



TOKYO ELECTRON LIMITED

Annual Report 1999

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 North America, Europe and Asia in order to provide them with world-class products and services.

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FINANCIAL HIGHLIGHTS

Years ended March 31, 1999 and 1998

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

	1999	1998	1999
FOR THE YEAR			
Net sales	¥313,820	¥455,585	\$2,603,235
Operating income	6,383	63,296	52,949
Income before income taxes.....	6,038	62,834	50,087
Net income	1,866	30,009	15,479
Net income per share of common stock (Note 2):			
Basic.....	¥ 10.70	¥ 174.68	\$ 0.09
Diluted (Note 3).....	10.70	168.43	0.09
Cash dividends per share of common stock.....	12.00	30.00	0.10
AT YEAR-END			
Total assets	¥414,903	¥493,600	\$3,441,750
Shareholders' equity.....	257,716	261,009	2,137,835

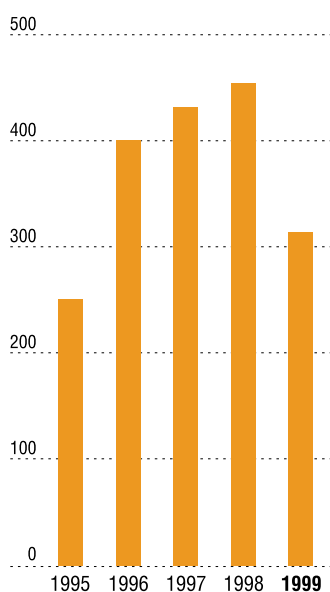
Notes 1: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥120.55=\$1.

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

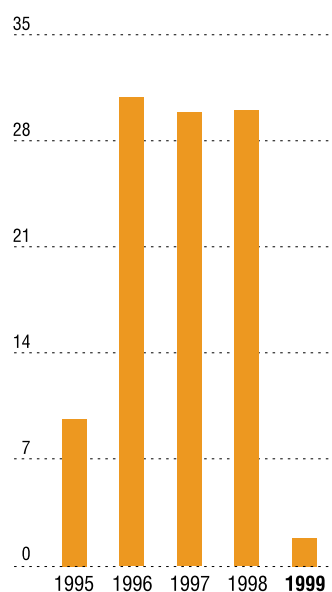
3: Dilution not assumed for year ended March 1999.

Net Sales

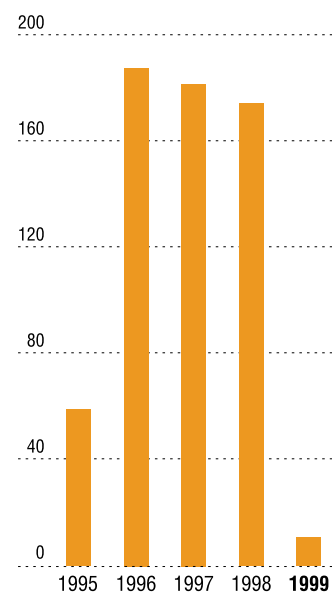
(\$ Billions)

**Net Income**

(\$ Billions)

**Net Income per Share**

(\$)



TOKYO ELECTRON AT A GLANCE

Semiconductor Production Equipment

Tokyo Electron develops and manufactures a broad range of superior semiconductor production equipment, and complements its original lineup by distributing high-value-added products from other suppliers.

Original Products

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



Coater/developer system
CLEAN TRACK ACT™8

Distributed Products

- Eaton Corp./Fusion Systems Division
- Plasma downstream ashers, etc.
- SpeedFam-IPEC, Inc.
- CMP systems
- Keithley Instruments, Inc.
- DC Parametric test systems, etc.
- Micron Corp.
- FIB systems
- Rudolph Technologies, Inc.
- Film metrology tools

LCD Production Equipment

Leveraging the technology and expertise accumulated from its semiconductor production equipment business, Tokyo Electron has created a strong lineup of leading-edge LCD production equipment.

