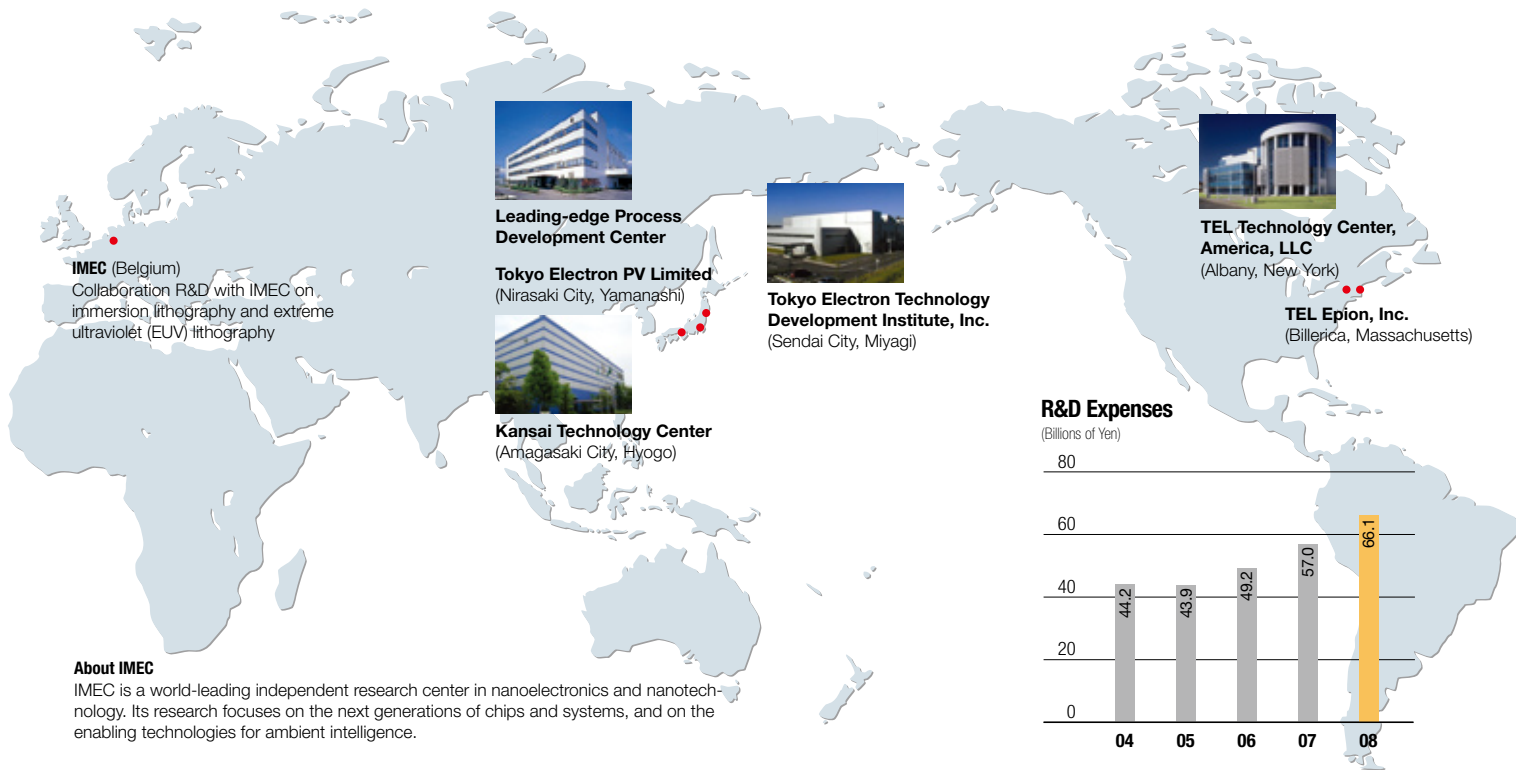
Promoting More Efficient R&D Via Consortia and Ties With Industry and Academia

The scope of research and development that Tokyo Electron needs to address is expanding. In order to improve the efficiency of research efforts, Tokyo Electron has been working in collaboration with universities and making active efforts in industry consortia as well as projects that involve both manufacturers and academic institutions.

Tokyo Electron's R&D Framework (As of June 2008)



Accelerating R&D to Drive Growth



In Japan, one example is the semiconductor industry's MIRAI project (Millennium Research for Advanced Information Technology). Overseas, Tokyo Electron is participating in the International SEMATECH project in the United States and the Albany NanoTech project promoted by the New York State Government, as well as collaborating with IMEC in Belgium. In February 2007, the Company became a new member of the Semiconductor Research Corporation (SRC), a semiconductor research consortium that unites leading semiconductor-related manufacturers with world class universities.

Unearthing the World's Most Promising Technologies

Tokyo Electron's growth strategy over the longer term calls for the Company to pursue new innovations and create and develop new businesses. The Company is supplementing in-house research activities with efforts to identify, evaluate and utilize promising technologies developed outside the Company. In July 2006, Tokyo Electron established TEL Venture Capital, Inc. to identify, evaluate and utilize promising new technologies on a global scale. TEL Venture Capital is based in California's Silicon Valley, home to many start-ups and venture capital firms.



CORPORATE GOVERNANCE

Tokyo Electron maintains a management philosophy that puts emphasis on maximizing corporate value and enhancing shareholder satisfaction. To this end, the Company is striving to enhance corporate governance by building an optimal corporate governance structure and managing it effectively. Efforts in this regard are founded on three basic principles.

Tokyo Electron's Basic Principles of Corporate Governance

1. Ensure the transparency and soundness of business operations
2. Facilitate quick decision-making and the efficient execution of business operations
3. Disclose information in a timely and suitable manner

The Corporate Governance Framework

Tokyo Electron uses the statutory auditor system, and has also adopted the executive officer system to separate the business execution function from the board of directors.

The Board of Directors

The board of directors consists of 14 directors, three of whom are external directors. During fiscal 2008, the board of directors met on 12 occasions. In order to ensure that the Company can respond quickly to changing business conditions, and to more clearly define management accountability, the term of office for directors is set at one year.

The board of directors has two committees: the Compensation Committee and the Nomination Committee, whose activities are intended to improve corporate governance. The Compensation Committee proposes the remuneration to be paid to the Chairman & CEO and the President & COO at the board meeting for approval. The Nomination Committee selects candidates for directorships for

submission at the annual shareholders' meeting, as well as candidates for CEO, which it submits at the board meeting for approval. Each of these committees is composed of members of the board of directors, excluding the Chairman & CEO and the President & COO.

The Board of Statutory Auditors

The Company has four statutory auditors, two of whom are outside auditors. The statutory auditors not only attend meetings of the board of directors and other important business meetings, but also they conduct operations audits, accounting audits and risk evaluation, in addition to auditing the performance of duties by directors. During fiscal 2008, the board of statutory auditors met seven times.

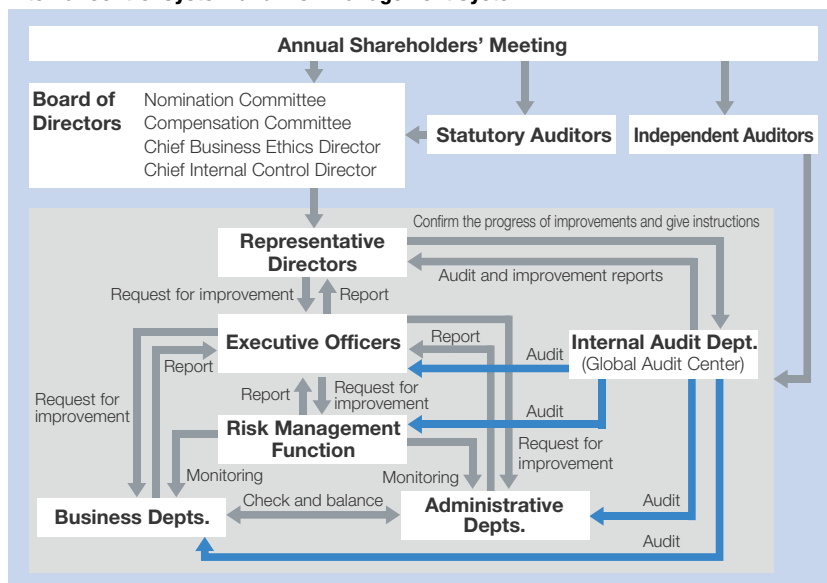
The Executive Officer System

In order to further clarify the roles of the board of directors and executives in charge of business operations, Tokyo Electron adopted the executive officer system in April 2003. This system promotes fast decision-making and the quick establishment and execution of business strategies.

