



A N N U A L R E P O R T 1 9 9 8



Global Progress



TOKYO ELECTRON LIMITED

Profile

Tokyo Electron is a world leader in the markets for semiconductor and liquid crystal display production equipment. We provide a broad lineup of original products developed and manufactured in-house, and complement it by distributing excellent products of other leading suppliers. In addition, we also distribute computer systems and electronic components.

We devote our technology and management skills to satisfying customers by helping them achieve their objectives. By doing so, we contribute meaningfully to the global dissemination of the information revolution. Our passionate pursuit of customer satisfaction has guided us in building an extensive global presence. Building outward from a solid position in Japan, we have established a comprehensive network of research, development, manufacturing, marketing, sales and service locations near the plants of chip manufacturers in the United States, Europe and Asia in order to provide them with world-class products and services.

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Financial Highlights

Years ended March 31, 1998 and 1997

Millions of yen and thousands of U.S. dollars except per share figures (Note 1)

	1998	1997	1998
FOR THE YEAR			
Net sales	¥455,585	¥432,785	\$3,448,789
Operating income	63,296	60,389	479,152
Income before income taxes.....	62,834	60,487	475,655
Net income	30,009	29,975	227,169
Net income per share of common stock (Notes 2 and 3):			
Primary.....	¥ 174.68	¥ 181.97	\$ 1.32
Assuming full dilution.....	168.43	172.74	1.28
Cash dividends per share of common stock:			
Actual	30.00	28.00	0.23
Adjusted (Note 3)	30.00	25.45	0.23
AT YEAR-END			
Total assets	¥493,600	¥387,077	\$3,736,563
Shareholders' equity.....	261,009	207,476	1,975,844

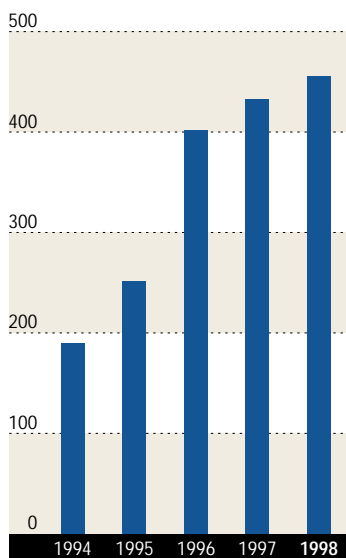
Notes 1: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥132.10=\$1.

2: Net income per share is computed based on the weighted average number of shares of common stock outstanding during each fiscal year.

3: Per share amounts prior to the year ended March 1998 have been restated to reflect a 1.1-for-1 stock split.

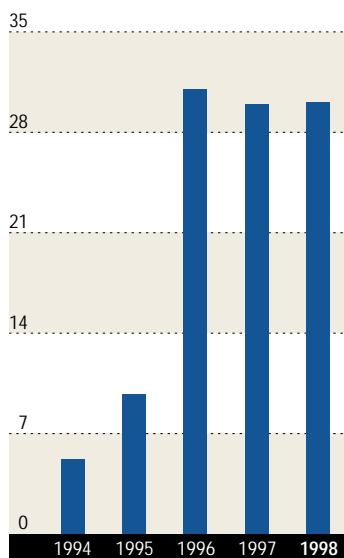
Net Sales

(¥ Billions)



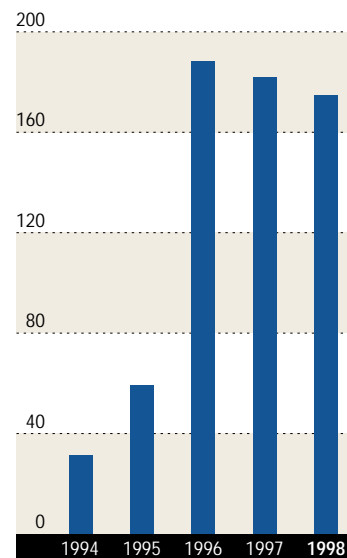
Net Income

(¥ Billions)



Net Income per Share

(¥)



Tokyo Electron at a Glance

Semiconductor Production Equipment

Tokyo Electron develops and manufactures a broad range of semiconductor production equipment, and distributes superior products from other suppliers.

Original Products

- Oxidation/diffusion furnaces & LP-CVD systems
- Metal CVD systems
- Etch systems
- Coater/developer systems
- Scrubber systems
- Carrierless cleaning systems
- Fully automatic wafer probers



Etch system UNITY® Ver. IIe

Distributed Products

- Eaton Corp./Fusion Systems Division
- Plasma downstream ashers, etc.
- IPEC PLANAR, Inc.
- CMP systems
- Keithley Instruments, Inc.
- DC Parametric test systems, etc.
- Micrion Corp.
- FIB systems
- Rudolph Technologies, Inc.
- Transparent film metrology tools, etc.
- Semitool, Inc.
- Spray solvent tools, etc.

LCD Production Equipment

We leveraged the technology accumulated from our semiconductor production equipment business to create a lineup of LCD production equipment.

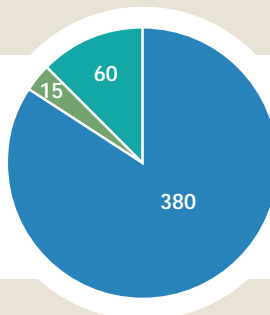
Original Products

- Plasma etch/ash systems
- Coater/developer systems

Distributed Products

- Orbotech Limited
- Automated optical inspection systems

Consolidated net sales by sector for the year ended March 1998
(¥ Billions)



Total: ¥455 billion

- 84% Semiconductor & LCD Production Equipment
- 3% Computer Systems
- 13% Electronic Components

Computer Systems

In order to fulfill our goal of providing solutions tailored to user needs, we distribute a comprehensive range of superior computer systems and related products from various suppliers.

- Computers/network systems
- Aerospace products
- Board/bare board testers



Hewlett-Packard Japan Ltd.
HP Visualize Workstation

Electronic Components

In the electronics field, we distribute a broad range of world-class electronic components from other suppliers. In addition, we design and market our own application-specific integrated circuits (ASICs).

- Microprocessors
- Memory and logic devices
- ASSPs
- ASICs
- Flash disk cards & chip sets



Rockwell International Corp.
Modem LSI

Message from the President

Tokyo Electron's primary objectives are customer and shareholder satisfaction. Strong earnings that allow us to satisfy our shareholders demonstrate that our products and services provide the value necessary to satisfy customers. We are striving to use our technology and management skills to contribute meaningfully to the global dissemination of the information revolution to all sectors of society in the twenty-first century.

In the past fiscal year, factors such as the continuing slowdown in the DRAM market and economic downturns in Japan, Korea and Southeast Asia during the second half kept the semiconductor industry from meeting its expectations for growth. For Tokyo Electron, however, it was a year of excellent progress toward our mid- and long-term objectives.

In the first half, Tokyo Electron generated solid growth in orders. In the second half, orders were adversely affected as memory manufacturers revised their capital spending plans downward. However, orders from non-memory manufacturers in the United States and Taiwan posted solid gains.

Tokyo Electron achieved record consolidated net sales of ¥455,585 million for the fiscal year ended March 1998, generating a year-on-year gain of 5.3 percent through a focus on global sales of original equipment for producing semiconductors and LCDs. Notably, sales in the United States and Taiwan increased 146.6 percent and 41.1 percent, respectively, over the previous fiscal year. Sales outside Japan accounted for 62 percent of original product sales, compared to 35 percent five years ago. Operating income increased 4.8 percent to ¥63,296 million, and net income increased 0.1 percent to ¥30,009 million. Cash dividends per share were ¥30.00, up from ¥28.00 for the previous fiscal year.

While the semiconductor and semiconductor production equipment markets tend to be cyclical, we expect them to grow strongly over the mid- to long-term. Capital expenditures totaling ¥33,302 million during the past fiscal year reflected our aggressive outlook. We invested in new production facilities in Japan and the United States to ensure we will be able to smoothly meet future demand. In addition, Tokyo Electron completed construction of a new Process Technology Center in Yamanashi prefecture, Japan to support next-generation 300mm equipment development and process integration capabilities.



To further boost our competitiveness and maintain market leadership in the next generation of technology, we increased R&D expenses 27.7 percent to ¥26,813 million. Primary areas of emphasis were developing the equipment and process technologies that will be required to meet the trend toward more precise design rules, and developing 300mm equipment in each of our broad product lines.

Share Gains in Non-Memory Applications

Tokyo Electron's customers are the world's leading chip makers. In every market we serve, our mission is to provide leading-edge products and outstanding support that helps our customers achieve their goals. Looking forward, semiconductors will require technologies that support more precise design rules, increased layering and higher integration. The global information revolution is already fueling demand for these technologies, and we expect strong growth in the equipment market for memory devices, logic devices and system LSIs, in which both memory and logic functions are embedded. Tokyo Electron is broadly targeting all of these markets to achieve consistent and steady growth.

Our globalization strategy over the past several years and passionate pursuit of customer satisfaction guided us in establishing a solid presence in Asia and Europe. We are now

focusing our efforts on the United States, where many major logic and memory manufacturers are based. First we established local sales and marketing capabilities, and in 1996 we started in-market development and manufacturing. We recognize that success in the U.S. market means steadily strengthening our long-term commitment to customers there. In particular, success in the technologically advanced U.S. logic market requires that we be able to develop and manufacture advanced products and processes closer to leading customers so that we can respond quickly to their needs.

