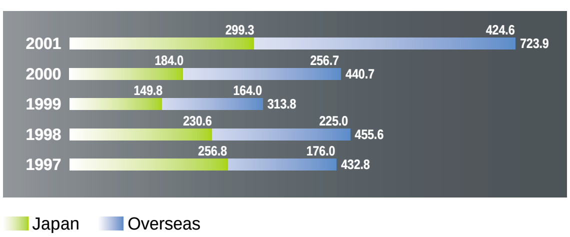
Management's Discussion and Analysis

Sales and Income

Sales

For the year ended March 31, 2001, consolidated net sales increased 64.2 percent from the prior fiscal year to a record ¥723.9 billion (US$5,842 million), as semiconductor and LCD manufacturers invested to meet a sharp rise in demand for IT-related products such as personal computers, mobile phones, network-related products and digital appliances. Geographically, domestic sales grew 62.7 percent to ¥299.3 billion and overseas sales gained 65.4 percent to ¥424.6 billion. Sales outside of Japan have exceeded domestic sales for the past three fiscal years. By division, Semiconductor Production Equipment (SPE) sales, which include sales of LCD production equipment, increased 74.3 percent to ¥619.0 billion. Computer Network (CN) sales rose 13.7 percent to ¥14.1 billion, and Electronic Components (EC) sales gained 23.8 percent to ¥89.2 billion.

Domestic and Overseas Sales (¥ Billions)



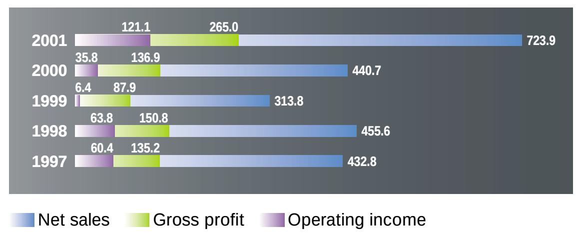
Orders received for the SPE division increased 20.6 percent to ¥627.6 billion, with order growth particularly strong during the first half of the fiscal year. Order backlog for the SPE division rose 3.4 percent to ¥258.1 billion, but weakening order flow in the second half of the fiscal year indicates a worsening of the business environment during the year ending March 2002.

Changes in exchange rates have no material effect on Tokyo Electron's results because exports from Japan are generally denominated in yen. However, a weaker yen vis-a-vis the U.S. dollar typically lowers prices from the purchaser's perspective, which raises Tokyo Electron's competitiveness. While some settlements are denominated in dollars, exchange risk is hedged using forward exchange contracts concluded individually at the time of order. The ratio of U.S. dollar-denominated transactions involving equipment imported to Japan is comparatively low and did not have a material effect in the year ended March 31, 2001.

Cost of Sales, SG&A Expenses and Operating Income

Cost of sales increased 51.0 percent to ¥458.9 billion, a rate of increase well below the rate of sales growth. Consequently, cost of sales as a percentage of net sales improved to 63.4 percent from 68.9 percent for the prior fiscal year. Gross profit increased 93.6 percent to ¥265.0 billion and the gross margin rose 5.5 points to 36.6 percent, reflecting the rise in production volume and the favorable effects of Tokyo Electron's drive to improve productivity and reduce costs.

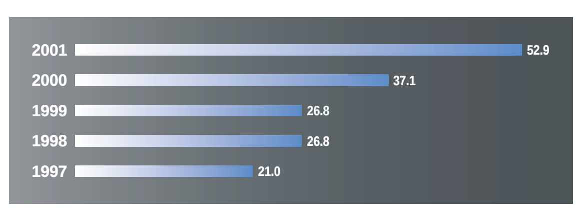
Net Sales, Gross Profit & Operating Income (¥ Billions)



Selling, general and administrative expenses increased 42.4 percent to ¥143.9 billion, also substantially below the rate of sales growth due to Tokyo Electron's concerted efforts to control costs. Research and development expenses, which are included in SG&A expenses, increased 42.5 percent to ¥52.9 billion. R&D was focused on development of technologies for the 0.13-0.10µm design rule generation, 300mm wafer equipment, and new business areas. Consistent and substantial R&D spending, even during market slowdowns, has been a key factor supporting Tokyo Electron's ability to further promote a competitive advantage in the products and services it provides. The Company intends to maintain R&D spending despite projected market weakness during the year ending March 2002 in order to benefit fully when the market recovers.