Internal Control and Risk Management System

In order to enhance corporate value and ensure that all business activities are carried out responsibly, in the interests of all stakeholders, Tokyo Electron is taking steps to strengthen its internal control systems, and make them more effective. The Company is implementing specific activities based on the basic policy for internal control systems established in May 2006, which was partially revised in April 2008. It is also making progress in developing a system of internal control over financial reporting which is based on the Financial Instruments and Exchange Law.

Diagram of the Corporate Governance Framework, Internal Control System and Risk Management System



Internal Control Director

Tokyo Electron considers the improvement of internal control systems and the management structure to be of great importance. Starting in June 2008, the Company will appoint an Internal Control Director who will work to strengthen internal control based on the basic policy for internal control decided by the Board of Directors.

Internal Audit Department (Global Audit Center)

The Global Audit Center oversees the internal auditing activities of Tokyo Electron and its corporate group. The Center is responsible for auditing the business activities of domestic and overseas bases of the Group, as well as their compliance and systems, and evaluating the effectiveness of internal control systems. When necessary, the Global Audit Center also provides guidance to operating divisions. The Center reports the results of its audits to Company management on a

regular basis, and organizes meetings to report its findings and exchange information with the statutory auditors.

Risk Management Function

The General Affairs Department is responsible for crisis management, including measures involving business risk and operational risk, as well as for establishing the necessary internal regulations for managing each risk category and activities for training and raising employees' awareness of risk management. These internal regulations include compliance standards, risk management regulations, crisis management regulations, rules governing the handling of personal information, standards for managing documents, rules to prevent insider trading and guidelines for the timely disclosure of information.

Coordination Between Statutory Auditors and Internal Audit Department

The Global Audit Center, which is responsible for internal auditing activities, makes regular reports to Company management on the results of its audits, and holds periodic meetings (34 times a year) to report its findings and exchange information with the statutory auditors.

Coordination Between Statutory Auditors and Independent Auditors

Tokyo Electron has engaged KPMG AZSA & Co. as its independent auditor. The Company provides the independent auditor with all required information and data to ensure that it can conduct its audits promptly and correctly.

The statutory auditors receive audit plans for the fiscal year from KPMG AZSA & Co., as well as explanations regarding auditing methods and particular areas of focus, among other matters. They also receive opinions for the audits of the financial statements.

Compliance Framework

Trust is the cornerstone of Tokyo Electron's business foundation. The fundamental requirements for maintaining trust are rigorous conformity to ethical standards and compliance with the law, by individual employees and by each of our organizations. The Group maintains high standards of ethics and a clear awareness of compliance, placing the utmost priority on compliance with laws, regulations and international business standards in all of its corporate activities.

Ethical Standards, Ethics Committee and Chief Business Ethics Director

Recognizing the need to establish uniform standards to govern all of its global business activities, in 1998, the Company formulated the "Tokyo Electron Code of Ethics," which concretely describes the Company's basic views on ethics. The same year, the Company established the Ethics Committee, which is responsible for promoting business ethics awareness, and appointed a Chief Business Ethics Director to supervise these efforts.

In June 2007, the Tokyo Electron Code of Ethics was rewritten to make it easier to understand, and to reflect the changing ethical norms of the current era. To ensure full awareness of the Code, it was compiled into a booklet, which the Company distributed to all Group employees, including those overseas.

Compliance Regulations

Compliance regulations are intended to ensure that all individuals who take part in business activities for the Group clearly understand the pertinent laws, regulations, international standards and internal company rules, and continuously apply these rules in all of their activities.

Compliance Education for Employees

Information on compliance issues is available to employees via the Company intranet. The Company also conducts web-based training programs for employees, and takes other steps to promote broad awareness of compliance.

Internal Reporting System: Hotline

In the event that an employee becomes aware of any activity which may violate laws, regulations or principles of business ethics, the Company operates an internal reporting system (Hotline) that employees may use to report their concerns. Strict confidentiality is maintained to protect the whistleblower, and ensure that they are not subject to any disadvantage or repercussions.

Protection of Personal Information

Following the full introduction of Japan's personal information protection law, the Company formulated a basic directive and regulations to protect personal information. The Company conducts training programs to educate employees on how to handle such information, and to ensure that the rules and policies are widely understood.

Remuneration for Directors, Executive Officers and Statutory Auditors

The Company and its subsidiaries (excluding listed companies) have introduced incentive systems, such as business results-based remuneration, and stock options linked to share prices. Effective from fiscal 2006, the Company revised its executive remuneration system to link remuneration more closely to financial performance and shareholder value and also improve management transparency and its competitive strength.

New Remuneration System for Executives

1. The remuneration for Company directors and executive officers is composed of two elements: a fixed monthly salary, and an annual bonus which is linked to earnings performance.
2. The total amount of performance-linked remuneration (annual bonuses) for directors and executive officers of the Group is set at a maximum of 3% of consolidated net income. This remuneration is split between cash bonuses and stock-based

remuneration (stock options), at a ratio of roughly two to one. The stock-based remuneration takes the form of new stock warrant contracts with an exercise price of one yen per share. This is because current securities and exchange regulations make it difficult to introduce and implement direct share issuance, or the sort of transfer-restricted shares that are used in countries such as the United States. The restricted period on exercising stock options is set at three years.

3. The earnings-linked remuneration (annual bonuses) of external directors does not include stock options.
4. In order to ensure that statutory auditors maintain full independence from management pressures, the compensation of statutory auditors consists of a fixed monthly salary only.
5. Retirement allowances for directors, statutory auditors and executive officers were abolished at the end of fiscal 2005, as part of the revisions to Tokyo Electron's remuneration system for executives.

Remuneration linked to corporate performance comprises a relatively large share of executives' total remuneration. Tokyo Electron thinks that this will give executives a strong incentive to improve the Company's earnings performance and elevate the share price, since they share in both the benefits and the risks experienced by shareholders.

Disclosure of the Individual Compensation of Representative Directors

In order to increase transparency and reflect shareholders' interests, Tokyo Electron discloses the remuneration paid to each representative director (Chairman & CEO and President & COO), as well as the aggregate remuneration paid to directors and statutory auditors, in its business report, which is sent to shareholders along with the Notice of Annual General Meeting of Shareholders.

Disclosure Policy

Tokyo Electron is committed to disclosing information about the Company in a fair, prompt and accurate manner, to ensure that all stakeholders, including shareholders and other investors, can obtain an accurate, in-depth understanding of the Company and its activities, and evaluate the Company's corporate value appropriately. The Company also solicits feedback from its stakeholders as part of its information disclosure activities, and uses the feedback as a point of reference to guide corporate management.

Information Disclosure Standards

Tokyo Electron complies fully with the Financial Instruments and Exchange Law, and the rules on timely disclosure established by the Tokyo Stock Exchange.

Furthermore, even when the information is not subject to regulations on timely disclosure, the Company discloses the information proactively, in a fair, prompt and accurate manner if the information is deemed useful in providing stakeholders with an accurate understanding of the Company.

Disclosure Practices

If it is subject to the rules on timely disclosure (material information), Tokyo Electron will release the information simultaneously in a press release, and via the Tokyo Stock Exchange's "Timely Disclosure Network" (TDnet), and will post the information on its website as soon as possible, following the official announcement.

Even when it does not fall into the category of "material information," the Company will voluntarily disclose information which may be of interest to stakeholders, in a fair, accurate, and easy-to-understand manner, either on its website or in printed form, through various means of communication.

Tokyo Electron conducts meetings to discuss its financial results with securities analysts and investors; these meetings are also open to members of the press. The company makes audio and video recordings of its fiscal year-end and mid-term financial results meetings, and posts these recordings on the Company's website. All of the documents distributed at its quarterly financial results meetings are also posted on the website.

To ensure that foreign investors have fair and equal access to the information, in principle, the Company strives to disclose all information simultaneously in Japanese and English. However, due to the time required for translation, there may be cases where the posting of English information to the website is delayed slightly.

IR Spokespersons

To ensure that information is accurate and disclosure is fair, the Company's major investor relations activities will be undertaken by official IR spokespersons—either the CEO, the COO, the IR director, or representatives of the IR department. In principle, information on the Company shall not be provided to the press, or to persons connected with the securities market, by any executive or employee of Tokyo Electron acting alone other than official IR spokespersons. When necessary, IR spokespersons may formally appoint other executives or employees to speak on their behalf.

Shareholder Measures

Tokyo Electron mails a Notice of Annual General Meeting of Shareholders to shareholders more than three weeks in advance of the meeting, as one of its measures to vitalize these meetings and to promote smooth and efficient voting. It also sets the date of the Company's meeting to avoid days on which many such meetings are concentrated. In addition, shareholders are free to cast their votes via the Internet. Moreover, Tokyo Electron participates in the web-based voting platform for institutional investors operated by Investor Communications Japan Inc. (ICJ). To supplement the above shareholder meeting-related initiatives, Tokyo Electron's website carries notices, resolutions and presentation materials of shareholders' meetings. An English version of the Notice of Annual General Meeting of Shareholders is also provided.

BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVE OFFICERS

(As of June 20, 2008)

Board of Directors

**Tetsuro Higashi**
Chairman & CEO**Tetsuo Tsuneishi**²
Vice Chairman of the Board**Kiyoshi Sato**
President & COO**Haruo Iwatsu**²
Executive Vice President**Mamoru Hara**⁴
Corporate Director**Masao Kubodera**
Corporate Director**Yuichi Honda**^{1,3}
Corporate Director**Hirofumi Kitayama**²
Corporate Director**Hiroshi Takenaka**¹
Corporate Director**Kenji Washino**²
Corporate Director**Hikaru Ito**¹
Corporate Director**Hiroshi Inoue**^{*}
Corporate Director/
President, Tokyo
Broadcasting System, Inc.**Yasuhiro Tsunemi**^{1,*}
Corporate Director**Masahiro Sakane**^{*}
Corporate Director/
Chairman of the Board,
Komatsu Ltd.

Statutory Auditors

**Takeo Tanaka**
Statutory Auditor**Mitsutaka Yoshida**
Statutory Auditor**Togo Tajika**^{*}
Statutory Auditor**Hiroshi Maeda**^{*}
Statutory Auditor/
Nishimura & Asahi

Notes:

1. Member of Compensation Committee
 2. Member of Nomination Committee
 3. Chief Business Ethics Director
 4. Internal Control Director
- * External Director, External Statutory Auditor

Executive Officers

Chairman & CEO

Tetsuro Higashi

Vice Chairman of the Board

Tetsuo Tsuneishi
IR, Legal, Intellectual Property,
Customer Relations

President & COO

Kiyoshi Sato

Executive Vice President

Haruo Iwatsu
General Manager, Development &
Manufacturing

Senior Vice Presidents

Hirofumi Kitayama
General Manager, Development &
Manufacturing
(Quality, Miyagi New Factory Project)
and General Manager, SPE-3 Division**Takashi Ito**
Deputy General Manager, SPE-1 Division,
and General Manager, Clean Track BU**Kenji Washino**
Deputy General Manager, SPE-2 Division,
and General Manager, Single Wafer
Deposition BU**Hikaru Ito**
Deputy General Manager, SPE-2 Division,
and General Manager, Etch Systems BU**Hiroshi Takenaka**
Deputy General Manager, SPE-3 Division,
and General Manager, Thermal Processing
Systems BU**Hiroki Takebuchi**
Corporate Strategic Planning,
HR Development Center**Mitsuru Onozato**
General Manager, FPD Division**Masami Akimoto**
General Manager, Development

Vice Presidents

Yoshiteru Harada
General Manager, Administration**Yoshikazu Nunokawa**
General Manager, HR/Finance**Masaaki Hata**
Deputy General Manager, SPE-1 Division,
and General Manager, Surface Preparation
Systems BU**Shunro Nagasawa**
Deputy General Manager, SPE-4 Division,
and General Manager, Test Systems BU**Hideyuki Tsutsumi**
General Manager, Sales & Services, Japan**Yasuyuki Kuriki**
General Manager, Sales & Services, Korea**Chiaki Yamaguchi**
General Manager, Sales & Services, Asia**Hirofumi Murakami**
Deputy General Manager, Sales & Services
Division (Global Services)**Jinzaburo Sakamoto**
General Manager, Post Sales Division**Kiyoshi Sunohara**
General Manager, Marketing**Yoshinori Inoue**
General Manager, MEMS**Shigetoshi Hosaka**
General Manager, Technology &
Development Center, Leading-edge
Process Development Center,
Development Planning Department

BU: Business Unit

ENVIRONMENTAL, HEALTH AND SAFETY ACTIVITIES

Tokyo Electron's corporate missions include placing the highest priority on people's health and safety and taking the global environment into account when conducting business activities.

Fundamental Policy

Tokyo Electron positions environmental, health and safety activities as one of its most important management issues to achieve sustained corporate growth and continued development of society. With that in mind, Tokyo Electron is committed to reducing environmental loads across its activities, and to ensuring absolute safety in the Company's business premises and in those of its customers.

Tokyo Electron embodied these commitments in "TEL's Credo and Principles on Environmental Preservation" and "TEL's Safety and Health Credo and Principles" formulated in 1998. The former statement was reviewed and revised in May 2006 in light of the direction the business was taking and the Company's evolving approach to these issues. Also, recognizing the need to deal with current global warming and climate change issues, in October 2007, Tokyo Electron inaugurated an environmental steering committee in order to accelerate environmental response activities. The committee, the highest internal function on environmental activities, comprises the executive officer of development, as well as members from marketing, corporate strategic planning, and corporate communications.

Moreover, we are considering the establishment of medium-term environmental objectives under the slogan "Technology for Eco Life™." Going forward, we will define standards and an achievement plan and promote activities for these objectives.



EHS Management

Since 1997, Tokyo Electron has developed and implemented environmental management systems based on ISO 14001 standards, mainly for manufacturing operations, and obtained certification.

Adoption of Environmental Accounting

Tokyo Electron has introduced an environmental accounting system that quantifies the cost of its activities in respect of environmental protection, and uses this as the basis for developing corporate action policies. For more information on achievements in fiscal 2008, please see the "Environmental and Social Report 2008" to be released in September 2008.

ISO-14001-Certified Plants and Offices

Company/plant	Plant	Certification date	Certification number
Tokyo Electron AT Limited Tokyo Electron PS Limited	Sagami Plant	December 10, 1997	1110-1997-AE-KOB-RvA
Tokyo Electron Tohoku Limited	Tohoku Plant	February 19, 1998	1118-1998-AE-KOB-RvA
Tokyo Electron Kyushu Limited	Kumamoto/Koshi/Ozu/Saga plants	March 26, 1998	1120-1998-AE-KOB-RvA
Tokyo Electron AT Limited	Yamanashi Plant (Fuji/Hosaka area) Miyagi Plant	May 15, 1998 March 1, 2005	1124-1998-AE-KOB-RvA 01245-2005-AE-KOB-RvA
Tokyo Electron Device Limited	Yokohama Office	July 14, 2004	EC04J0144

Product-related Environmental Initiatives

Proactive Environmentally Conscious Product Design

As clearly set forth in our revised TEL's Credo and Principles on Environmental Preservation, Tokyo Electron believes that promotion of product designs sensitive to the environment is vital. Tokyo Electron has positioned promotion of energy conservation in its products and reduction and replacement of hazardous chemicals in its products as priority issues.

1. Energy Conservation During Equipment Use

Since many of our products are manufactured and used in clean rooms, we take an all-inclusive approach to energy conservation in the entire system, including equipment and the clean room. The five major targets in this respect are as follows:

1. Reduce energy consumption of equipment
2. Reduce energy consumption of peripheral devices
3. Use equipment in ways that conserve energy
4. Reduce energy consumption of the clean room
5. Overall clean room management (planned and appropriate operation)

Tokyo Electron played a central role in developing the SEMI S23 Guide for Conservation of Energy, Utilities and Materials Used by Semiconductor Manufacturing Equipment that was adopted as the global standard by the semiconductor industry. Tokyo Electron assesses the energy consumption of its products in accordance with these guidelines.

2. Hazardous Substances in Products

Growing out of the concern that hazardous substances in parts and materials could affect the environment and the ecological system, regulations restricting the use of such substances in automotive and electrical products are being tightened throughout the world. In July 2006, for example, the RoHS^{*1} directive came into force in Europe. Having determined that its semiconductor production equipment could be exempt from these directives as they fall within the definition of "large-scale stationary industrial tools," Tokyo Electron has prepared a written statement to that effect. Regarding the China RoHS directive^{*2} issued in March 2007, Tokyo Electron has achieved complete compliance. The Tokyo Electron Group is acting in advance of regulatory requirements and has established the Chemical Substance Measures Team to share necessary information. The team comprises representatives of manufacturing divisions. In addition, the Tokyo Electron Group is seeking active cooperation from suppliers in investigating materials that contain such substances and

finding and promoting substitutes. The Tokyo Electron Group will begin shipping products that are free of the six substances specified by the RoHS directive beginning in October 2008.

*1 Restriction of the use of certain Hazardous Substances in Electrical and Electronic Equipment

*2 The official name of the Chinese version of RoHS is Measures to Control Pollution From Electronic Information Products

Health and Safety Activities

Tokyo Electron promotes health and safety in all of its operations. This includes giving top priority to the health and safety of our employees and customers and designing products with safety in mind. TEL's Safety and Health Credo and Principles clearly state that all employees are responsible for being constantly aware of health and safety considerations in all their business activities.