We have achieved steady growth as a result. In the past fiscal year, our sales in the U.S. more than doubled over the previous fiscal year, demonstrating that the value of our products and quality of service is recognized.

The U.S. wafer fabrication equipment market, the largest in the world, totaled about US\$7 billion in 1997. Our emphasis on close communication has earned us trust in this market, and we expect rapid earnings growth over the next few years. Naturally, we will also continue to further expand our sales and service capabilities in Europe, Asia and Japan.

Making Management Global

Tokyo Electron's globalization has now entered its third stage. The first stage was the globalization of sales and marketing bases, and the second stage was the globalization of development and manufacturing bases. Now we are advancing the globalization of management structures. To continue earning the respect of shareholders and investors in global financial markets, we have initiated a number of programs to maximize shareholder returns and improve management transparency.

In June 1997, we began a unique incentive plan in which we set numerical management goals every year for three years into the future. As we achieve these goals, senior-level managers receive special bonuses for the purchase of Tokyo Electron stock. This program will encourage sound management by making participants shareholders with a direct stake in our success. We believe that our greatest asset is qualified people, and the initiation of this incentive program will help us secure and retain superior personnel from around the

world. In addition, Japanese regulations prohibiting stock options were lifted in 1997, and we plan to introduce a stock option program this year.

With the start of the new fiscal year on April 1, 1998 we also reorganized our system of corporate governance. The new structure clarifies management missions and responsibilities by dividing top managers into the Board of Directors and the Corporate Senior Staff (CSS). The Board of Directors represents shareholders and is responsible for establishing fundamental corporate goals for maximizing the value of the company and supervising execution of them by the CSS. The CSS is charged with developing and implementing the strategies to achieve these goals and generating favorable results. Clearer allocation of management responsibility has reduced the need for daily involvement of directors on an operational level, and we have adjusted the size of the Board accordingly.

In addition, we established a Compensation Committee within the Board of Directors to determine the compensation of the C.E.O., President. To make disclosure more timely, we plan to introduce quarterly reporting beginning in the fiscal year ending March 2000. Our top management team will continue to respond flexibly to current needs and work to ensure that management reflects global standards.

Speedy decision-making is key to business success. This is one of the reasons why Tokyo Electron has succeeded in the rapidly changing semiconductor industry. To make the Company even more decisive, in April 1998 we launched a business unit system on a global basis, which unites marketing, sales, field engineering, development and manufacturing by product. This system allows us to make decisions quickly at the operating level and clarify the responsibilities of management in each product line. Moreover, in July 1998 we will transfer our electronic components operations to wholly owned subsidiary Tokyo Electron Device Ltd. (TED). This will allow Tokyo Electron to focus on its core semiconductor production equipment business, including distributed products, and will strengthen TED's presence in the electronic components business. We are confident this will help increase earnings for both businesses, which in the long run will maximize the satisfaction of our business partners as well.

Progress Through Customer Commitment

Semiconductor manufacturers are now moving from 0.25 to 0.18 micron design rule and below in an effort to shrink chip size and raise capabilities, and 300mm technology is positioned to become mainstream in a few years. Only a few of the world's equipment makers have the ability to comprehensively support the increasingly high technological levels of the semiconductor production process. Tokyo Electron has built the world-class technology development and capital investment capabilities required to help customers successfully make the shift to new technologies. In February 1998, we opened a new Process Technology Center in Japan. Featuring the latest equipment for 300mm process evaluation and process integration, it is the most advanced facility of its kind in the industry. We delivered our first 300mm equipment to a customer during 1997, thus taking the first step toward demonstrating the excellence of our products for the 300mm era.

One of our strengths is the ability to provide process integration for managing the complex interrelationships between semiconductor production processes. Our position as a supplier of a wide range of products is an important source of this expertise. In addition, we are adept at helping customers remove bottlenecks from critical areas, and our equipment has consistently demonstrated high reliability on our customers' mass production lines.

Tokyo Electron is firmly committed to helping each customer differentiate its products. By providing solutions that contribute to this effort, we work toward our goal of true customer satisfaction. We believe this commitment is one reason why Tokyo Electron has earned the support and trust of many of the world's leading chip manufacturers.

Outlook

Tokyo Electron is a growth company in a growth industry. Society is becoming increasingly reliant on information technology, which will lead to continuing expansion of demand for more sophisticated semiconductors. Our equipment is critical to the production of advanced semiconductors, meaning we are well positioned to grow. By 2002, we expect global semi-

conductor demand to almost double from current levels, and the market for wafer fabrication equipment to double to nearly US\$40 billion. The market for LCD production equipment, in which Tokyo Electron has a dominant share for two key types of equipment, should also expand rapidly. Given this outlook, we have the potential to more than double sales over the next five years, and are working to make the most of this opportunity and use our position as a major player to further expand our share. With a solid financial base, well-established engineering capabilities and worldwide support network, Tokyo Electron's future over the mid- to long-term is bright.

Short-term, however, we are faced with a slowdown in growth in the semiconductor industry, which has been caused by the financial problems in Asia and the global oversupply of DRAMs. These trends will temporarily discourage semiconductor manufacturers from making capital investments, so we will take this opportunity to thoroughly review our business model, including our overall cost structure, in order to strengthen our competitiveness. One example is our effort to evaluate the entire Tokyo Electron Group structure to determine ways in which business units can share resources productively and maximize earnings. Moreover, we are focusing on high-potential areas in developing the next generation of equipment. We believe this is a good chance to strengthen our technological capabilities and production efficiency, so that when the semiconductor cycle turns upward again in the near future, we will be better prepared than ever to satisfy customer needs.

Tokyo Electron's entrepreneurial corporate culture emphasizes responsiveness to change, creativity and aggressive goals. This emphasis has been the basis of our growth, and we have worked hard to ensure that all employees worldwide share it as we have expanded globally. In addition, we are dedicated to continuously raising the quality of every aspect of our business, from products and service to management. Tokyo Electron is therefore well positioned to benefit from the many opportunities before us, and provide outstanding value to our customers and shareholders.



Tetsuro Higashi
C.E.O., President
June 1998

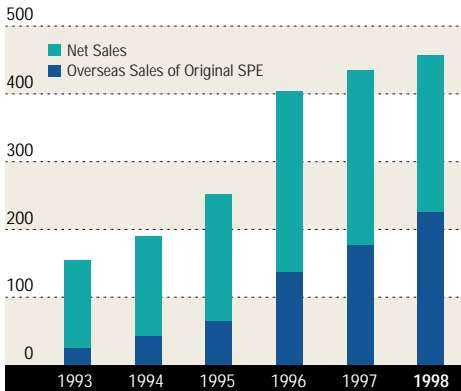


Global Progress

A global network that enables us to provide customers with competitive products and comprehensive support is a key factor that has made Tokyo Electron a leading supplier of semiconductor and LCD production equipment. We have devoted considerable resources to establishing locations near the plants of chip manufacturers in the United States, Europe, Asia and Japan in order to provide them with world-class products and services.

Consolidated Net Sales and Overseas Sales of Original SPE

(¥ Billions; years ended March 31)



Original SPE represents semiconductor production equipment Tokyo Electron develops, designs and manufactures, including LCD production equipment.

Non-consolidated data are used for overseas sales for the years ended March 31, 1993-1996, which does not materially affect comparison.

locations overseas. Our second step was establishing development and manufacturing capabilities in the United States. We concluded that the best way to satisfy technologically advanced U.S. customers was to create an organizational structure that would allow us to respond swiftly and precisely to their needs. Our efforts to build this comprehensive network and earn the trust of our customers are beginning to yield solid results.

The pages that follow illustrate how we have expanded our global operations to help our customers in each region achieve their objectives.

35% → 62%

These figures represent the change in Tokyo Electron's overseas sales as a percentage of overall original SPE sales during the last five years. This percentage has increased from 35 percent for the year ended March 1993 to 62 percent

Road to Progress

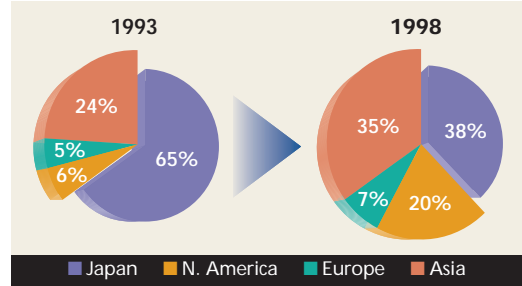
As a result of our intensive efforts, we have assembled a broad range of competitive products including coater/developers, diffusion furnace/LP-CVD systems, etch systems, metal CVD systems, carrierless cleaning systems and wafer probers that we design, develop and manufacture. To efficiently provide these products to semiconductor manufacturers around the world, we began building a network of direct operations on a global basis in 1994.

Steps Toward Globalization

Our globalization efforts initially focused on establishing marketing, sales and service bases, followed by the creation of customer training centers. Over the past four years, we have added about 30 such

for the year ended March 1998. Furthermore, the amount of our overseas sales as a whole has increased by nine times over that span, from ¥24 billion to ¥225 billion. The intensive efforts we committed to globalization have allowed us to achieve these results in a very short period of time. In tandem with this growth, the number of Tokyo Electron employees outside Japan has increased from 250 people in October 1994 to 1,700 people as of March 1998.