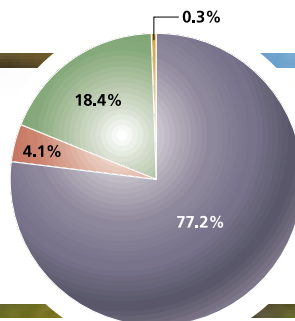
Original Products

- LCD Plasma etch/ash systems
- LCD Coater/developer systems



LCD Plasma etch/ash system ME-700

Percentage of consolidated net sales by sector for the year ended March 31, 1999



- Semiconductor & LCD Production Equipment
- Computer Systems
- Electronic Components
- Other

Computer Systems

In order to fulfill its goal of providing solutions tailored to user needs, Tokyo Electron distributes a comprehensive range of world-class computer systems and related products from top suppliers.

- Computer systems
- Network products
- Data management software
- Board test systems

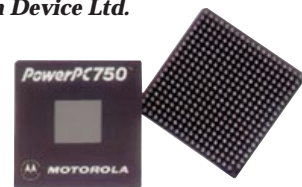


Hewlett-Packard Japan Ltd.
HP Visualize Workstation

Electronic Components

Tokyo Electron selects and offers the world's best products from leading suppliers. With a full product lineup and flexible technical support, the Company provides total solutions to meet diversifying user needs. Operations are handled by wholly owned subsidiary Tokyo Electron Device Ltd.

- Semiconductor devices
- Board products
- Components
- Software



Motorola, Inc. PowerPC750™

PowerPC is a trademark of International Business Machines Corp. (IBM) and is used by Motorola, Inc. under license from IBM.

MESSAGE FROM THE PRESIDENT

In the fiscal year ended March 31, 1999, Tokyo Electron's consolidated net sales decreased 31.1 percent year-on-year to ¥313,820 million as unfavorable economic conditions in Asia and oversupply in the DRAM market depressed investment in equipment among semiconductor manufacturers worldwide. These changes in our operating environment, which began appearing during the second half of 1997, were far more severe than we had anticipated and directly impacted our business. However, we remained committed to our corporate mission of consistently generating earnings, and made every effort to do so. As a result, although



consolidated earnings decreased sharply year-on-year — operating income fell 89.9 percent to ¥6,383 million and net income dropped 93.8 percent to ¥1,866 million, or ¥10.70 per share — Tokyo Electron was able to remain profitable.

Significantly, our success in overcoming these challenges was made possible by the combination of two factors: the quick decision making brought about by the reform of our management structure last spring and the effective operations of each business unit. Furthermore, in responding to the changes in our business environment, we have become more keenly aware than ever of what kind of company we must be, and to that end we have already begun implementing a concrete action plan.

Divisional Performance and Measures to Improve Earnings

Sales of Tokyo Electron's mainstay Semiconductor Production Equipment division decreased 36.3 percent to ¥242,240 million in the past fiscal year. The primary reason for the decrease was the small number of new fabs constructed worldwide as semiconductor manufacturers scaled back production and cut capital spending in response to oversupply in the

memory market. The bulk of investment was not for new capacity expansion but for shrink technology that allows more chips to be created on a single wafer. This limited both the type of equipment and the amount of investment needed.

Sales of the Electronic Components division decreased 4.0 percent to ¥57,734 million and sales of the Computer Systems division decreased 15.6 percent to ¥12,878 million. Concerted efforts to expand sales of our business partners' world-class products did not fully offset weakening demand in the domestic market. In July 1998, we completed the transfer of all electronic components operations to

wholly owned subsidiary Tokyo Electron Device Limited, creating the optimal structure for advancing this business. The benefits of this move were apparent in the relatively small decrease in sales despite the weakness of the domestic semiconductor business environment.

We viewed the drastic changes in our business environment as an opportunity to strengthen our operating structure and took steps to improve profitability throughout the Tokyo Electron Group. In response to the slowdown in the semiconductor market and the decrease in sales volume, we cut back the subcontracted workforce at domestic production facilities by half and implemented a hiring freeze. We also reduced capital expenditures sharply from the prior fiscal year and minimized depreciation expenses. In addition, we consolidated the resources of certain development functions and downsized some production operations. In light of these cuts, we remain well prepared for the next industry upturn.

These cost cutting measures improved profitability, but our main goal was to establish an operating structure that can generate sufficient profits even if the operating environment remains challenging. We believe this cost effectiveness, coupled with the measures outlined here, will contribute even more strongly to profits beginning in the current fiscal year.