Even with increasing sales and product shipments, in fiscal 2008, the Tokyo Electron Group achieved a reduction of over 40% in the number of accidents resulting in injury (excluding those requiring first-aid alone) or death. In particular, accidents occurring during start-up and maintenance operations performed at customer locations declined significantly. This reduction resulted from the overseas implementation of a safety management system already in use at customer sites in Japan, with emphasis on adoption during factory installations for new customers in Asia. The system includes the assignment of a safety management supervisor, deployment of safety patrols, and holding risk assessment meetings prior to the start of jobs. The decrease in accidents was also due in part to the development of proprietary safety tools, enhanced education, and progress in reducing tasks involving heights or heavy objects. Tokyo Electron's policy moving forward will continue to promote activities for further reducing accidents.

Communicating With Stakeholders

The Tokyo Electron Group actively promotes communication with all stakeholders. To develop environmental, health and safety initiatives, we believe that it is vital to share information as much as possible with all parties related to our business activities and to receive feedback.

One example is efforts to give back to local communities. Our philosophy states, "We place the highest priority on gaining the trust and acceptance of customers, suppliers, investors, and communities around the world" and "We therefore strive to be a faithful and cooperative member of the communities and nations where we do business." In line with this philosophy, we engage in activities to contribute to society and build relationships of trust with governments and local communities around our facilities. These activities are conducted both in Japan and overseas.

For further details, see "Environmental and Social Report 2008" (to be published in September 2008).
<http://www.tel.com/eng/citizenship/ehsreport.htm>



TOPICS

Modification of Existing Equipment to Reduce Energy Consumption

Tokyo Electron Group considers the promotion of environmentally sound design extremely important. The Company prioritizes efforts to develop energy-efficient equipment and reduce and replace regulated chemical substances contained in equipment.

Although we now develop and manufacture new products with more consideration given to conserving energy and resources, some of the products that we sold and delivered to customers in the past were not designed with the same consideration for the environment that is acceptable today.

To rectify this, the Tokyo Electron Group markets products which can be used to make improvements to existing equipment. For example, we provide various products designed to improve the environmental functions of the thermal processing system ALPHA (α)-8SE. The following are two such products:

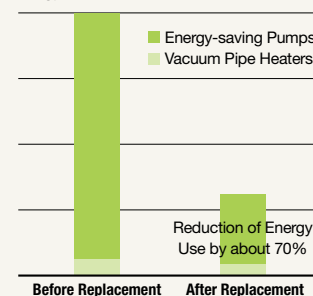
1. Improving the heat insulating properties of pipe heaters

It is necessary to keep the inside temperature of some pipes used in the thermal processing system as high as 100 to 200 degrees centigrade to prevent substances from adhering to the inside surface. The electricity consumed by the pipe heaters used to control the inside temperature can be reduced by 40% to 50% by installing high-performance heat insulators around the heaters.

2. Energy-saving pumps

Power consumption can be reduced by approximately 70% by replacing conventional pumps with high-efficiency energy-saving pumps. Use of these products may result in an overall reduction in energy use of around 70%.

Energy Conservation Effects



ALPHA (α)-8SE

In addition, we provide products that help reduce the amount of heat discharged into the clean room by a water cooling mechanism, products that reduce the amount of nitrogen used, and products that improve the overall process quality and productivity.

INTELLECTUAL PROPERTY REPORT

Process and mechatronic technologies used in the manufacture of semiconductors and flat panel displays represent Tokyo Electron's core technologies. Tokyo Electron devotes considerable resources to developing technologies that bolster the competitiveness of its products. As part of its efforts to drive growth, Tokyo Electron is promoting three themes: (1) bolstering development of new technologies to create and expand sales of new products (2) enhancing cost competitiveness through highly efficient manufacturing, and (3) expanding operational scale by entering new businesses domains. In pursuing these strategies, it is vital to protect the intellectual property rights of independently developed proprietary technologies and products to ensure the smooth growth of businesses. The integration of our intellectual property strategy with our technological and product strategies is thus important to realizing maximum benefits from development efforts.

Recently, the needs of device manufacturers, our customers, have been diversifying, and also they are emphasizing reliable process performance and higher productivity on products. Consequently, the role of equipment manufacturers such as Tokyo Electron in developing semiconductor manufacturing technology is increasing. Within this context, Tokyo Electron strives to bolster the protection of its intellectual property by actively filing patent applications for equipment recipe, software technologies, process management technologies for various types of manufacturing equipment, and other technologies.

Policies on Acquiring and Managing Intellectual Property, Managing Trade Secrets and Preventing Technology Leakage

Tokyo Electron has a set of internal rules that define the management of its intellectual property. Under these rules, Tokyo Electron provides compensation for employees who have invented or created something new through their work within the Company. We make lump-sum payments when applications are submitted for patents, utility model rights, designs and other property rights. Compensation is also given if such creations are implemented at Tokyo Electron or licensed to third parties.

Management of trade secrets is rigorous, conducted according to Tokyo Electron's "Internal Rules on Managing Technology and Marketing Information" and "Manual for Managing Technology and Marketing Information." The provisions of these measures are approximately equivalent to those of the government's "Policies Regarding Managing Trade Secrets" and "Policies Regarding the Prevention of Technology Leakage" (both issued by the Ministry of Economy, Trade and Industry). Furthermore, to raise the effectiveness of trade secret management, Tokyo Electron runs an in-house training program and monitors the subsequent status of trade secret handling to ensure strict adherence to the rules.

Status of Intellectual Property Application

The graph in this section shows historical data on the number of patent applications filed worldwide by Tokyo Electron up to the end of March 2008. While Tokyo Electron is already striving to be more selective overall in the patents it acquires, both in Japan and overseas, it is now reviewing its strategy regarding countries in which the applications are filed, including Japan, considering the locations of our operating divisions' key manufacturing bases and markets.

Specifically, in addition to the recent emphasis on filing applications in the U.S., we are also filing more applications in China, South Korea, Taiwan and other countries as a countermeasure against emerging competitors, mainly in East Asia.

Contribution of License-related Activities

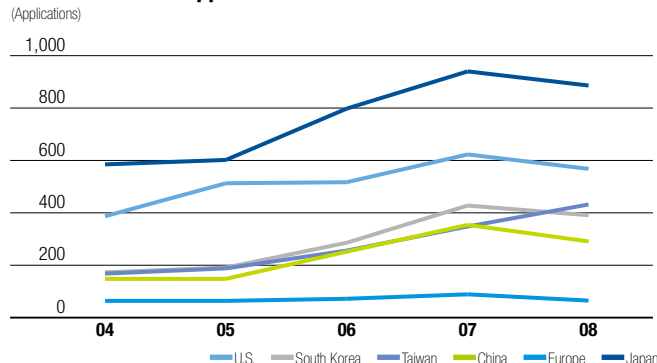
In building and implementing our intellectual property rights strategy, we do not see intellectual property rights acquired by filing applications and securing rights for proprietary products and developed technologies as a source of income from licensing to other companies. Rather, we view this as a method of differentiating our own products and bolstering our competitive advantages. Semiconductor and FPD manufacturing technologies are becoming increasingly advanced and sophisticated. To effectively develop new products incorporating leading-edge technologies, and bring them to market as quickly as possible, it is essential to utilize all available intellectual properties. Tokyo Electron places high value on introducing cutting-edge technology and constantly enhancing the efficiency of research and development, and on quickly launching new products. We also respect the intellectual property rights of others, just as we do our own, and effectively use them through licensing. Tokyo Electron is also exploring the feasibility of licensing or selling its proprietary technology to third parties in other business fields and to cooperating partners.

External Recognition

Tokyo Electron placed first in SBI Intechstra Co., Ltd.'s ranking of best performers in terms of technological competitiveness, determined using the company's proprietary index, called PCI® (Patent Competency Index). Tokyo Electron earned plaudits for investing heavily in research and development to produce high-quality results, and achieving a competitive edge by producing outstanding technologies of interest to other companies.

On April 18, 2008 (Inventors' Day in Japan), Tokyo Electron was awarded the Japan Patent Office's 2008 Minister of Economy, Trade and Industry's Award for Contribution to Intellectual Property. Tokyo Electron was commended particularly for its high patent approval rate and high proportion of global applications, as well as for its efforts to pursue strategic intellectual property initiatives led by the Vice Chairman of the Board, who is responsible for legal and intellectual property-related activities.

Number of Patent Applications



FINANCIAL SECTION

- 28** FINANCIAL REVIEW
- 36** CONSOLIDATED ELEVEN-YEAR SUMMARY
- 38** CONSOLIDATED BALANCE SHEETS
- 40** CONSOLIDATED STATEMENTS OF INCOME
- 41** CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
- 42** CONSOLIDATED STATEMENTS OF CASH FLOWS
- 43** NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- 53** INDEPENDENT AUDITORS' REPORT

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.