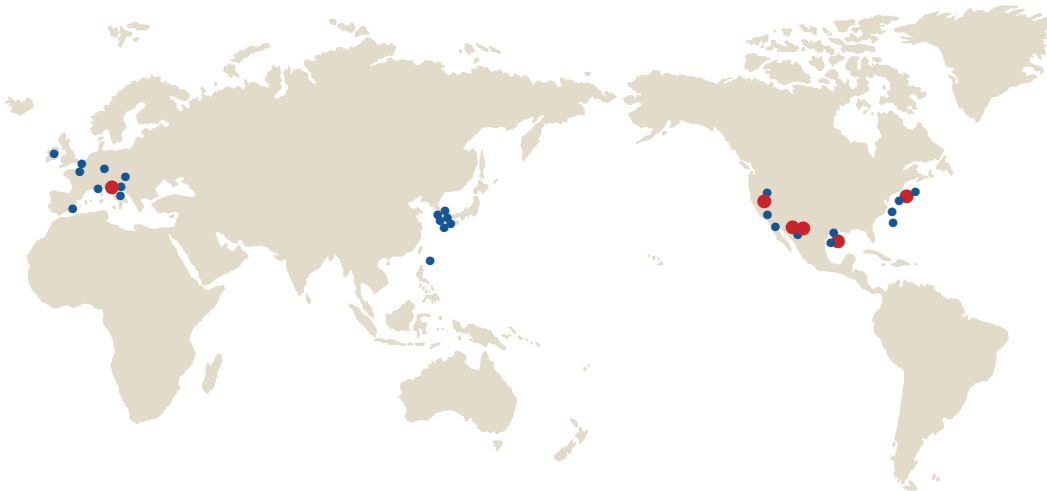
Original SPE Sales by Region
(%)



Well-Prepared to Meet Further Growth in the 21st Century

The semiconductor industry and semiconductor production equipment industry of the twenty-first century are already in our sights. Technology will continue to advance and semiconductor manufacturing will become increasingly dispersed around the globe. To ensure our ability to continue providing the finest products and services to customers around the world, we will further strengthen our research, development, engineering, manufacturing, sales and service structure on a global basis while fulfilling our responsibilities as a market leader.

Operating Bases Outside Japan



● Development and Manufacturing Bases

Company Name	Location	Established	Products
Tokyo Electron Oregon, Inc.	Hillsboro, Oregon	1995	• Diffusion furnaces & LP-CVD systems
Tokyo Electron Massachusetts, Inc.	Beverly, Massachusetts	1996	• Etch systems (assembly), metal CVD (development), wafer probers (engineering)
Tokyo Electron Switzerland Ltd.	Bevaix, Switzerland	1996	• Wafer probers (engineering)
Tokyo Electron Texas, Inc.	Austin, Texas	1996	• Coater/developers
Tokyo Electron Phoenix Laboratories, Inc.	Tempe, Arizona	1996	• Plasma source (development)
Tokyo Electron Arizona, Inc.	Gilbert, Arizona	1998	• Metallization products

● Sales and Service Bases

ASIA



The markets of Asia offer Tokyo Electron tremendous potential for growth in the twenty-first century. We began our drive to globalize in 1993 by founding Tokyo Electron Korea, which now has six sales and service offices close to customers. Moreover, a new head office building equipped with a customer training center, parts storage area and repair center will be completed near Seoul in July 1998. The Taiwanese market has been one of the strongest-growing in Asia, and Tokyo Electron has built a solid presence in it. We initiated operations in Taiwan with the creation of Tokyo Electron Taiwan in January 1996, and have added a customer training and parts center. Service and support in Taiwan and Singapore is carried out in cooperation with Hermes-Epitek Corporation and the Hermes Group.



With high productivity and low cost of ownership, the *CLEAN TRACK ACT™* series of coater/developers continues to be the most competitive in the world.

ASIA



EUROPE

The European market has provided steady growth for local manufacturers and has also attracted active investment from abroad. In creating a network of operations in Europe, Tokyo Electron began by founding Tokyo Electron Europe in 1994. Since then, we have established nearly a dozen sales and service bases throughout the region. These facilities include a



Customer training services are one of the functions of the Crawley, UK head office of Tokyo Electron Europe.

customer training center at the Tokyo Electron Europe head office in Crawley, UK, and a prober engineering plant at Tokyo Electron Switzerland in Bevaix, Switzerland. In order to further enhance our ability to support our customers in the region, we are also planning to construct a technology center in the UK in the near future. The results of these efforts to operate close to customers have been very favorable, with our account base growing from 11 companies four years ago, to more than 30 today.

EUROPE



The United States is the world's largest market for semiconductor production equipment. The enormous growth opportunities it offers make it a strategically crucial market for Tokyo Electron. We launched operations in the United States in 1994 with the establishment of Tokyo Electron America, which now has ten sales and service offices nationwide. In tandem

UNITED STATES



Tokyo Electron America, located in Austin, Texas, currently maintains ten sales and service bases throughout the United States.

with our business growth, we have significantly accelerated the pace of capital investment in the past two years.

Comprehensive operations are critical to success in the U.S. market. To strengthen our ability to forge long-term relationships with customers, we have acted decisively to add in-market development and manufacturing capabilities to our U.S. operations. In 1995, we established Tokyo Electron Oregon, a development and manufacturing plant for oxidation/diffusion furnaces and LP-CVD systems, and in February 1998, we constructed Tokyo Electron Texas, a development and manufacturing facility for our most advanced coater/developer systems. In addition, we added Tokyo Electron Massachusetts for assembling etch systems and developing advanced metal CVD processes. We also added Tokyo Electron Phoenix Laboratories for conducting



Since building Tokyo Electron Oregon, our first U.S. manufacturing facility, we have added others to ensure timely response to customer demands.

research into next-generation plasma sources. To round out our metallization business, we acquired the Semiconductor Equipment Division of Materials Research Corporation. The number of employees at our U.S. operations has grown from 120 just four years ago to 1,100, and our account base has grown to 50 companies over the same period.



Tokyo Electron Oregon manufactures the advanced ALPHA (x)-8S series of oxidation/diffusion furnaces and LP-CVD systems.



JAPAN

Tokyo Electron has been providing dedicated service to Japan's leading chip manufacturers for 35 years, and in the process has built a solid business foundation and won the trust of customers. Encompassing over 20 service offices, nine development and manufacturing facilities, and a Process Technology Center for 300mm wafers, our operations in Japan form the core of our development and manufacturing network. In addition to providing thorough support to customers in Japan, Tokyo Electron FE conducts training programs so field engineers around the world can provide the same high level of service.



Advanced technology and thorough quality control are cornerstones of our commitment to customer satisfaction.

We have advanced together with our Japanese customers, combining world-class, high-performance equipment with a commitment to the highest standards of service. Our strong foundation in Japan, moreover, plays a key role in our successful global expansion. Home to many of the world's leading chip manufacturers, Japan remains a crucial market for Tokyo Electron.

JAPAN

Review of Operations



The UNITY®-CVD is an advanced CVD system for depositing 0.25 micron Ti/TiN film.



The UW8000 carrierless cleaning system has earned the trust of customers due to its damageless wafer features.



Semiconductor Production Equipment

After contracting in 1996, the semiconductor market grew in single digits in 1997, while DRAM production overcapacity restrained a recovery in memory prices. This affected the semiconductor production equipment market as DRAM manufacturers worldwide reduced capital investment. Moreover, the financial difficulties in Korea resulted in additional decreases in investment in the second half of the past fiscal year.

Despite the difficult operating environment, consolidated net sales of Semiconductor Production Equipment (SPE) increased 6.8 percent to a record ¥380,184 million. Primary factors included increased investment among semiconductor manufacturers in 0.25 micron technology, and strong sales growth in the United States and Taiwan. SPE sales growth was the result of the approximately 14 percent year-on-year gain in sales of original products.

By geographic region, sales in Japan decreased 13.5 percent year-on-year, mainly because distribution agreements with KLA-Tencor (formerly KLA Instruments) and Varian Associates were terminated. However, sales of other imported products such as CMP systems of IPEC PLANAR and FIB systems of

Micron increased. Sales in the United States expanded 146.6 percent, reflecting Tokyo Electron's steady progress in globalizing operations and growth in sales to logic device manufacturers. Sales in Europe decreased 10.3 percent due to sluggish market conditions. Sales in Korea declined 41.7 percent despite stable demand as credit

concerns impacted shipments. Sales in Taiwan increased 41.1 percent as demand among foundry and memory device manufacturers expanded.

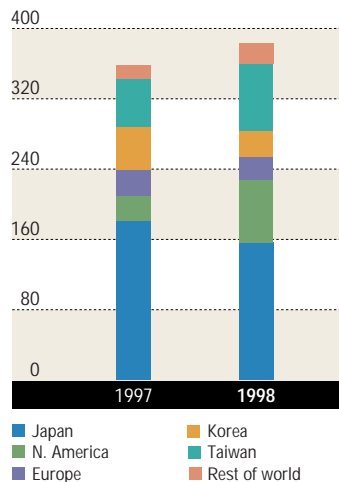
By product sector, in oxidation/diffusion furnaces and LP-CVD systems, sales of the Fast Thermal Processing System (FTPS), which Tokyo Electron emphasizes, increased significantly. We expect the sequential process that our FTPS provides will continue to support our

ability to meet advanced process requirements.

Sales of metal CVD systems increased about 80 percent, supported by growth in sales of MBF-730 systems. Sales of UNITY®-CVD systems, a new product line, were also favorable. Moreover, Tokyo Electron expects its acquisition of the semiconductor production equipment operations of Materials Research Corporation will position the Company to strengthen its presence in the metallization process market.