Operating income increased 238.1 percent to ¥121.1 billion as sales growth strongly outpaced expense increases. The operating margin was 16.7 percent, compared to 8.1 percent for the prior fiscal year.

R&D Expenses (¥ Billions)



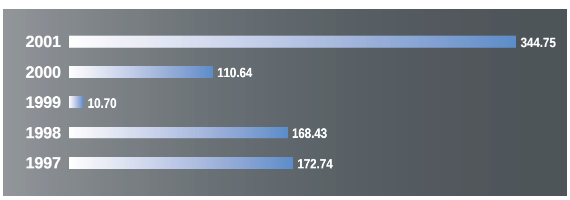
Notes: 1. Years in all graphs refer to fiscal years ended March 31.
2. The Computer Systems division was renamed the Computer Network division as of April 1, 2000.

Other Income (Expenses) and Net Income

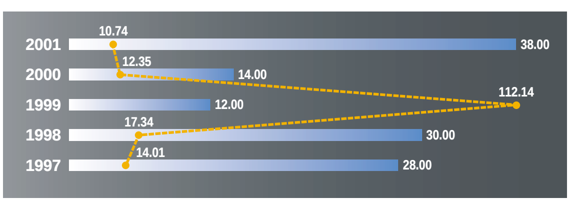
Net other expenses increased sharply to ¥22.0 billion, primarily because a difference due to the application of new accounting standards for retirement benefits resulted in a charge of ¥16.0 billion at the beginning of the fiscal year. While Tokyo Electron had planned on amortizing this amount over a two-year period, the Company opted to take a one-time charge to earnings during the past fiscal year. Income before income taxes increased 233.9 percent to ¥99.1 billion.

Net income increased 212.4 percent to ¥62.0 billion, and fully diluted net income per share increased to ¥344.75 from ¥110.64. Tokyo Electron increased cash dividends by ¥24.00 per share to ¥38.00 per share; the payout ratio was 10.74 percent, which is in line with the Company's historical norm.

Net Income per Share (Diluted) (¥)



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



Cash dividends per share · Payout ratio

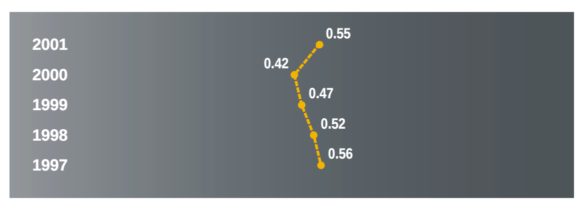
Financial Position and Cash Flows

Financial Position

Current assets at March 31, 2001 increased 46.1 percent from a year earlier to ¥548.2 billion as both trade notes and accounts receivable and inventories expanded in reflection of the increase in sales. Inventory turnover improved to 5.27 times compared with 4.39 times in the previous fiscal year. Trade notes and accounts receivable turnover was 3.03 times, compared to 2.79 times for the prior fiscal year.

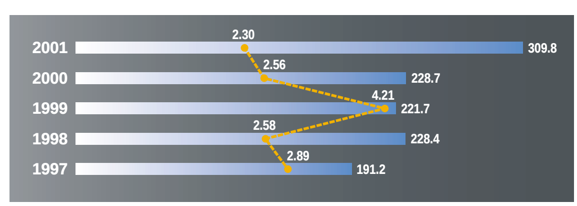
Current liabilities increased 62.8 percent to ¥238.4 billion. Factors included increased short-term borrowings outstanding at the balance sheet date, an increase in trade notes and accounts payable due to the ramp-up in production to meet higher demand, and higher accrued income taxes. Working capital increased to ¥309.8 billion, and while the current ratio decreased to 2.3 to 1 from 2.6 to 1 a year earlier, it continues to indicate ample liquidity. The current ratio decreased in large part because Tokyo Electron funded working capital requirements externally with short-term debt to promptly respond to rapid increases in demand.