	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

(Millions of Yen)

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.

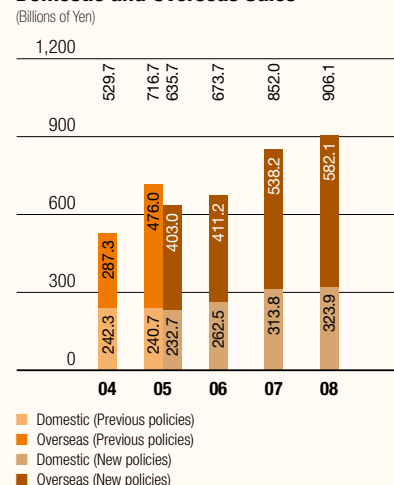
In addition to R&D spending to develop new technologies and products in existing areas of operation, the Company also invested in creating new businesses, including the development of equipment that applies RLSA*¹ plasma source, which has superior characteristics, OLED*² production equipment, and MEMS*³-related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

*¹ RLSA: Radial Line Slot Antenna

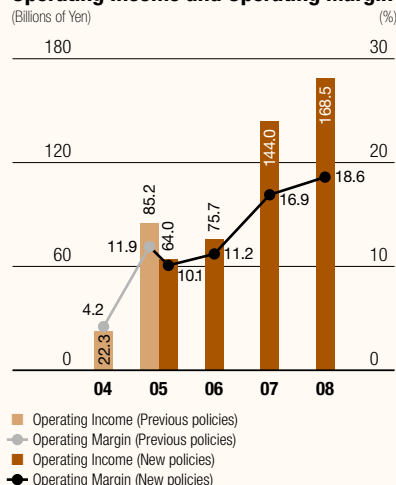
*² OLED: Organic Light-Emitting Diode

*³ MEMS: Micro Electro Mechanical System

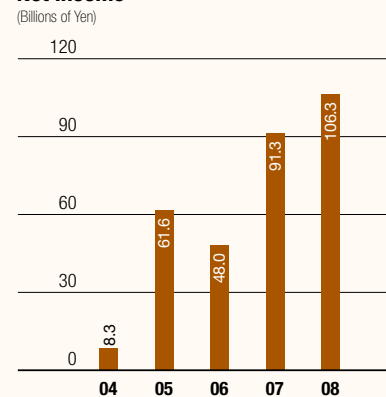
Domestic and Overseas Sales



Operating Income and Operating Margin



Net Income



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

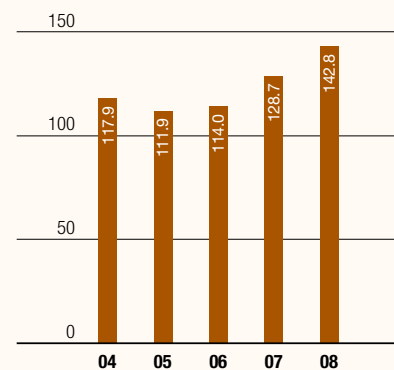
Sales to external customers in fiscal 2008 increased 13.0% year on year, to ¥726.4 billion.

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.

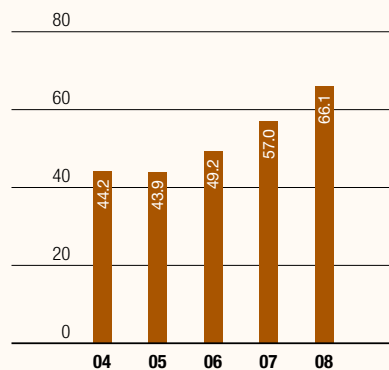
Selling, General and Administrative Expenses

(Billions of Yen)



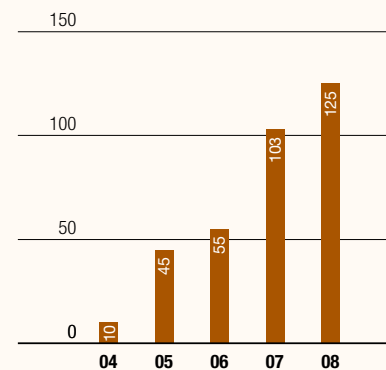
R&D Expenses

(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.

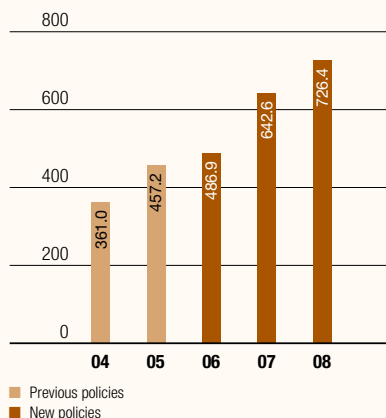
In the second half of the fiscal year, the LCD panel supply-demand balance improved and orders from panel makers resumed. Division orders received increased by 94.2% year on year, to ¥129.9 billion, and the order backlog rose 94.9%, to a record-high ¥127.1 billion at the end of fiscal 2008.

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

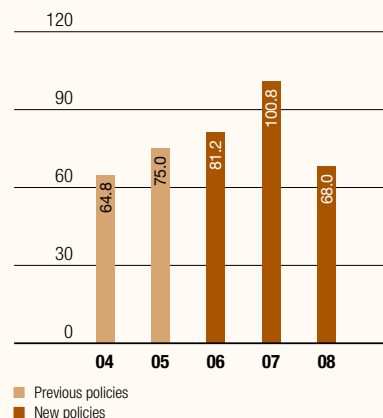
(Billions of Yen)



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 policies 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 policies 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.

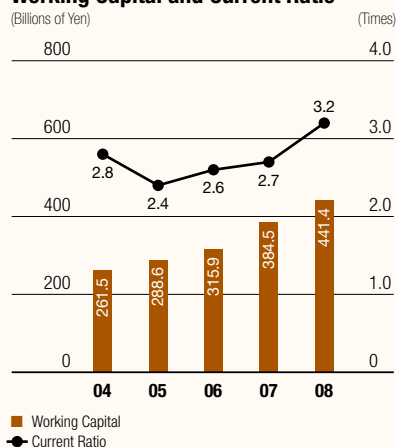
Along with signs of deterioration in the Japanese economy from the second half of the fiscal year, the domestic semiconductor market slowed somewhat. However, IT investment was brisk due to the strengthening of legislation related to corporate governance and information security.

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.

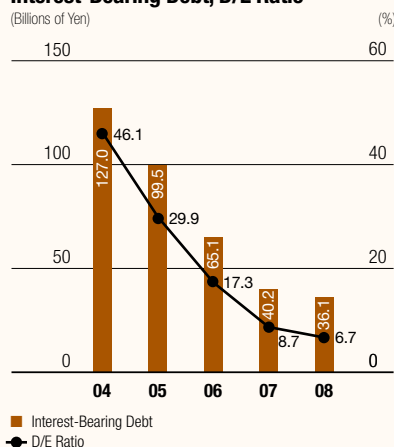
Business Segment Information

	Millions of yen				
	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

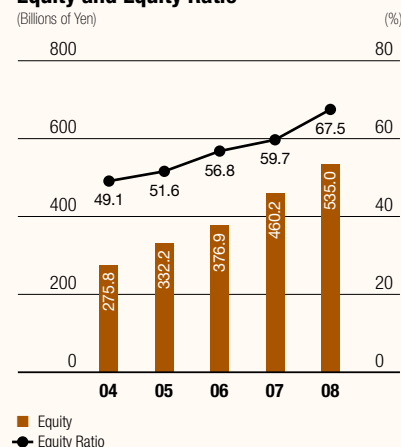
Working Capital and Current Ratio



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

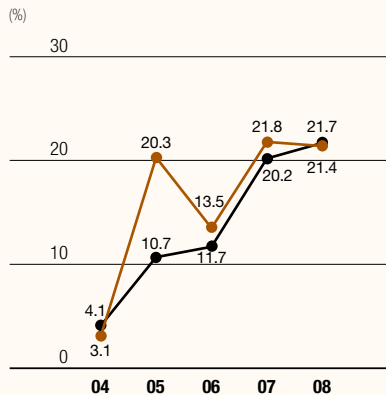
Total liabilities fell by ¥53.1 billion, to ¥247.6 billion.

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%.