In the coater/developer sector, Tokyo Electron generated double-digit sales growth.

SPE Sales by Geographic Region (¥ Billions)



Sales of third-party products imported into Japan are included in Japan sales.

Representative product *CLEAN TRACK ACT™ 8* is a new type of coater/developer whose design concept is completely different from conventional models, offering a reduced footprint, higher throughput, and the advantage of compatibility with Deep UV process technology.

Sales of oxide etch systems, represented by the *UNITY® Ver. IIe* line, also expanded by double digits. Furthermore, growth in the oxide etch market will increase when the damascene process becomes a mainstream technology in the near future.

In the cleaning systems sector, Tokyo Electron has recently begun marketing a reduced bath system. We expect solid gains in sales of this product because of its space-saving design and high-performance 0.25-micron-and-below capability.

Sales of fully automatic wafer probers grew in double digits, supported by solid expansion overseas. Building on the strong market position of the *Model P-8*, Tokyo Electron introduced the *P-8XL* for high-speed multi-pincount test applications. This product is expected to further boost our market share.

The reliability of Tokyo Electron's LCD production equipment supported sales growth of approximately 30 percent in this product sector as well as continued market share dominance in coater/developer systems and etch/ash systems. In LCD coater/developer systems, Tokyo Electron will continue to offer customers innovative solutions such as processes that use less resist. In LCD plasma etch/ash systems, we project that the market for dry etch systems, products that Tokyo

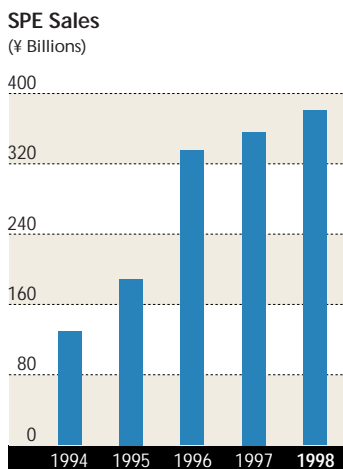
Electron specializes in, will expand as they replace wet etch systems.

Tokyo Electron is aggressively investing in equipment and process development to meet its mid- to long-term objectives. We completed a new Process Technology Center in February 1998 that will focus on 300mm wafer technology and process integration. It will also concentrate on clean technologies for applications such as optimizing the equipment operating environment, thus contributing to Tokyo Electron's industry leadership in

providing total support and advanced technologies. Tokyo Electron Miyagi completed a plant in February 1998 that will produce etch systems and 300mm metal CVD equipment. Moreover, Tokyo Electron Texas has begun producing *CLEAN TRACK ACT™* series equipment at a recently completed plant. We also continue to expand our global sales and

support capabilities, having added two bases in the United States, three in Europe, and three in Korea in the past fiscal year.

Tokyo Electron Tohoku recently received ISO 14001 certification for the environmental management systems at its Tohoku and Sagami plants, and Tokyo Electron Kyushu received the same certification at its Saga and Kumamoto plants. Tokyo Electron considers preserving and continuously improving the Earth's environment a top priority, and views ISO 14001 certification as confirmation of this commitment. We are continuing to make progress toward achieving certification at all of our other manufacturing locations as well.



The *P-8XL* wafer prober for high-speed multi-pincount test applications is the latest offering in a market segment we have long served.



Tokyo Electron is the global leader in providing coater/developer systems and etch/ash systems for LCD production.



Tokyo Electron is striving to achieve ISO 14001 certification at all of its plants.

Computer Systems and Electronic Components

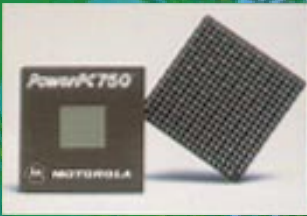


GenRad Inc.'s combination test station is one of the many value-added computer system products Tokyo Electron distributes.



Tokyo Electron began marketing Extreme Networks' high-speed gigabit ETHERNET switch for intranet use in the past fiscal year.

EC operations concentrate on distributing value-added third-party and original components.



Computer Systems

Computer Systems division consolidated net sales increased 5.9 percent to ¥15,262 million. This division centers on the distribution of computers, networks, aerospace products and board/bare board testers of manufacturers including Hewlett-Packard, Silicon Graphics, FORE Systems and GenRad. Sales of computer and network systems were particularly strong, growing in double digits. A highlight of the past fiscal year was an agreement with SEEK Systems to distribute their efficient, high-speed *Adaptive RAID™* products, which are used in such applications as client/server systems and databases. In addition, the division began marketing Brocade Communication Systems' *Silkworm™*, a

new fiber channel gigabit switch. Tokyo Electron started marketing fiber channel products in fiscal 1996, and now carries a full line of products needed to construct fiber channel systems. The division also began marketing Extreme Networks' highly functional gigabit ETHERNET switch to meet the needs of the market for high-speed products.

Electronic Components

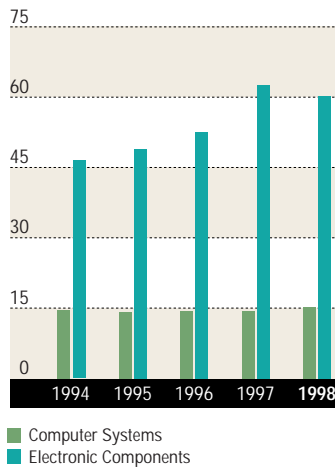
Electronic Components division consolidated net sales decreased 3.8 percent to ¥60,139 million, largely due to sluggishness in the Japanese economy. A highlight of last year was an agreement with Dallas Semiconductor to distribute their interface products.

This division focuses on the distribution of value-added products such as application-specific integrated circuits (ASICs), logic circuits, and analog and memory devices of more than 30 companies, including Fujitsu, Motorola, AMD, Rockwell, and XILINX. We also design our own branded products known as Tokyo Electron Original Products (TOPs). Sales of TOPs have grown because of solid domestic and overseas demand. Moreover, demand for our *F1 PACK®* series flash

memory control chip sets was particularly strong due to growth in the digital still camera market. Until recently, we had focused on industry sales, but in the past fiscal year we began expanding into consumer-related fields as well.

In July 1998, electronic component operations will be transferred to wholly owned subsidiary Tokyo Electron Device Ltd. Consolidating these operations in a single, focused entity will improve efficiency, thus helping us meet the needs of customers and increase sales. To further raise efficiency, we have constructed a new distribution center, and have also begun operation of a computerized logistics system dedicated to the electronic components business.

CS & EC Sales
(¥ Billions)



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Management's Discussion and Analysis

Sales and Income

Sales and Cost of Sales

For the year ended March 31, 1998, consolidated net sales increased 5.3 percent from the prior fiscal year to ¥455,585 million (US\$3,449 million), supported by higher sales in the United States and Taiwan. Geographically, domestic sales decreased 10.2 percent to ¥230,550 million, while overseas sales increased 27.9 percent to ¥225,035 million. By group, Semiconductor Production Equipment (SPE) sales, which include sales of LCD production equipment, increased 6.8 percent to ¥380,184 million. Computer Systems (CS) sales were 5.9 percent higher at ¥15,262 million, while Electronic Components (EC) sales decreased 3.8 percent to ¥60,139 million.

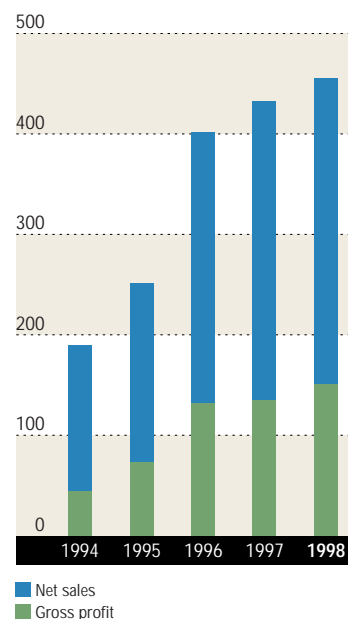
Tokyo Electron only reports orders received and order backlog on a non-consolidated basis. Orders received increased 7.9 percent to ¥376,519 million because of a rebound in capital spending among memory manufacturers in the first half of the fiscal year and solid order growth in the United States and Taiwan. In the second half, however, the economic downturn in Asia and lower DRAM prices caused manufacturers to revise their spending plans downward, which negatively affected orders. Tokyo Electron considers orders to be cancelled upon receipt of written notice of cancellation from customers or upon receiving notice that a delivery schedule has been delayed for more than six months. As a result, order backlog decreased 26.4 percent to ¥131,572 million.

Cost of sales increased 2.4 percent, well below the rate of increase in net sales because relatively higher-margin products made up a greater proportion of sales and larger production volume of original products lowered unit costs. The cost of sales ratio therefore decreased to 66.9 percent from 68.8 percent in the prior fiscal year. Gross profit increased 11.5 percent to ¥150,760 million; the gross profit margin increased to 33.1 percent from 31.2 percent for the prior fiscal year.