Building a Leaner, More Profitable Earnings Structure

New changes are sweeping the industry. In addition to personal computers, digital consumer products have emerged as new market drivers, particularly in the areas of information and communications. As a result, demand for high-speed, large-capacity semiconductors will further expand, and applications that use ICs will continue to broaden. On the other hand, cost competition among chip manufacturers will intensify as many applications move eventually toward commoditization. Moreover, as the semiconductor industry becomes increasingly diverse, it will feel the effects of the global economy more rapidly.

All of these changes will exert a powerful influence on equipment manufacturers. Therefore, we must quickly create an operating structure that engenders both strong product development and potent earnings capabilities to satisfy customers completely under any conditions.

We have already begun taking the necessary steps by eliminating indirect operations and establishing a framework to stem the tendency for costs to rise. We are also executing a project to raise productivity and reduce manufacturing costs even further. In addition, we have established Tokyo Electron EE Limited, which focuses on refurbishing and upgrading previously sold equipment for semiconductor manufacturers as they diversify capital investment in step with their needs. By establishing a separate, specialized organization in this field, we expect new value to be created.

We believe that our efforts will begin yielding benefits incrementally in the current fiscal year, and will further solidify our position as a leading supplier with the ability to provide true customer satisfaction.

Delivering Leading-Edge Technologies and Optimal Solutions

The pace of advances in process technology for semiconductor production, which until now has occurred in roughly

three-year cycles, grew more rapid during the past year, driven by accelerated shrinkage in die size. Today, equipment makers must have the ability to provide semiconductor manufacturers with superior production equipment without delays in the chip evolution timetable. We specialize in solutions in the critical areas of the fabrication process and continue to introduce high-end equipment and technology on a timely basis.

In 1998, we introduced the *CLEAN TRACK ACT™8 SOD*, an advanced spin-on deposition system that forms low-k dielectric films required for multilayer interconnects. Initial orders have been favorable, and we expect that this product will capture the leading share in its market. Moreover, in response to new architecture such as chip scale packaging (CSP) and system-on-chip (SOC), in the near future we intend to introduce a wafer-level burn-in system that will greatly contribute to reducing the total cost of testing.

We will continue supplying products that provide higher value to customers by closely monitoring trends in next-generation technologies. To accomplish this, we will further strengthen alliances with the world's leading chip manufacturers and remain firmly in the mainstream of technology. Continuing to conduct sufficient investment in research and development will also be crucial. In the past fiscal year, even though the equipment market contracted, we continued to focus investment on select themes and actually maintained development at its strongest level ever. This policy will remain unchanged as long as we continue pursuing the leading edge of technology.

Our first priority is providing customers with high-value-added technologies that they can use with confidence to differentiate their products. This philosophy has earned Tokyo Electron the support and trust of customers worldwide. The 300mm New Process Technology Center completed last year is the most advanced of its kind in the industry, and was prepared for the purpose of working with customers. The seeds of new products lie in knowing what each customer's unique needs are and working with them on solutions.

Toward Truly Global Management

Already we have developed a global infrastructure for sales, service and production that few equipment suppliers can match. Now, we are turning our attention toward globalizing management to maximize the value of the Company and ensure its continual success and development. In the past fiscal year, we reformed the function of the Board of Directors, appointed Corporate Senior Staff, established a performance-based compensation program including a stock option plan, created a Compensation Committee and began disclosing corporate officers' compensation — reforms which prepare us for global competition. In view of the growing importance of overseas markets in our overall corporate performance, we will continue to consider which management systems and functions we need to introduce to be a truly global company. This management philosophy is crucial for staffing our operating bases worldwide with the most talented personnel.

In addition, as we build our business on a global scale, careful consideration of environmental issues must also be a top management priority. We have been putting great efforts into the acquisition of ISO 14001 and the development of equipment that minimizes environmental impact. Furthermore, we codified a code of ethics entitled "Code of Ethics in the Business of TEL" to be observed by everyone who works for the Tokyo Electron Group, and established an Ethics Committee as a concrete organization. It is our hope that by all employees respecting and honoring these international rules, Tokyo Electron will be recognized and accepted by people around the world.

Outlook

In the short term, orders for semiconductor production equipment began to recover at the end of 1998, and the future appears bright. For the time being, semiconductor makers will continue to invest in shrinkage (technology investment) in existing fabs, but expectations for capacity

investment following this gradual recovery have grown steadily. We are prepared for this upturn in terms of new technology and production capacity, and as a result will not need extensive investment to keep pace with market conditions. Moreover, in response to predictions of a global shortage in the supply of TFT-LCD panels in 1999, new production lines are being built in Taiwan, Korea and Japan. Tokyo Electron holds the leading market share for LCD coater/developers and etcher/ashers, so we stand to benefit greatly from this trend.