Debt-to-Equity Ratio (Times)



Note: Debt-to-equity ratio = (Average short-term debt + Average long-term debt)/Average shareholders' equity

Working Capital & Current Ratio (¥ Billions / Times)

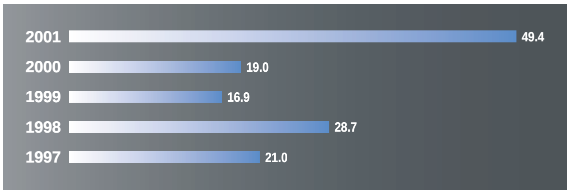


Working capital · Current ratio

Property, plant and equipment increased 27.6 percent to ¥124.7 billion over a year earlier. During the fiscal year, Tokyo Electron invested ¥49.4 billion in property, plant and equipment, consisting primarily of production facilities for coater/developers at Tokyo Electron Kyushu, expansion of production capacity for etchers at Tokyo Electron Yamanashi, purchase of equipment for evaluation, capitalization of the Company's own equipment, and investment in IT.

Capital Expenditures for Property, Plant and Equipment

(¥ Billions)



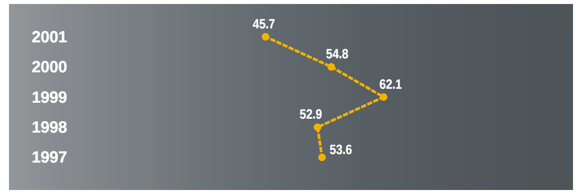
Investments and other assets increased 121.6 percent to ¥56.5 billion. Factors included the acquisition of Supercritical Systems, Inc. and Timbre Technologies, Inc., which generated consolidated goodwill of ¥19.0 billion that will be amortized within a reasonable period of time not exceeding 20 years. Total assets increased 46.0 percent to ¥729.5 billion, primarily because of the rise in current assets.

Tokyo Electron increased long-term debt 87.8 percent from a year earlier to ¥126.3 billion, primarily through the issue of unsecured bonds totaling ¥50.0 billion.

Shareholders' equity increased 21.8 percent to ¥333.3 billion, due to an increase in retained earnings. As a percentage of total assets, shareholders' equity was 45.7 percent, compared to 54.8 percent a year earlier. Return on average total shareholders' equity improved to a record high of 20.4 percent from 7.5 percent a year earlier.

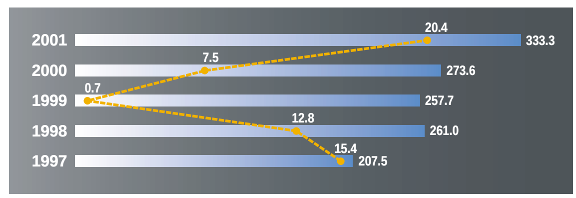
Shareholders' Equity Ratio

(%)



Shareholders' Equity & ROE

(¥ Billions / %)



Shareholders' equity   Return on equity

The balance of equity-linked bonds outstanding at March 31, 2001 was ¥20.0 billion. The potential number of shares if all convertible bonds and bonds with warrants had been converted and executed at the balance sheet date represented 3.0 percent of total common stock issued and outstanding.