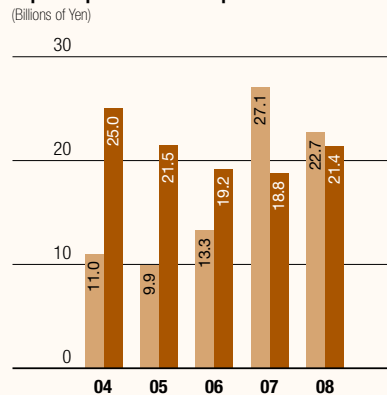
Total interest-bearing debt consisting of short-term and long-term debt combined was ¥36.1 billion at the end of the fiscal year. Long-term debt was zero, reflecting the due date for the redemption of the No. 11 issue of unsecured bonds falling to less than one year; therefore, this figure comprises 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



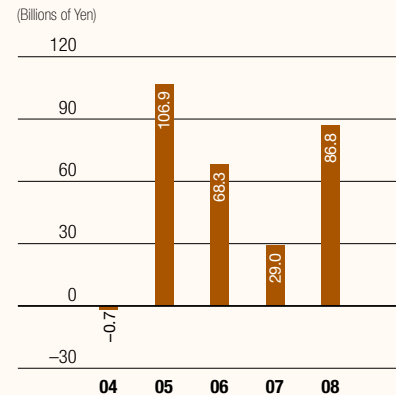
● Return on equity ratio (ROE)
 ● Return on assets ratio (ROA)
 $ROA = (\text{Operating income} + \text{Interest and dividend income}) / \text{Average total assets} \times 100$

Capital Expenditures and Depreciation and Amortization



■ Capital Expenditures
 ■ Depreciation and Amortization

Free Cash Flows



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.

CONSOLIDATED ELEVEN-YEAR SUMMARY

Tokyo Electron Limited and Subsidiaries
Years ended March 31

	Thousands of U.S. dollars			
	2008	2008	2007	2006
Net sales ¹	\$9,043,737	¥ 906,092	¥ 851,975	¥ 673,686
Semiconductor production equipment	7,250,624	726,440	642,625	486,883
FPD production equipment	678,870	68,016	100,766	81,176
Computer networks	—	—	19,169	17,497
Electronic components and computer networks	1,109,702	111,181	88,294	86,881
Other	4,541	455	1,121	1,249
Operating income (loss)	1,681,785	168,498	143,979	75,703
Income (loss) before income taxes	1,688,991	169,220	144,414	75,328
Net income (loss)	1,060,695	106,271	91,263	48,006
Domestic sales	3,233,317	323,946	313,816	262,532
Overseas sales	5,810,420	582,146	538,159	411,154
Depreciation and amortization ²	213,724	21,413	18,820	19,170
Capital expenditures ³	226,599	22,703	27,129	13,335
R&D expenses	659,477	66,073	56,962	49,182
Total assets	7,913,145	792,818	770,514	663,243
Total net assets (Total shareholders' equity)	5,442,110	545,245	469,811	376,900
Number of employees		10,429	9,528	8,901
	U.S. dollars			
Net income (loss) per share of common stock: ⁴				
Basic	\$ 5.93	¥ 594.01	¥ 511.27	¥ 267.61
Diluted ⁵	5.92	592.71	509.84	267.32
Net assets per share of common stock	29.84	2,989.70	2,573.72	2,112.30
Cash dividends per share of common stock	1.25	125.00	103.00	55.00
Number of shares outstanding (thousands)		180,611	180,611	180,611
Number of shareholders		43,324	41,289	46,272
ROE		21.4	21.8	13.5
Operating margin		18.6	16.9	11.2
Equity ratio		67.5	59.7	56.8
Asset turnover (times)		1.16	1.19	1.03
	U.S. dollars			
Net sales per employee	\$ 867,172	¥ 86,882	¥ 89,418	¥ 75,687

1 Until fiscal 2004, the FPD (Flat Panel Display) division was included in Semiconductor production equipment. From fiscal 2008, the Computer networks is included in the Electronic components and computer networks.

2 Depreciation and amortization does not include amortization and loss on impairment of goodwill.

3 Capital expenditures before fiscal 1999 represent the gross increase in property, plant and equipment, intangible assets and other depreciable assets. Capital expenditures after fiscal 2000 only represent the gross increase in property, plant and equipment.

4 From fiscal 2003, the Company applied "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 (ASBJ).

5 Dilution is not assumed for the years ended March 2003, 2002 and 1999.

6 Effective from fiscal 2005, Tokyo Electron changed its method of revenue recognition upon receiving customer confirmation of product set-up and testing of products for Semiconductor and FPD production equipment. 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 the year ended March 31, 2005, compared with the corresponding amounts which would have been recorded if the previous method had been applied.

7 Effective from fiscal 2005, Tokyo Electron changed its method to account for after-sale repair expenses by recording accrued warranty expenses for Semiconductor and FPD production equipment. 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.

Millions of yen							
2005	2004	2003	2002	2001	2000	1999	1998
¥ 635,710	¥ 529,654	¥ 460,580	¥ 417,825	¥ 723,880	¥ 440,729	¥ 313,820	¥ 455,585
457,191	425,747	364,689	325,715	619,001	355,103	242,240	380,184
75,038	—	—	—	—	—	—	—
15,966	18,448	17,193	17,031	14,054	12,357	12,878	15,262
86,249	84,229	77,380	73,658	89,211	72,051	57,734	60,139
1,266	1,230	1,318	1,421	1,614	1,218	968	—
63,983	22,280	1,119	(18,310)	121,086	35,816	6,383	63,296
55,775	14,936	(23,010)	(22,919)	99,132	29,689	6,038	62,834
61,601	8,297	(41,554)	(19,938)	62,012	19,848	1,866	30,009
232,678	242,318	190,513	186,516	299,272	183,987	149,838	230,550
403,032	287,336	270,067	231,309	424,608	256,742	163,982	225,035
21,463	24,963	27,374	26,294	21,679	19,446	17,921	12,652
9,876	11,007	12,359	30,946	49,403	18,999	23,478	33,302
43,889	44,150	50,123	53,827	52,911	37,135	26,842	26,813
644,320	561,632	524,901	556,915	729,511	499,499	414,903	493,600
332,165	275,800	252,904	307,579	333,281	273,603	257,716	261,009
8,864	8,870	10,053	10,171	10,236	8,946	7,835	7,287
Yen							
¥ 343.63	¥ 46.37	¥ (238.57)	¥ (113.85)	¥ 353.76	¥ 113.53	¥ 10.70	¥ 174.68
343.54	45.78	—	—	344.75	110.64	—	168.43
1,863.28	1,543.73	1,456.23	1,756.73	1,901.38	1,560.27	1,477.93	1,495.20
45.00	10.00	8.00	8.00	38.00	14.00	12.00	30.00
180,611	180,611	175,698	175,691	175,691	175,660	174,624	174,569
60,857	60,873	49,259	37,116	42,781	7,147	8,576	9,562
Percent							
20.3	3.1	(14.8)	(6.2)	20.4	7.5	0.7	12.8
10.1	4.2	0.2	(4.4)	16.7	8.1	2.0	13.9
51.6	49.1	48.2	55.2	45.7	54.8	62.1	52.9
1.05	0.97	0.85	0.65	1.18	0.96	0.69	1.03
Thousands of yen							
¥ 71,718	¥ 59,713	¥ 45,815	¥ 41,080	¥ 70,719	¥ 49,265	¥ 40,054	¥ 62,520

CONSOLIDATED BALANCE SHEETS

Tokyo Electron Limited and Subsidiaries
March 31, 2008 and 2007

ASSETS

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Current assets:			
Cash and cash equivalents	¥193,493	¥134,390	\$1,931,261
Short-term investments.....	10,070	–	100,509
Trade notes and accounts receivable	224,171	228,688	2,237,459
Allowance for doubtful accounts	(63)	(127)	(629)
Inventories	161,152	194,840	1,608,464
Deferred income taxes	24,140	28,326	240,942
Prepaid expenses and other current assets.....	27,271	24,246	272,192
Total current assets	640,234	610,363	6,390,198
Property, plant and equipment:			
Land	20,729	20,495	206,897
Buildings	119,578	121,318	1,193,512
Machinery and equipment.....	99,735	96,547	995,459
Construction in progress.....	4,199	6,062	41,910
Total property, plant and equipment.....	244,241	244,422	2,437,778
Less: Accumulated depreciation	140,135	139,492	1,398,692
Net property, plant and equipment	104,106	104,930	1,039,086
Investments and other assets:			
Investment securities.....	8,837	14,643	88,202
Deferred income taxes	14,846	13,691	148,178
Intangible assets	13,254	19,400	132,290
Other assets	11,541	7,487	115,191
Total investments and other assets.....	48,478	55,221	483,861
Total assets	¥792,818	¥770,514	\$7,913,145