The medium- to long-term outlook for expansion in the semiconductor market remains unchanged. Personal computers and Internet-related products are becoming advanced and widespread, while information- and communications-related digital consumer products are moving to the forefront of the market. These developments are giving rise to demand for high-speed processors and large-capacity memories, as well as for high-value-added system-on-chip technologies. The production equipment we supply is indispensable for making these advanced semiconductors.

We realize, however, that this industry expansion will pose many challenges. Change is causing intense competition for both us and our customers, along with an ever-changing landscape of mergers and spin-offs. Only companies that can provide outstanding value will thrive, and we intend to be one of them.

Tokyo Electron faces the future with many assets: world-leading technologies, outstanding people, a flexible and entrepreneurial corporate culture and a global base of customers. We have the right ingredients in place to further build the value of the Company, and will work to strengthen our ability to withstand changes in our environment and consistently generate profits in order to fully meet the expectations of our shareholders.



Tetsuro Higashi
C.E.O., President
June 1999

CLOSE UP

New Process Technology Center: A Model Facility for the 300mm Era

The move to larger wafer sizes will allow a significant increase in the number of semiconductor chips created on each wafer, thus reducing the overall production cost per chip. When wafer sizes change, most production equipment must be replaced with brand new products that use a new platform.

Today, with the 300mm era rapidly approaching, Tokyo Electron's state-of-the-art New Process Technology Center has started to carry out several important missions for our customers.

Development, Evaluation and Demonstration of 300mm Wafer Equipment

The clean room area consists of demonstration rooms for 300mm wafer process equipment and separate development areas for new equipment, in which we have begun developing strategic key process modules for future 0.13 μ m-0.10 μ m design rules and 256M-1Gbit processes. A major feature of the Center is the joint development it conducts with customers. Because those working at the Center know the user's requirements, they can set about developing equipment immediately, enabling mass production equipment to be delivered in a short period of time.



Analytic equipment is used to test thin-film quality on wafers.

Development and Evaluation of Process Integration

The Center is also involved in the development and evaluation of process integration, a new paradigm technology that will become increasingly important. The focus here is on the development and evaluation of a series of process steps encompassing several pieces of equipment, rather than separate single-process solutions. The key for the equipment business of the future will be the ability to provide customers with strategic solutions like these that enable them to differentiate their products. The shift from providing single-process technologies to supplying integrated process technologies will bring about further advantages to Tokyo Electron as a multi-product supplier.



A centralized supervision system monitors and records power supply data for each piece of equipment as well as clean room safety.

New Process Technology Center Data:
Established: February 1998
Location: Nirasaki, Yamanashi Prefecture
Total floor area: 14,000m²
Clean room area: 2,300m²
Cleanliness level: Class 10 -10,000

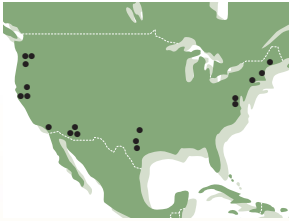
Addressing Environmental, Energy and Safety Concerns

There is one more reason the Center is attracting the interest of customers worldwide: The facility was built as a place for developing and testing near-term environmental and energy-saving solutions, and boasts visionary concepts for the semiconductor factories of the future. The Center focuses on devising measures to address environmental, energy-saving and safety concerns of semiconductor production equipment and its accessories, and on developing the clean technology that enables microcontamination-free manufacturing. In addition, a centralized supervision system monitors and records clean room safety and power supply data to each piece of equipment on a 24-hour basis.

Integrated circuits supplied by semiconductor manufacturers have enabled the creation of numerous energy-saving, high-tech products. On the other hand, the pursuit of cost-efficient IC production has resulted in larger factories and equipment, which in turn have a greater impact on the environment because they use more electricity, gases, chemicals and water, and generate more waste fluid and exhaust gases. The importance of environmental and energy-saving solutions is therefore likely to increase. Tokyo Electron is positioning the New Process Technology Center as a laboratory for developing and testing solutions for these problems, and intends to share these results with the world. These activities will further boost the Company's role in the industry as more than just an equipment supplier.