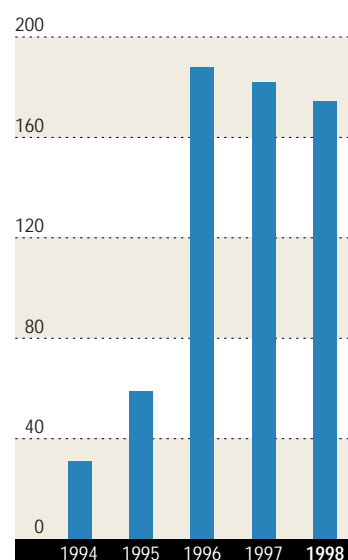
Expenses and Net Income

Selling, general and administrative (SG&A) expenses rose 16.9 percent due to additions to personnel and increased depreciation expenses that resulted from capacity expansions in recent years. In addition, research and development expenses, which are included in SG&A expenses, rose 27.7 percent to ¥26,813 million as Tokyo Electron continued working aggressively to commercialize next-generation equipment. In particular, the Company invested heavily in developing 0.18 micron processes and 300mm equipment. Management believes that continuous and considerable R&D investment, even during market slowdowns, is indispensable for the Company to remain competitive in the semiconductor equipment industry, which is characterized by rapid technological change. Despite higher expenses, operating income

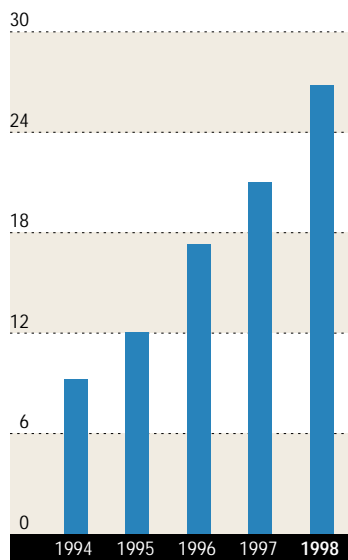
Net Sales & Gross Profit
(¥ Billions)



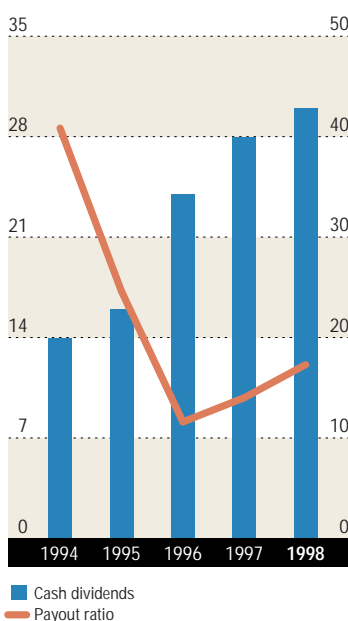
Net Income per Share
(¥)



R&D Expenses (¥ Billions)



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



increased 4.8 percent to ¥63,296 million because of the increase in gross profit. The operating income margin was 13.9 percent, compared to 14.0 percent for the prior fiscal year.

Other expenses totaled ¥462 million, compared to other income of ¥98 million in the prior fiscal year. This change resulted because one-time losses from write-down of securities and the sale or disposal of fixed assets and inventories offset higher dividend income from subsidiaries and lower interest expenses. Income before income taxes increased 3.9 percent to ¥62,834 million. Provision for income taxes increased 7.6 percent. Net income was marginally higher at ¥30,009 million. The net income margin was 6.6 percent, compared to 6.9 percent for the prior fiscal year. Fully diluted net income per share was ¥168.43, compared to ¥172.74 when adjusted for a 1.1-for-1 stock split in the prior fiscal year. Tokyo Electron increased cash dividends per share ¥2.00 to ¥30.00; the payout ratio was 17.3 percent, up from 14.0 percent in the prior fiscal year.

Our dividend policy is to link dividends with the Company's profitability by consistently maintaining the payout ratio at approximately 20 percent of non-consolidated earnings.

The Company retains earnings for reinvestment in research and development, production assets and overseas expansion in order to build our business base. Doing so raises Tokyo Electron's ability to generate growth in shareholder returns through increased earnings.

	Millions of yen (percentage of net sales)		Thousands of U.S. dollars
	1998	1997	1998
Net sales.....	¥455,585 (100.0)	¥432,785 (100.0)	\$3,448,789
Cost of sales.....	304,825 (66.9)	297,546 (68.8)	2,307,532
Gross profit	150,760 (33.1)	135,239 (31.2)	1,141,257
SG&A expenses.....	87,464 (19.2)	74,850 (17.3)	662,105
Operating income	63,296 (13.9)	60,389 (14.0)	479,152
Other income (expenses).....	(462) -	98 (0.0)	(3,497)
Income before income taxes.....	62,834 (13.8)	60,487 (14.0)	475,655
Provision for income taxes.....	32,825 (7.2)	30,512 (7.1)	248,486
Net income.....	¥ 30,009 (6.6)	¥ 29,975 (6.9)	\$ 227,169

Effect of Exchange Rates

In general, exports from Japan are denominated in yen. Changes in exchange rates therefore have no material effect on Tokyo Electron's results. However, the depreciation of the yen relative to the U.S. dollar in the past fiscal year had a positive effect on competitiveness. The ratio of U.S. dollar-denominated transactions involving equipment imported to Japan is comparatively low and did not have a material effect on results in the past fiscal year.

Financial Position and Cash Flows

Financial Position

Current assets at March 31, 1998 increased 27.7 percent from a year earlier to ¥373,083 million. A primary factor in the increase was higher cash and time deposits at the balance sheet date due to issues of commercial paper and bonds to fund capital expenditures and working capital needs. Moreover, inventories rose as demand slowed in the second half and at the balance sheet date Tokyo Electron was carrying a comparatively large volume of equipment slated for delivery. However, this situation is not expected to result in a significant amount of dead stock. Current liabilities increased 43.2 percent to ¥144,715 million, mainly because of an increase in short-term borrowings. The current portion of long-term debt, however, dropped to zero as an issue of bonds with warrants was successfully redeemed with stock during the fiscal year. Working capital increased to ¥228,369 million, and the current ratio was to 2.6 to 1, compared to 2.9 to 1 for the prior fiscal year. Total assets increased 27.5 percent to ¥493,600 million, due to factors including the increase in current assets and a rise in fixed assets resulting from the completion of projects such as a new Process Technology Center and new factories at manufacturing subsidiaries in Japan and the United States. Investments in and advances to subsidiaries and affiliates during the past fiscal year included increases in the capital of Tokyo Electron Miyagi Ltd. and Tokyo Electron Taiwan Ltd., and the capitalization of new subsidiary Tokyo Electron Arizona, Inc.

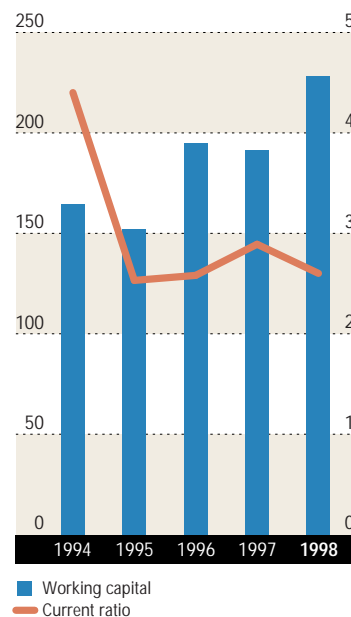
Long-term debt increased 10.0 percent year-on-year to ¥77,657 million as Tokyo Electron issued straight bonds to fund global expansion. Shareholders' equity increased 25.8 percent to ¥261,009 million because of higher retained earnings and the increase in common stock resulting from the conversion of convertible bonds and exercise of warrants. Shareholders' equity as a percentage of total assets was 52.9 percent, compared to 53.6 percent at the prior fiscal year-end. Despite higher net income, return on average shareholders' equity declined to 12.8 percent, compared to 15.4 percent in the prior fiscal year, due to the increase in shareholders' equity.

The balance of convertible bonds outstanding at March 31, 1998 was ¥19,038 million. The potential number of shares issuable if all convertible bonds had been converted at the balance sheet date represented 3.46 percent of total common stock issued and outstanding.

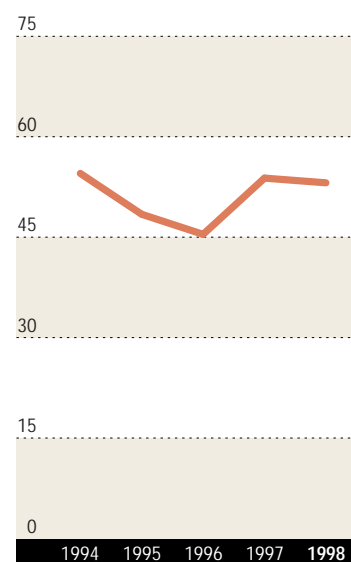
Cash Flows

Operating activities generated net cash of ¥18,346 million, compared to ¥24,642 million in the prior fiscal year. This decrease was primarily the result of the increase in inventories. Net cash flow, the sum of net income and depreciation, increased 6.3 percent to ¥42,661 million.