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Current liabilities:			
Short-term borrowings.....	¥ 6,070	¥ 1,712	\$ 60,585
Current portion of long-term debt.....	30,000	8,500	299,431
Trade notes and accounts payable.....	66,794	96,847	666,674
Customer advances.....	24,029	21,957	239,834
Income taxes payable.....	28,239	45,657	281,854
Accrued employees' bonuses.....	12,727	14,131	127,029
Accrued warranty expenses.....	9,816	14,114	97,974
Accrued expenses and other current liabilities.....	21,146	22,937	211,059
Total current liabilities.....	198,821	225,855	1,984,440
Long-term debt, less current portion.....	—	30,000	—
Accrued pension and severance costs.....	44,370	40,686	442,858
Other liabilities.....	4,382	4,162	43,737
Total liabilities.....	247,573	300,703	2,471,035
Contingent liabilities			
Net assets:			
Shareholders' equity			
Common stock.....	54,961	54,961	548,568
Authorized: 300,000,000 shares			
Issued: 180,610,911 shares as of March 31, 2008 and 2007			
Capital surplus.....	78,393	78,347	782,443
Retained earnings.....	410,867	328,027	4,100,878
Treasury stock, at cost.....	(11,370)	(12,168)	(113,484)
1,678,927 and 1,812,976 shares as of			
March 31, 2008 and 2007, respectively			
Valuation and translation adjustments			
Unrealized gains on investment securities.....	2,172	5,853	21,679
Deferred gains or losses on hedges.....	460	(177)	4,591
Foreign currency translation adjustments.....	(530)	5,333	(5,290)
Share subscription rights.....	484	584	4,831
Minority interests.....	9,808	9,051	97,894
Total net assets.....	545,245	469,811	5,442,110
Total liabilities and net assets.....	¥792,818	¥770,514	\$7,913,145

CONSOLIDATED STATEMENTS OF INCOME

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Net sales	¥ 906,092	¥ 851,975	\$9,043,737
Cost of sales.....	594,794	579,326	5,936,660
Gross profit	311,298	272,649	3,107,077
Selling, general and administrative expenses.....	142,800	128,670	1,425,292
Operating income	168,498	143,979	1,681,785
Other income (expenses):			
Interest and dividend income	1,491	910	14,882
Interest expenses.....	(343)	(421)	(3,424)
Revenue from development grants.....	2,170	2,640	21,659
Foreign exchange losses.....	(28)	(3,373)	(279)
Gain on sale of property, plant and equipment	2,365	417	23,605
Gain on sale of investment securities.....	135	1,225	1,347
Gain on sale of shares of consolidated subsidiary	—	528	—
Gain on reversal of forfeited warrants	467	526	4,661
Loss on disposal of property, plant and equipment	(885)	(834)	(8,833)
Loss on impairment of property, plant and equipment	(808)	—	(8,065)
Loss on impairment of goodwill.....	(4,072)	—	(40,643)
Equity in loss of affiliated company	—	(1,442)	—
Other, net.....	230	259	2,296
Income before income taxes	169,220	144,414	1,688,991
Income taxes:			
Current	56,569	60,132	564,617
Deferred.....	5,374	(7,535)	53,638
Minority interests	1,006	554	10,041
Net income	¥ 106,271	¥ 91,263	\$1,060,695
Per share of common stock:			
Net income — basic	¥ 594.01	¥ 511.27	\$ 5.93
Net income — diluted	592.71	509.84	5.92
Net assets	2,989.70	2,573.72	29.84
Cash dividends	125.00	103.00	1.25

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen									
	Shareholders' equity				Valuation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on investment securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Share subscription rights	Minority interests	Total net assets
Balance as of March 31, 2006.....	¥54,961	¥78,079	¥249,938	¥(15,117)	¥ 5,118	¥ -	¥ 3,921	¥1,014	¥4,722	¥382,636
Cash dividends.....	-	-	(12,843)	-	-	-	-	-	-	(12,843)
Bonuses to directors	-	-	(331)	-	-	-	-	-	-	(331)
Net income.....	-	-	91,263	-	-	-	-	-	-	91,263
Repurchase of treasury stocks.....	-	-	-	(64)	-	-	-	-	-	(64)
Disposal of treasury stocks.....	-	268	-	3,013	-	-	-	-	-	3,281
Sale of shares of consolidated subsidiary and others.....	-	-	-	-	-	-	-	-	4,329	4,329
Other, net	-	-	-	-	735	(177)	1,412	(430)	-	1,540
Balance as of March 31, 2007.....	¥54,961	¥78,347	¥328,027	¥(12,168)	¥ 5,853	¥(177)	¥ 5,333	¥ 584	¥9,051	¥469,811
Cash dividends.....	-	-	(23,431)	-	-	-	-	-	-	(23,431)
Net income.....	-	-	106,271	-	-	-	-	-	-	106,271
Repurchase of treasury stocks.....	-	-	-	(40)	-	-	-	-	-	(40)
Disposal of treasury stocks.....	-	46	-	838	-	-	-	-	-	884
Other, net	-	-	-	-	(3,681)	637	(5,863)	(100)	757	(8,250)
Balance as of March 31, 2008.....	¥54,961	¥78,393	¥410,867	¥(11,370)	¥ 2,172	¥ 460	¥ (530)	¥ 484	¥9,808	¥545,245

	Thousands of U.S. dollars									
	Shareholders' equity				Valuation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on investment securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Share subscription rights	Minority interests	Total net assets
Balance as of March 31, 2007.....	\$548,568	\$781,984	\$3,274,049	\$(121,449)	\$ 58,419	\$(1,767)	\$ 53,229	\$5,829	\$90,338	\$4,689,200
Cash dividends.....	-	-	(233,866)	-	-	-	-	-	-	(233,866)
Net income.....	-	-	1,060,695	-	-	-	-	-	-	1,060,695
Repurchase of treasury stocks.....	-	-	-	(399)	-	-	-	-	-	(399)
Disposal of treasury stocks.....	-	459	-	8,364	-	-	-	-	-	8,823
Other, net	-	-	-	-	(36,740)	6,358	(58,519)	(998)	7,556	(82,343)
Balance as of March 31, 2008.....	\$548,568	\$782,443	\$4,100,878	\$(113,484)	\$ 21,679	\$ 4,591	\$ (5,290)	\$4,831	\$97,894	\$5,442,110

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes	¥169,220	¥144,414	\$1,688,991
Depreciation and amortization	21,413	18,820	213,724
Amortization of goodwill	1,601	1,974	15,979
Loss on impairment of goodwill	4,072	–	40,643
Loss on impairment of property, plant and equipment	808	–	8,065
Increase in accrued pension and severance costs	3,753	1,926	37,459
Increase in prepaid pension expenses	(4,036)	(966)	(40,283)
Increase (decrease) in accrued employees' bonuses	(1,404)	3,900	(14,013)
Increase (decrease) in accrued warranty expenses	(4,323)	1,614	(43,148)
Interest and dividend income	(1,491)	(910)	(14,882)
Interest expenses	343	421	3,424
Loss on foreign currency translation	694	520	6,927
Gain on sale of property, plant and equipment	(2,365)	(417)	(23,605)
Gain on sale of investment securities	(135)	(1,225)	(1,347)
Gain on sale of shares of consolidated subsidiary	–	(528)	–
Gain on reversal of forfeited warrants	(467)	(526)	(4,661)
Loss on disposal of property, plant and equipment	885	834	8,833
Equity in loss of affiliated company	–	1,442	–
(Increase) decrease in trade notes and accounts receivable	2,473	(58,352)	24,683
(Increase) decrease in inventories	28,343	(31,585)	282,893
Increase in prepaid consumption tax	(1,446)	(1,775)	(14,433)
Increase (decrease) in trade notes and accounts payable	(27,373)	17,236	(273,211)
Increase (decrease) in customer advances	2,130	(12,459)	21,260
Other, net	(3,058)	7,324	(30,524)
Subtotal	189,637	91,682	1,892,774
Receipts from interest and dividends	1,372	853	13,694
Interest paid	(348)	(453)	(3,474)
Income taxes paid	(73,722)	(37,785)	(735,822)
Net cash provided by operating activities	116,939	54,297	1,167,172
Cash flows from investing activities:			
Purchases of short-term investments	(44,070)	(30,000)	(439,864)
Proceeds from short-term investments	34,000	30,000	339,355
Payment for purchase of property, plant and equipment	(19,338)	(25,154)	(193,013)
Proceeds from sale of property, plant and equipment	4,270	1,069	42,619
Payment for acquisition of intangible assets	(4,042)	(2,462)	(40,343)
Payment for acquisition of consolidated subsidiary, net of cash acquired	–	(4,524)	–
Proceeds from sale of shares in consolidated subsidiary	–	4,169	–
Proceeds from sale of investment securities	151	2,460	1,507
Other, net	(1,157)	(851)	(11,549)
Net cash used in investing activities	(30,186)	(25,293)	(301,288)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	4,352	(404)	43,437
Repayment of long-term debt	(3,000)	–	(29,943)
Redemption of unsecured bonds	(5,500)	(24,500)	(54,896)
Decrease in treasury stock, net	844	3,217	8,424
Dividends paid	(23,431)	(12,843)	(233,866)
Other, net	(298)	(189)	(2,973)
Net cash used in financing activities	(27,033)	(34,719)	(269,817)
Effect of exchange rate changes on cash and cash equivalents	(617)	81	(6,158)
Net increase (decrease) in cash and cash equivalents	59,103	(5,634)	589,909
Cash and cash equivalents at beginning of year	134,390	140,024	1,341,352
Cash and cash equivalents at end of year	¥193,493	¥134,390	\$1,931,261

See accompanying Notes to Consolidated Financial Statements.