Worldwide Locations

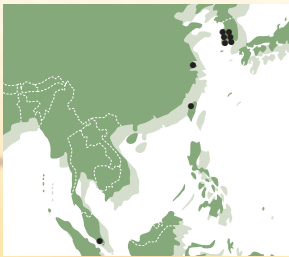
(Customers' on-site offices included)



North America



Europe



Asia/Pacific



Japan



Tokyo Electron Texas, Inc., shown with Tokyo Electron America, Inc.'s head office and parts and training center in the background, produces advanced CLEAN TRACK coater/developers.

Semiconductor Production Equipment

In 1998, the market for semiconductor production equipment suffered the most severe decline since 1986, due to restrained investment brought about mainly by an oversupply of DRAMs. The market contracted sharply compared to the previous fiscal year, as very few new fabs were constructed to increase production capacity. Most investment was limited to replacing equipment in existing fabs for chip shrinkage.

These trends affected Tokyo Electron, with orders dropping steadily over the first three quarters of the fiscal year. As a result, consolidated net sales of the Semiconductor Production Equipment (SPE) division decreased 36.3 percent year-on-year to ¥242,240 million. Orders bottomed out in the third quarter and began a modest recovery.

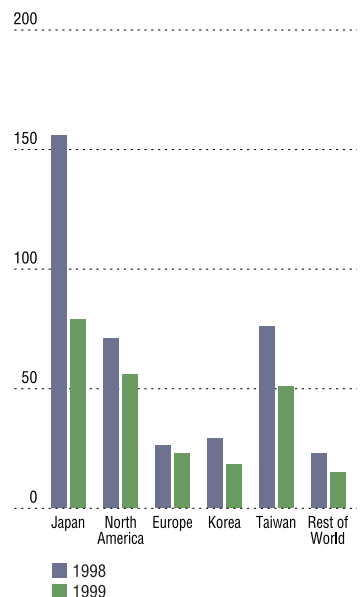
Review by Geographic Region

Tokyo Electron is one of only a few equipment suppliers in the world with a truly global infrastructure. In 1994, we started rapid expansion of direct operations, and in the past five years, have dramatically raised the ratio of our overseas sales to total sales. As a result, we were able to soften the impact of the decline in the Japanese market — the largest decline of any region — with penetration into the U.S. logic market and other areas. By region, net sales in Japan, Korea and Taiwan fell sharply due to excess manufacturing capacity and a decline in DRAM prices, while net sales in the United States and Europe dropped slightly. However, we are now seeing signs of growth in each of these markets, as outlined below.

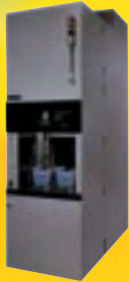
In Japan, chip makers have already finished reviewing their product strategies and are starting to move toward product mix manufacturing, including System LSIs. We expect this shift to stimulate capital spending in the future. In the United States, while there has been some shift toward foundries, the logic market continues to grow steadily. Tokyo Electron's penetration into the U.S. market is proceeding smoothly, and our presence there is increasing annually. In Europe, investment from local European and U.S. chip manufacturers has become brisk. We will continue to focus on this market, as many of the world's leading chip manufacturers have production facilities in this region. In Korea, chip makers resumed making large investments in next-generation DRAMs from the beginning of 1999, and Tokyo Electron's orders have started to increase accordingly. In Taiwan, factory utilization rates have recovered, and foundries have started to invest aggressively. In addition, Taiwanese LCD manufacturers have been boosting orders from the end of 1998 in response to a predicted supply shortage in TFT-LCD panels. Tokyo Electron will benefit from these trends as we have already built a firm position in this market.

SPE Sales by Geographic Region

(¥ Billions)



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



ALPHA (α)-BSE series vertical diffusion/oxidation and LP-CVD systems are designed to meet process requirements for 0.18 micron device technologies.



UNITY®-CVD metal CVD systems offer a very low particle level and long maintenance cycle through the use of plasma-less cleaning for Ti, TiN and Ta₂O₅ processes.



UNITY® Ver. IIe series etch systems meet the requirements of 0.18 micron and below production lines, and can be configured with various plasma sources for poly/oxide etching.



The UW200-Z carrierless cleaning system enhances the reliability of carrierless wafer handling. It features reduced size and energy consumption.