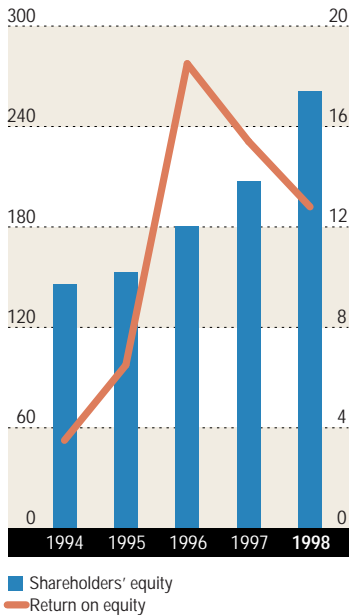
Working Capital & Current Ratio
(¥ Billions / Times)



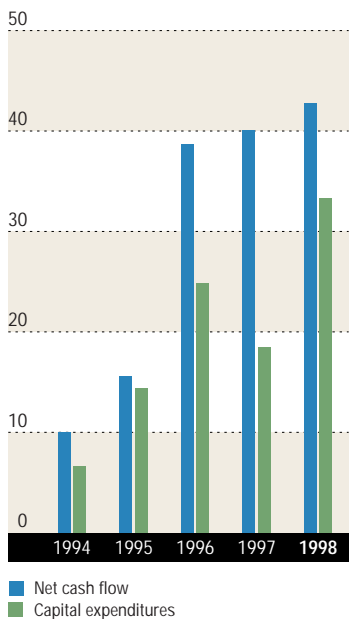
Shareholders' Equity Ratio
(%)



Shareholders' Equity and ROE
(¥ Billions / %)



Net Cash Flow & Capital Expenditures
(¥ Billions)



Investing activities used net cash of ¥45,326 million, compared to ¥23,977 million in the prior fiscal year. Capital expenditures increased 80.4 percent to ¥33,302 million, and were 78.1 percent of net cash flow, compared to 46.0 percent of net cash flow for the prior fiscal year. Representative projects included the completion of a new Process Technology Center in Yamanashi and facility expansions at Tokyo Electron Kyushu Ltd. With the completion of these projects in the past fiscal year, management expects capital expenditures to decrease in the year to March 1999.

Financing activities provided net cash of ¥66,878 million, while they used net cash of ¥18,992 million in the prior fiscal year. In the past fiscal year, Tokyo Electron issued commercial paper and straight bonds, resulting in increases in both short-term borrowings and long-term debt. Cash dividends paid increased 11.9 percent to ¥4,689 million. Cash and cash equivalents at the end of the year more than doubled to ¥71,892 million.

Management believes that Tokyo Electron's stable cash flow, manageable debt and strong working capital give the Company the liquidity and financial base necessary to invest in profitable growth and steadily expand global operations.

Acquisition

To strengthen its position in the metallization business, Tokyo Electron purchased the semiconductor production equipment operations of U.S. company Materials Research Corporation in February 1998. The assets acquired were transferred to the balance sheets of Tokyo Electron Arizona, Inc. and other subsidiaries. The Company did not record an increase in goodwill in connection with this acquisition. Tokyo Electron Arizona was an unconsolidated subsidiary for the past fiscal year.

Forward-Looking Statements

This publication contains forward-looking statements based on projections and estimates that involve many variables. Tokyo Electron operates in an extremely competitive business environment. Moreover, the semiconductor industry that Tokyo Electron participates in is characterized by rapid changes in technology and supply-demand balance. Consequently, certain risks and uncertainties could cause the Company's results to differ materially from any projections and estimates presented in this publication.

Consolidated Six-Year Summary

Years ended March 31, 1998, 1997, 1996, 1995, 1994 and 1993

	Thousands of U.S. dollars		Millions of yen				
	1998	1998	1997	1996	1995	1994	1993
Net sales	\$3,448,789	¥455,585	¥432,785	¥401,775	¥251,683	¥189,712	¥153,914
Semiconductor production equipment ¹	2,878,001	380,184	355,877	334,983	188,661	128,750	93,416
Computer systems ¹	115,534	15,262	14,408	14,314	14,071	14,509	16,187
Electronic components.....	455,254	60,139	62,500	52,478	48,951	46,453	44,311
Operating income.....	479,152	63,296	60,389	67,754	24,425	10,898	3,535
Income before income taxes.....	475,655	62,834	60,487	65,098	22,648	11,067	5,395
Net income	227,169	30,009	29,975	30,964	9,731	5,129	1,792
Domestic sales	1,745,269	230,550	256,808	264,660	187,305	147,992	129,529
Overseas sales.....	1,703,520	225,035	175,977	137,115	64,378	41,720	24,385
Depreciation and amortization.....	95,776	12,652	10,167	7,730	5,911	4,874	5,312
Capital expenditures.....	252,097	33,302	18,456	25,606	14,884	6,583	2,849
R&D expenses.....	202,975	26,813	20,988	17,277	12,068	9,202	6,083
Total assets	3,736,563	493,600	387,077	400,050	318,275	269,189	238,406
Shareholders' equity	1,975,844	261,009	207,476	180,842	153,267	146,148	144,310
Number of employees.....		7,287	6,277	5,616	4,751	3,467	3,381
Net income per share of common stock: ²	U.S. dollars		Yen				
Primary	\$ 1.32	¥ 174.68	¥ 181.97	¥ 188.05	¥ 59.11	¥ 31.15	¥ 10.89
Assuming full dilution ³	1.28	168.43	172.74	178.25	59.11	31.15	10.89
Cash dividends per share of common stock:							
Actual.....	0.23	30.00	28.00	24.00	16.00	14.00	14.00
Adjusted ²	0.23	30.00	25.45	21.82	14.55	12.73	12.73
Number of shares outstanding (thousands)....		174,569	150,189	149,706	149,674	149,674	149,674
Number of shareholders		9,562	11,097	12,676	12,231	12,458	13,793
ROE		12.8	15.4	18.5	6.5	3.5	1.2
Operating income margin		13.9	14.0	16.9	9.7	5.7	2.3
Shareholders' equity ratio		52.9	53.6	45.2	48.2	54.3	60.5
Asset turnover (times)		0.92	1.12	1.00	0.79	0.70	0.65
Net sales per employee	U.S. dollars		Thousands of yen				
	\$ 473,280	¥ 62,520	¥ 68,948	¥ 71,541	¥ 52,975	¥ 54,719	¥ 45,523

1 Results retroactively restated due to a structural reorganization in fiscal 1997. The LCD Department, formerly part of Computer systems, has been included in Semiconductor production equipment.

2 Per share amounts prior to the year ended March 1998 have been restated to reflect a 1.1-for-1 stock split.

3 Dilution not assumed for years ended March 1993 to March 1995.

Consolidated Balance Sheet

March 31, 1998 and 1997

ASSETS	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Current assets:			
Cash and time deposits	¥ 71,057	¥ 31,016	\$ 537,903
Marketable securities (Note 4)	835	978	6,321
Trade notes and accounts receivable:			
Customers	191,107	179,580	1,446,684
Subsidiaries and affiliates	898	1,068	6,798
	192,005	180,648	1,453,482
Short-term loans to subsidiaries and affiliates	7,676	1,206	58,108
Allowance for doubtful accounts	(1,822)	(1,692)	(13,792)
Inventories (Note 5)	100,372	76,335	759,818
Prepaid expenses and other current assets	2,960	3,695	22,407
Total current assets	373,083	292,186	2,824,247
Investments and other assets:			
Investments in securities (Note 4)	8,020	8,902	60,712
Investments in and advances to subsidiaries and affiliates	11,958	8,246	90,522
Intangible and other assets	13,640	11,617	103,255
Total investments and other assets	33,618	28,765	254,489
Property, plant and equipment:			
Land	13,678	10,306	103,543
Buildings	73,847	56,949	559,023
Machinery and equipment	46,967	38,555	355,541
Construction in progress	4,181	2,504	31,650
Total property, plant and equipment	138,673	108,314	1,049,757
Less: Accumulated depreciation	51,774	42,188	391,930
Net property, plant and equipment	86,899	66,126	657,827
 Total assets	 ¥493,600	 ¥387,077	 \$3,736,563

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Income

Years ended March 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Net sales	¥455,585	¥432,785	¥401,775	\$3,448,789
Cost of sales	304,825	297,546	270,125	2,307,532
Gross profit	150,760	135,239	131,650	1,141,257
Selling, general and administrative expenses	87,464	74,850	63,896	662,105
Operating income	63,296	60,389	67,754	479,152
Other income (expenses):				
Interest and dividend income	1,664	909	1,053	12,597
Interest expenses	(1,640)	(1,870)	(1,711)	(12,415)
Other, net	(486)	1,059	(1,998)	(3,679)
Income before income taxes	62,834	60,487	65,098	475,655
Provision for income taxes (Note 8)	32,825	30,512	34,448	248,486
	30,009	29,975	30,650	227,169
Equity in income of affiliates	-	-	314	-
Net income	¥ 30,009	¥ 29,975	¥ 30,964	\$ 227,169
Per share of common stock:				
		Yen		U.S. dollars
Net income — primary ¹ (Note 9)	¥ 174.68	¥ 181.97	¥ 188.05	\$ 1.32
Net income — assuming full dilution ¹ (Note 9)	168.43	172.74	178.25	1.28
Cash dividends paid — actual (Note 10)	30.00	28.00	24.00	0.23
Cash dividends paid — adjusted ¹ (Note 10)	30.00	25.45	21.82	0.23

See accompanying Notes to Consolidated Financial Statements.

¹ Per share amounts prior to the year ended March 1998 have been restated to reflect a 1.1-for-1 stock split.