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 identification 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:

2008:	Millions of yen	
	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

2007:	Millions of yen	
	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.

2008:	Thousands of U.S. dollars	
	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:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
	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:

	Millions of yen	Thousands of U.S. dollars
Prepaid pension and severance costs (Note 1)	5,001	966
Accrued pension and severance costs (Note 2)	(43,704)	(40,019)
Net amount recognized	¥(38,703)	¥(39,053)

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

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

	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gains (losses)
2008:			
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					
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				
	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
2007:					
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					
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

	Thousands of U.S. dollars				
	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	\$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 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 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:

	Millions of yen				
	Japan	Other regions	Total	Eliminations and corporate	Consolidated
2008:					
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

	Millions of yen				
	Japan	Other regions	Total	Eliminations and corporate	Consolidated
2007:					
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

	Thousands of U.S. dollars				Consolidated
	Japan	Other regions	Total	Eliminations and corporate	
2008:					
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:

Net sales	Millions of yen		Thousands of U.S. dollars
	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.

INDEPENDENT AUDITORS' REPORT



To the Board of Directors of
Tokyo Electron Limited:

We have audited the accompanying consolidated balance sheets of Tokyo Electron Limited and subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tokyo Electron Limited and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in note 1 to the consolidated financial statements.

KPMG AZSA & CO.

Tokyo, Japan
June 20, 2008

GROUP COMPANIES

As of March 31, 2008, the Tokyo Electron Group was made up of the parent company and 30 subsidiaries.

Company	Main business
JAPAN	
Consolidated subsidiaries	
Tokyo Electron AT Limited	Manufacture and development
Tokyo Electron Kyushu Limited	Manufacture and development
Tokyo Electron Tohoku Limited	Manufacture and development
Tokyo Electron TS Limited	Manufacture and development
Tokyo Electron Technology Development Institute, Inc.	Manufacture and development
Tokyo Electron Software Technologies Limited	Development
Tokyo Electron PV Limited	Development
Tokyo Electron FE Limited	Field engineering
Tokyo Electron PS Limited	Refurbishment, modification and relocation
Tokyo Electron Device Limited	Sales
Tokyo Electron BP Limited	Logistics, leasing, facility management, etc.
Tokyo Electron Agency Limited	Nonlife insurance
AMERICA	
Consolidated subsidiaries	
Tokyo Electron U.S. Holdings, Inc.	Holding company
Tokyo Electron America, Inc.	Sales and field engineering
Tokyo Electron Massachusetts, LLC	Manufacture and development
Tokyo Electron Arizona, LLC	Manufacture and development
Timbre Technologies, Inc.	Manufacture and development
TEL Technology Center, America, LLC	Development
TEL Epion, Inc.	Development
TEL Venture Capital, Inc.	Identification and evaluation of new technologies
EUROPE	
Consolidated subsidiaries	
Tokyo Electron Europe Limited	Sales and field engineering
Tokyo Electron Deutschland GmbH	Field engineering
Tokyo Electron Ireland Limited	Field engineering
Tokyo Electron Israel Limited	Field engineering
ASIA	
Consolidated subsidiaries	
Tokyo Electron Korea Limited	Sales and field engineering
Tokyo Electron Korea Solution Limited	Refurbishment, modification and relocation
Tokyo Electron Taiwan Limited	Sales and field engineering
Tokyo Electron (Shanghai) Limited	Sales and field engineering
Tokyo Electron (Shanghai) Logistic Center Limited	Logistics
Tokyo Electron Device Hong Kong Limited	Sales

INVESTOR INFORMATION

(As of March 31, 2008)

Corporate Name and Head Office:

Tokyo Electron Limited
Akasaka Biz Tower
3-1 Akasaka 5-chome, Minato-ku,
Tokyo 107-6325, Japan

Established:

November 11, 1963

Annual General Meeting of Shareholders:

June

Common Stock:

Stock trading unit	100 shares
Authorized	300,000,000 shares
Issued and outstanding	180,610,911 shares
Number of shareholders	43,324

Common Stock Listed on:

The Tokyo Stock Exchange 1st Section (#8035)

Independent Auditors:

KPMG AZSA & Co.

Administrator of Shareholders' Register:

The Chuo Mitsui Trust and Banking Co., Ltd.
33-1 Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

For Further Information, Contact:

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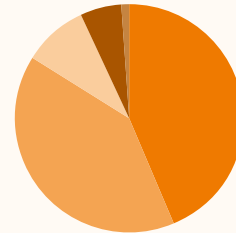
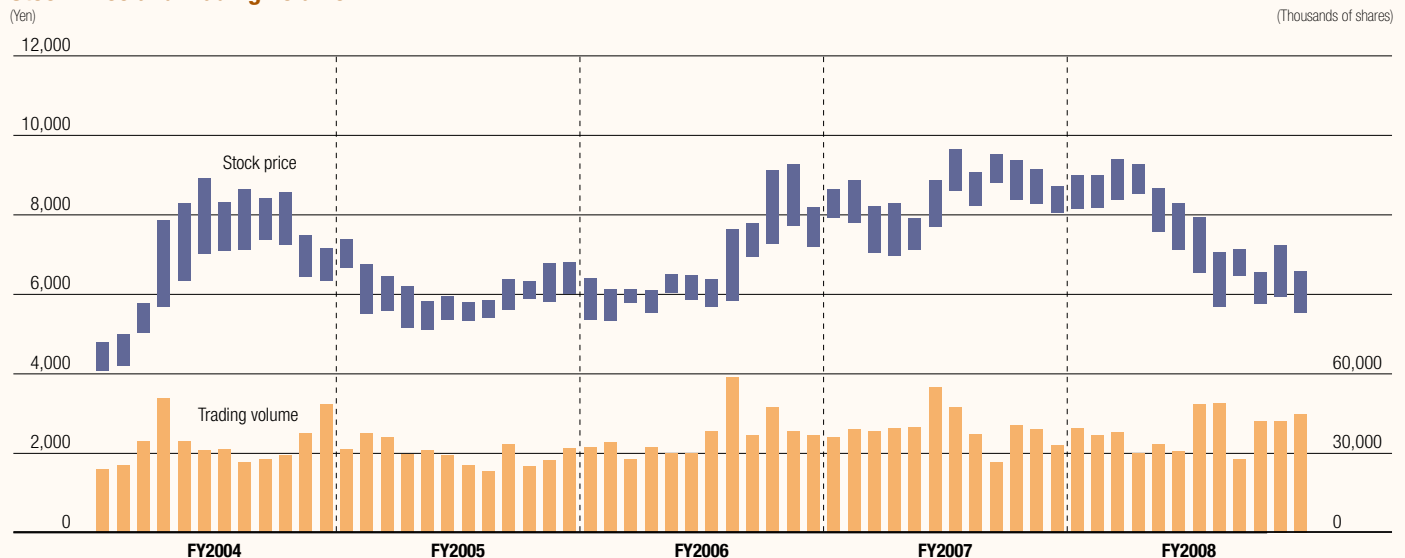
URL:<http://www.tel.com>**Principal Shareholders:**

	Number of shares held (thousands)	Voting share ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	19,052	10.54
Japan Trustee Services Bank, Ltd. (Trust Account)	14,423	7.98
Tokyo Broadcasting System, Inc.	8,727	4.83
The Dai-ichi Mutual Life Insurance Co.	4,800	2.65
Deutsche Securities Inc.	4,347	2.40
Nomura Securities Co., Ltd.	4,183	2.31
Trust & Custody Services Bank, Ltd. (Investment Trust Account)	3,488	1.93
Japan Trustee Services Bank, Ltd. (Trust Account No. 4)	3,021	1.67
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,000	1.66
BNP Paribas Securities (Japan) Ltd.	2,790	1.54

Shares of less than one thousand have been rounded down in the "Number of shares held"

Distribution of Ownership Among Shareholders:

Japanese financial institutions and securities companies	79,240,142 shares	43.87%
Foreign institutions and others	72,364,988 shares	40.07%
Individuals and others	16,739,249 shares	9.27%
Other Japanese corporations	10,587,605 shares	5.86%
Treasury stock	1,678,927 shares	0.93%

**Stock Price and Trading Volume**



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