Review by Product

As a result of cutbacks in investment in the semiconductor industry worldwide, almost every product category was negatively affected. However, sales of advanced type models for finer geometry were favorable, and sales of products introduced to new markets should contribute to results in coming years.

Oxidation/Diffusion Furnaces & LP-CVD Systems

Although chip makers scaled back capacity investment in the past fiscal year, ALPHA(α)-BSE sales grew steadily, supported by the adoption of the Fast Thermal Processing System (FTPS). Tokyo Electron is the sole supplier of FTPS, a system with unique performance characteristics. This product is slated to be adopted on many advanced production lines using next-generation processes such as ultra-thin gate oxide, and demand for this product should increase when new lines start to be added.

Metal CVD Systems Tokyo Electron focuses on Front End of Line (FEOL) processes, where equipment suppliers must keep pace with the speed of technological innovation as process technology changes greatly every generation. The UNITY®-CVD for depositing Ti/TiN films has been adopted by almost every DRAM maker in the world. Furthermore, we have completed development of and launched an advanced process for Ta₂O₅ film, which is critical in 0.18μm and below devices.

Coater/Developer Systems Scanner-type steppers using a deep UV light source, usage of which grew rapidly during the past year, require coater/developers that use a chemically amplified resist. Responding to this demand, Tokyo Electron launched a reduced-footprint, reduced-resist version of the CLEAN TRACK ACT™8 ahead of others. This product is now used by most major chip makers around the world. Success in raising market share in the United States helped Tokyo Electron further strengthen its leading position in the global coater/developer market.

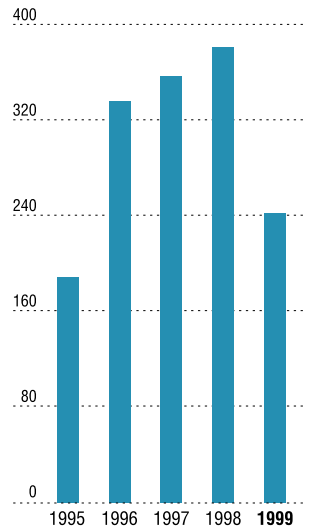
Etch Systems As design rules have become even more precise, the oxide etcher UNITY® Ver. IIe series, featuring self-align contact and high aspect ratio contact, has been evaluated highly for its ability to meet demands for critical etching, and has maintained its leading share in the market. We have launched an advanced oxide etch system suitable for next-generation 0.13μm processes and formally entered the market for gate film etchers. Traditionally strong in the DRAM market, we also made substantial inroads into the logic market during the past fiscal year.

Cleaning Systems Last year, Tokyo Electron announced the UWZ series, which further improves on the high productivity of the existing UW8000. The UWZ series incorporates a new platform that substantially improves cost of ownership while reducing delivery time. We have already built a product lineup focused on FEOL, and are now keenly aware of the necessity to provide Back End of Line (BEOL) wet solutions in response to strong requests from customers.

Fully Automatic Wafer Probers Working closely with logic and System LSI customers resulted in increased share in the United States and Europe. In particular, our focus on applications for high-end markets including RISC devices has given us a competitive advantage. Furthermore, the future launch of a wafer-level burn-in system that combines wafer and burn-in testing will enable the world's semiconductor manufacturers to meet their objective of reducing total testing costs.

SPE Sales

(¥ Billions)





The P-8XL fully automatic wafer prober meets needs for high-speed and multi-pin testing.



Tokyo Electron distributes an array of imported equipment in Japan. From top: SpeedFam-IPEC, Inc.'s AVANTGAARD 776, Rudolph Technologies, Inc.'s Spectra LASER 200/200XL and Micron Corp.'s Micron C3D-200.



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

LCD Production Equipment Supply and demand tightened in the TFT-LCD panel market during the second half of 1998, resulting in firm sales of LCD production equipment in the beginning of 1999. The outstanding reliability and process performance of our LCD coater/developers helped Tokyo Electron maintain its dominant share in this market. In addition, we launched a new LCD etcher/asher using a newly developed plasma source that permits multilayer etching, and maintained a majority share in the etcher/asher market as well.