Consolidated Statement of Shareholders' Equity

Years ended March 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Common stock				
Balance at beginning of year	¥ 30,755	¥ 29,922	¥ 29,867	\$ 232,816
Conversion of convertible bonds (Note 9).....	5,476	3	2	41,454
Exercise of warrants (Note 9)	9,214	830	53	69,750
Balance at end of year	45,445	30,755	29,922	344,020
Additional paid-in capital				
Balance at beginning of year	53,823	52,991	52,937	407,441
Conversion of convertible bonds (Note 9).....	5,476	3	1	41,453
Exercise of warrants (Note 9)	9,208	829	53	69,705
Balance at end of year	68,507	53,823	52,991	518,599
Legal reserve				
Balance at beginning of year	3,739	3,300	3,000	28,304
Transfer from retained earnings (Note 10).....	489	439	300	3,702
Balance at end of year	4,228	3,739	3,300	32,006
Retained earnings				
Balance at beginning of year	119,175	94,640	67,468	902,157
Net income for year.....	30,009	29,975	30,964	227,169
Cash dividends (Note 10).....	(4,689)	(4,192)	(2,844)	(35,496)
Transfer to legal reserve (Note 10).....	(489)	(440)	(300)	(3,702)
Bonuses to directors	(336)	(354)	(181)	(2,543)
Increase (decrease) resulting from consolidation/termination of subsidiaries/equity method applying companies, net	(816)	(454)	(467)	(6,177)
Balance at end of year	142,854	119,175	94,640	1,081,408
Treasury stock, at cost	(25)	(16)	(11)	(189)
Total shareholders' equity	¥261,009	¥207,476	¥180,842	\$1,975,844

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Years ended March 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Cash flows from operating activities:				
Net income.....	¥30,009	¥29,975	¥30,964	\$227,169
<i>Adjustments to reconcile net income to net cash generated by operating activities</i>				
Depreciation and amortization.....	12,652	10,167	7,730	95,776
Loss (gain) on disposal of property, plant and equipment, net.....	622	362	1,051	4,708
Increase (decrease) in allowances.....	2,553	459	2,273	19,326
Equity in earnings of affiliates.....	-	-	(314)	-
Foreign currency translation adjustment.....	873	479	465	6,609
Decrease (increase) in trade notes and accounts receivable.....	(11,356)	10,594	(72,808)	(85,965)
Decrease (increase) in inventories.....	(24,037)	(1,748)	(27,339)	(181,961)
Increase (decrease) in trade notes and accounts payable.....	2,685	(12,138)	21,223	20,326
Increase (decrease) in accrued income taxes.....	3,304	(12,040)	16,544	25,011
Other, net.....	1,041	(1,468)	828	7,880
Net cash generated by (used in) operating activities.....	18,346	24,642	(19,383)	138,879
Cash flows from investing activities:				
Payment for purchase of property, plant and equipment.....	(33,302)	(18,456)	(25,606)	(252,097)
Proceeds from disposition of property, plant and equipment.....	101	433	4,274	765
Decrease (increase) in investments in securities.....	882	(217)	406	6,677
Decrease (increase) in investments in and advances to subsidiaries and affiliates.....	(3,712)	(2,518)	(1,786)	(28,100)
Decrease (increase) in short-term loans to subsidiaries and affiliates.....	(6,470)	305	356	(48,978)
Other, net.....	(2,825)	(3,524)	(1,326)	(21,385)
Net cash used in investing activities.....	(45,326)	(23,977)	(23,682)	(343,118)
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings.....	54,208	(7,327)	15,527	410,356
Increase (decrease) in current portion of long-term debt.....	(17,919)	8,919	(30,685)	(135,647)
Increase (decrease) in long-term debt, less current portion (Note 7).....	7,066	(17,242)	29,238	53,490
Cash dividends paid (Note 10).....	(4,689)	(4,192)	(2,844)	(35,496)
Other, net.....	28,212	850	(546)	213,565
Net cash generated by (used in) financing activities.....	66,878	(18,992)	10,690	506,268
Net increase (decrease) in cash and cash equivalents.....	39,898	(18,327)	(32,375)	302,029
Cash and cash equivalents at beginning of year.....	31,994	50,321	82,696	242,195
Cash and cash equivalents at end of year.....	¥71,892	¥31,994	¥50,321	\$544,224

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Tokyo Electron Limited and its subsidiaries (hereinafter "the Company") have been prepared from those that have been filed with the Minister of Finance of Japan as required by the Securities and Exchange Law and that conform with accounting principles generally accepted in Japan.

For the convenience of readers outside Japan, however, the presentation of the consolidated financial statements and the information contained therein have been modified in some respects. The basis of modification has been reorganized slightly this year for the purpose of making the presentation more meaningful and informative.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Parent Company and its 14 subsidiaries: Tokyo Electron Tohoku Limited, Tokyo Electron Yamanashi Limited, Tokyo Electron Kyushu Limited, Tokyo Electron FE Limited, Tokyo Electron Device Limited, Tokyo Electron Oregon, Inc., Tokyo Electron America, Inc., Tokyo Electron Korea Limited, Tokyo Electron Europe Limited, Tokyo Electron Italia S.p.A., Tokyo Electron Deutschland GmbH, Tokyo Electron Switzerland Limited, Tokyo Electron España S.L. and Tokyo Electron Nederland B.V.

Tokyo Electron Oregon, Inc., Tokyo Electron España S.L. and Tokyo Electron Nederland B.V. were consolidated in 1998 due to the increasing significance of their aggregated impact to the consolidated financial statements. The cumulative effect of prior years of this change has been shown as decreasing retained earnings by ¥816 million at the beginning of the year ended March 31, 1998. The accounts of the other subsidiaries were not included in the consolidation since their total assets, revenue, net income and retained earnings were insignificant.

All significant intercompany accounts, transactions and

unrealized profits or losses have been eliminated in consolidation. The fiscal years of all consolidated subsidiaries end on March 31, the fiscal year-end of the Parent Company.

(b) Foreign currency translation

Foreign currency deposits and short-term foreign currency receivables and payables are translated into Japanese yen at the rates prevailing at the balance sheet date, except for those subject to forward contracts, which are translated at the contracted rates. Non-current assets and liabilities denominated in foreign currencies are translated at historical rates. Foreign currency financial statements have been translated in accordance with Japanese current accounting standards.

(c) Cash and cash equivalents

Cash and cash equivalents presented in the statement of cash flows include cash on hand, cash in banks, time deposits and marketable securities presented in current assets.

(d) Marketable securities and investments in securities

Marketable securities and investments in securities are stated principally at cost, cost being determined principally by the weighted average method.

(e) Inventories

Inventories other than raw materials are stated principally at cost, cost being determined principally by the individual method.

Raw materials are stated principally at cost, cost being determined principally by the moving average method.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed on the declining balance method for the Parent Company and its consolidated domestic subsidiaries at rates based on the

useful lives of assets as prescribed by Japanese tax laws, and the straight-line method for consolidated overseas subsidiaries other than Tokyo Electron Korea Limited, over the useful lives of the assets. Tokyo Electron Korea Limited applies the declining balance method for its depreciation at rates based on the useful lives of assets as prescribed by Korean tax laws.

(g) Retirement and severance benefits

The Parent Company and certain of its consolidated subsidiaries have funded pension plans to provide retirement and severance benefits to substantially all directors, statutory auditors, and employees to the extent of the amount required according to internal regulations for directors and statutory auditors, and the maximum amount allowable according to each country's tax laws or internal regulations for employees. Under the plans, employees are entitled to lump-sum payments based on the current rate of pay and the length of service upon retirement or termination of employment for reasons other than cause for dismissal.

(h) Leases

Finance lease transactions, unless the lessee practically acquires legal title to the leased asset, are treated as operating lease transactions.

(i) Research and development costs

Expenditures for research and development activities are charged to income as incurred.

(j) Amounts per share

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year.

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 such March 31, but applicable to the year then ended.

3. Financial Statements Translation

Japanese yen amounts are presented in millions of yen and are rounded to the nearest million yen. U.S. dollar amounts included herein are solely for the convenience of readers and are translated at the rate of ¥132.10 to \$1.00, the exchange rate prevailing at March 31, 1998. The translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars.

4. Marketable Securities and Investments in Securities

Marketable securities at March 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Listed stock.....	¥825	¥966	\$6,245
Other.....	10	12	76
Total.....	¥835	¥978	\$6,321

Investments in securities at March 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Listed stock.....	¥7,258	¥7,620	\$54,944
Mutual funds.....	702	1,223	5,314
Other.....	60	59	454
Total.....	¥8,020	¥8,902	\$60,712

5. Inventories

Inventories at March 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Finished products.....	¥ 39,571	¥30,119	\$299,553
Work in process, raw materials and supplies.....	60,801	46,216	460,265
Total.....	¥100,372	¥76,335	\$759,818

6. Pledged Assets

The Company did not hold any assets pledged as collateral at March 31, 1998 and 1997.

7. Short-Term Borrowings and Long-Term Debt

Short-term bank loans are represented by 365-day notes issued by the Company to banks and bore interest at the average annual rate of 2.61% at March 31, 1998. Long-term debt at March 31, 1998 and 1997 was as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
1.25% unsecured bonds with detachable warrants due 1998	¥ -	¥17,919	\$ -
0.90% unsecured convertible bonds due 2003.....	19,038	29,990	144,118
2.45% unsecured bonds due 2000	30,000	30,000	227,101
2.00% unsecured bonds due 2002	20,000	-	151,400
Other loans from banks.....	8,619	10,602	65,246
Less current portion.....	-	(17,919)	-
Total.....	¥77,657	¥70,592	\$587,865

The 0.90% yen unsecured convertible bonds due 2003 are convertible into common stock at a conversion price of ¥3,465.00 per share originally, but adjusted to ¥3,150.00 on April 1, 1997, due to the stock split.