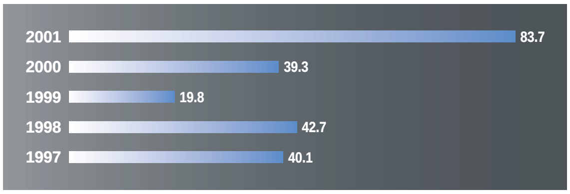
	Millions of yen (percentage of net sales)						Thousands of U.S. dollars
	2001		2000		1999		**2001**
Net sales	**¥723,880**	**(100.0)**	¥440,729	(100.0)	¥313,820	(100.0)	**$5,842,455**
Cost of sales	**458,902**	**(63.4)**	303,839	(68.9)	225,962	(72.0)	**3,703,810**
Gross profit	**264,978**	**(36.6)**	136,890	(31.1)	87,858	(28.0)	**2,138,645**
SG&A expenses	**143,892**	**(19.9)**	101,074	(23.0)	81,475	(26.0)	**1,161,353**
Operating income	**121,086**	**(16.7)**	35,816	(8.1)	6,383	(2.0)	**977,292**
Other income (expenses)	**(21,954)**	**—**	(6,127)	–	(345)	–	**(177,198)**
Income before income taxes	**99,132**	**(13.7)**	29,689	(6.7)	6,038	(1.9)	**800,094**
Provision for income taxes	**37,099**	**(5.1)**	9,836	(2.2)	4,167	(1.3)	**299,428**
Minority interest	**21**	**(0.0)**	5	(0.0)	5	(0.0)	**167**
Net income	**¥ 62,012**	**(8.6)**	¥ 19,848	(4.5)	¥ 1,866	(0.6)	**$ 500,499**

Cash Flows

Operating activities used net cash of ¥29.4 billion; in the prior fiscal year, operating activities generated net cash of ¥25.1 billion. Net cash flow, defined as the sum of net income and depreciation and amortization, increased 2.1 times to ¥83.7 billion due to the increase in net income. Net changes in assets and liabilities, however, tend to represent a use of cash during periods of revenue growth because Tokyo Electron generally incurs costs and expends cash in advance of receiving cash from its customers. In the past fiscal year, increases in trade notes and accounts receivable and in inventories were the primary factors reducing net cash generated by operating activities. Income taxes paid also increased significantly.

Investing activities used net cash of ¥62.4 billion, up 3.9 times from ¥16.2 billion in the prior fiscal year. Payment for purchase of property, plant and equipment increased 2.7 times to ¥39.2 billion. Capital investments were directed mainly toward capacity expansion and the acquisition of equipment for evaluation. In addition, the Company deployed ¥18.9 billion during the fiscal year to acquire two companies in the United States, as discussed earlier.

Net Cash Flow (¥ Billions)



Net cash generated by financing activities more than tripled to ¥77.2 billion. Tokyo Electron increased short-term borrowings by ¥23.9 billion and issued unsecured bonds totaling ¥50.0 billion. Redemption of unsecured bonds totaling ¥30.0 billion was offset by an equivalent net increase in commercial paper.

Cash and cash equivalents at the end of the year totaled ¥65.3 billion, down 17.9 percent from ¥79.5 billion at the end of the prior fiscal year as Tokyo Electron supplemented external funding with internal capital resources.

	Millions of yen (percentage of total assets)				Thousands of U.S. dollars
	2001		2000		**2001**
Total assets	**¥729,511**	**(100.0)**	¥499,499	(100.0)	**$5,887,903**
Cash and cash equivalents	**65,320**	**(9.0)**	79,519	(15.9)	**527,205**
Trade notes and accounts receivable	**302,953**	**(41.5)**	175,153	(35.0)	**2,445,143**
Inventories	**161,981**	**(22.2)**	112,481	(22.5)	**1,307,351**
Investments and other assets	**56,549**	**(7.8)**	25,522	(5.1)	**456,412**
Property, plant and equipment	**124,721**	**(17.1)**	97,726	(19.6)	**1,006,623**
Total liabilities	**396,172**	**(54.3)**	225,862	(45.2)	**3,197,512**
Short-term borrowings	**48,462**	**(6.6)**	23,998	(4.8)	**391,139**
Trade notes and accounts payable	**87,350**	**(12.0)**	62,574	(12.5)	**705,007**
Accrued income taxes	**41,440**	**(5.7)**	11,843	(2.4)	**334,464**
Long-term debt, less current portion	**126,348**	**(17.3)**	67,278	(13.5)	**1,019,757**
Shareholders' equity	**¥333,281**	**(45.7)**	¥273,603	(54.8)	**$2,689,923**