8. Income Taxes

The Parent Company and its consolidated domestic subsidiaries are subject to a number of different taxes based on income which, in the aggregate, result in a normal effective tax rate of approximately 52% in 1998, 1997 and 1996. The actual effective tax rates in the consolidated statements of income differ from the normal tax rate due not only to permanently non-deductible expenses and temporary differences in recognizing certain expense items for financial and tax reporting purposes, but also to applicable tax rate differences between Japan and foreign countries.

9. Common Stock and Per Share Data

On May 20, 1997, the Company conducted a 1.1-for-1 stock split to shareholders of record on March 31, 1997. As a result, shares increased by 15,018,919.

During 1998 and 1997, the Company issued 3,476,785 shares and 1,731 shares of common stock, respectively, in connection with conversion of convertible bonds. Also, during 1998 and 1997, the Company issued 5,883,862 shares and 481,284 shares of common stock, respectively, in connection with exercise of warrants.

Conversion of convertible bonds into common stock and exercise of warrants have been accounted for in accordance with the provisions of the Japanese Commercial Code by crediting one-half of the conversion price and exercise price to each of the common stock account and the additional paid-in capital account.

10. Shareholders' Equity

The Japanese Commercial Code provides that an amount equivalent to at least 10% of cash dividends and bonuses to directors paid with respect to each financial period be appropriated to the "legal reserve" until such reserve equals 25% of common stock. The Code also provides that neither additional paid-in capital nor the legal reserve is available for cash dividends, but that both may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of their respective countries.

11. Segment Information

The Company does not disclose segment information as it operates in a single segment.

12. Contingent Liabilities

The Company did not hold any contingent liabilities at March 31, 1998 and 1997.

Independent Auditors' Report

To the Board of Directors, Tokyo Electron Limited

We have examined the consolidated balance sheets of Tokyo Electron Limited and its consolidated subsidiaries as of March 31, 1998 and 1997, and the related statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1998, all expressed in yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

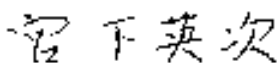
In our opinion, the consolidated financial statements present fairly the financial position of Tokyo Electron Limited and its consolidated subsidiaries at March 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

The amounts expressed in U.S. dollars have been translated on the basis described in Note 3.

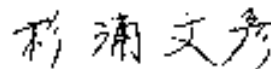
Tokyo, Japan
June 26, 1998



Masatoshi Yoshino
Certified Public Accountant



Eiji Miyashita
Certified Public Accountant



Fumihiko Sugiura
Certified Public Accountant

Corporate Directory

(as of June 26, 1998)

JAPAN

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Branch Office, Tohoku Regional Office, Yamanashi

Regional Office, Central Research Laboratory/Process

Technology Center

Sales Offices

Sendai, Nagoya

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Hosaka Plant

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Nirasaki City, Yamanashi 407-0192

Tel: 0551-22-8611

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Ozu Plant

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TOKYO ELECTRON FE LIMITED

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Toyama, Kuwana, Fukuyama, Higashi-Hiroshima, Saijo,

Fukuoka, Oita, Miyazaki, Kagoshima

TOKYO ELECTRON DEVICE LIMITED

1 Higashikata-cho, Tsuzuki-ku

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Tel: 045-474-7000

Sales Offices

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Matsumoto, Nagoya, Osaka, Fukuoka

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TOKYO ELECTRON AGENCY LIMITED

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Tel: 512-424-1000

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Manassas Office, Phoenix Office, Portland Office,

Richmond Office, Santa Clara Office,

South Portland Office

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Israel Office, Nijmegen Office

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Branch Offices

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Kiheung Office, Pucheon Office

TOKYO ELECTRON TAIWAN LIMITED

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Hsin-chu, Taiwan, R.O.C.

Tel: 3-525-3400

Board of Directors, Statutory Auditors and Corporate Senior Staff

(as of June 26, 1998)



Left to right: Tetsuo Tsuneishi, Tetsuro Higashi, Takeo Tanaka, Mitsutaka Yoshida

Board of Directors

Tetsuro Higashi
C.E.O., President
Tokyo Electron Limited

Tetsuo Tsuneishi
Corporate Officer
Executive Vice President
Tokyo Electron Limited

Takeo Tanaka
Corporate Officer
Senior Vice President
Tokyo Electron Limited

Mitsutaka Yoshida
Corporate Officer
Senior Vice President
Tokyo Electron Limited

Keiichiro Kuriyama
Chairman
Tokyo Electron Device Limited

Kuniyuki Matsuba
President
Tokyo Electron FE Limited

Hiroshi Takashima
Chairman
Tokyo Electron Kyushu Limited

Junichi Inoue
Chairman
Tokyo Electron Yamanashi Limited

Yukio Sunahara
President
Tokyo Broadcasting System, Inc.

Statutory Auditors

Hirosuke Ishibashi
Tokyo Electron Limited

Yoriaki Miyoshi
Tokyo Electron Limited

Takanori Suzuki
Tokyo Electron Limited

Hiroshi Shiho
Chairman
Tokyo Broadcasting System, Inc.

Corporate Senior Staff

Tetsuro Higashi
C.E.O., President

Tetsuo Tsuneishi
Corporate Officer
Executive Vice President

Takeo Tanaka
Corporate Officer
Senior Vice President

Mitsutaka Yoshida
Corporate Officer
Senior Vice President

Yuichi Honda
Executive Manager, General Affairs,
Accounting, Order Process,
Information Systems

Kiyoshi Sunohara
General Manager, Diffusion & CVD B.U.

Mitsuru Onozato
General Manager, Etch Systems B.U.

Junichi Inoue
General Manager, Test Systems B.U.

Hideyuki Takamori
General Manager, Clean Track B.U.

Satoshi Nakashima
General Manager, Cleaning Systems B.U.

Hiroshi Tomita
General Manager, LCD Systems B.U.

Makoto Mizokuchi
General Manager, Sales Promotion, Japan

Kousuke Ishii
General Manager, Sales Promotion,
North America & Europe

Hironobu Sato
General Manager, Sales Promotion, Asia

Ryuichi Komatsubara
General Manager, Corporate Marketing

Takaaki Matsuoka
Corporate Technology Strategist

Kengo Kuroiwa
President, Tokyo Electron Tohoku Limited

Yasuo Inoue
President, Tokyo Electron Yamanashi Limited

Megumi Yamashiro
President, Tokyo Electron Kyushu Limited

Masao Kubodera
President, Tokyo Electron Miyagi Limited

Kuniyuki Matsuba
President, Tokyo Electron FE Limited

Barry R. Rapozo
President, Tokyo Electron America, Inc.

Gerry Thurgood
President, Tokyo Electron Europe Limited

T. K. Kwak
President, Tokyo Electron Korea Limited

Archie Hwang
President, Tokyo Electron Taiwan Limited

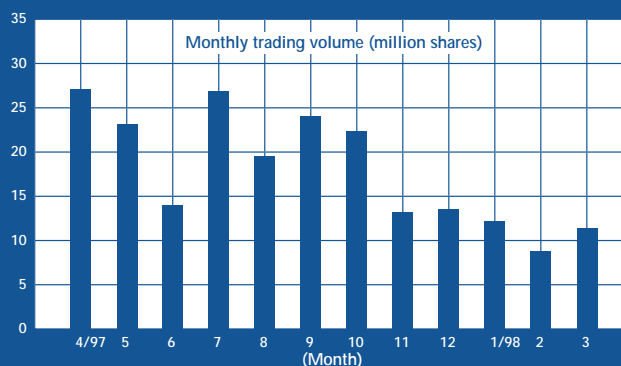
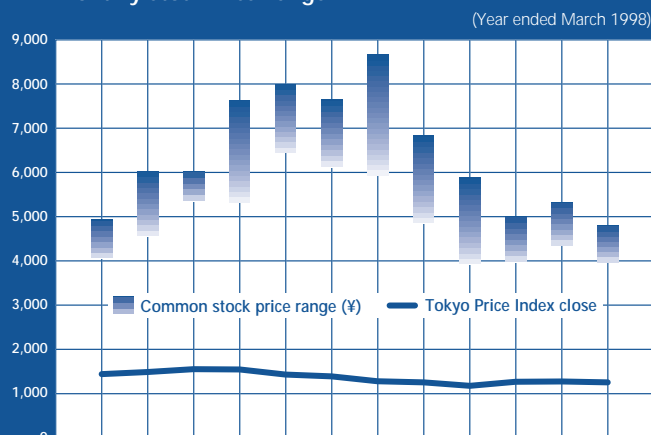
B.U. indicates Tokyo Electron's product-specific business unit.

Investor Information

(as of March 31, 1998)

Corporate Name:	Tokyo Electron Limited
Established:	November 11, 1963
Common Stock:	Par value ¥50 Authorized 300,000,000 shares Issued and outstanding 174,568,758 shares
Number of Shareholders:	9,562
Transfer Agent for Common Stock:	Chuo Trust and Banking Co., Ltd. 1-7-1 Kyobashi, Chuo-ku, Tokyo 104-8345, Japan
Common Stock Listed on:	The Tokyo Stock Exchange 1st Section (#8035)

Monthly Stock Price Range:



Investor Relations:	Securities analysts and investment professionals should direct inquiries to: Investor Relations Tokyo Electron Limited 3-6 Akasaka 5-chome Minato-ku, Tokyo 107-8481 Tel: 81-3-5561-7003 Fax: 81-3-5561-7400 E-mail: ir@corp.tel.co.jp
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