Spin-on Deposition Systems In the past fiscal year, we introduced the *CLEAN TRACK ACT™8 SOD*, which applies interlayer dielectric films. This system incorporates the same platform as our *CLEAN TRACK ACT™8* coater/developer and uses a spin-on method to apply low-k materials required for multilayer interconnects. A large market for this product is expected, and initial shipments for R&D have been favorable.

Global Infrastructure

Providing excellent service and support through global infrastructure is just as important as supplying outstanding equipment, and providing such service is one of Tokyo Electron's greatest strengths. In the past fiscal year, we continued to build on our capabilities in procuring necessary parts on a timely basis and in dispatching highly skilled service personnel. These efforts included adding field engineering stations in Roseville, California and Eugene, Oregon in the United States and establishing Tokyo Electron Ireland Limited in Europe. We now have over 50 sales and service bases worldwide.

Tokyo Electron EE Limited

In March 1999, we established Tokyo Electron EE Limited, a new business for increasingly diverse customer needs, to refurbish and upgrade previously sold equipment. Initially focusing on oxidation/diffusion furnaces and LP-CVD systems, Tokyo Electron EE is making preparations to expand into other types of equipment we carry as well. Chip makers have recently diversified their investment approaches, with some choosing to restrain massive new capital outlays in favor of more controlled investment for improving existing equipment. We decided to enter this business aggressively in consideration of such needs.

Acquisition of ISO 14001

Over the past years, Tokyo Electron has made great efforts to acquire ISO 14001 certification, an international environmental management systems standard. Tokyo Electron Limited's Central Research Laboratory, Tokyo Electron Yamanashi's Fujii and Hosaka plants, Tokyo Electron Tohoku's Tohoku and Sagami plants, and Tokyo Electron Kyushu's Saga and Kumamoto plants have all received certification. In addition, Tokyo Electron Kyushu expects to receive certification for its other two plants within a year. With nearly all domestic operations now certified, we are turning additional attention to overseas production bases.

Computer Systems and Electronic Components

Computer Systems

Computer Systems division consolidated net sales decreased 15.6 percent to ¥12,878 million, mainly due to sluggish corporate demand in Japan and lower sales of aerospace products brought about by the completion of a certain government project. This division distributes leading-edge

Tokyo Electron has strengthened its lineup of Fibre Channel products from leading companies to provide advanced IT solutions.



Emulex Corp.
Fibre Channel PCI Host Adapter

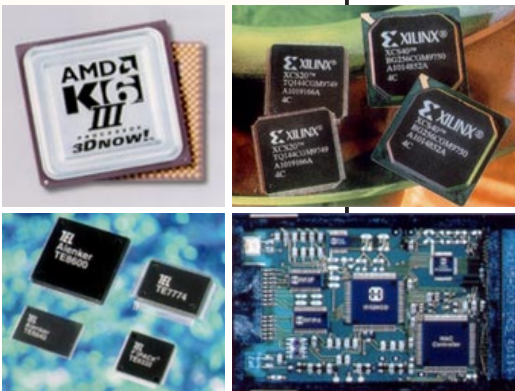


Brocade Communications Systems, Inc.
Fibre Channel Switch



Gadzoox Networks, Inc.
Fibre Channel Hub

Tokyo Electron Device Ltd. offers value-added products from the world's top suppliers.



- AMD is a trademark of Advanced Micro Devices, Inc.
- F1PACK is a registered trademark of Tokyo Electron Limited.

workstations, networking equipment, aerospace products and board test systems in Japan from about 40 different companies.

Although sales declined overall, sales of network-related products from companies such as Extreme Networks and FORE Systems grew steadily, more than doubling since the previous fiscal year. Sales of Extreme Networks' Gigabit Ethernet switches were particularly strong. In addition, sales of Fibre Channel products, which make Storage Area Networks (SANs) possible, increased steadily. SANs are receiving increasing attention as a new model for enterprise storage networks, following WANs and LANs. In order to further strengthen its lineup in this field, the division began distributing products from Mercury Computer Systems and Prisa Networks, in addition to those it already distributes from Gadzoox, Emulex, Brocade and Ciprico.

In October 1998, the division began sales of *Knowledge Center™*, a brand-new information management and analysis software tool developed by Process Dynamics, which complements the weaknesses of conventional Product Data Management systems.

To take advantage of opportunities presented by the Internet, the division is currently expanding its base of customers to include Internet service provider, supply chain management and e-commerce companies.

Electronic Components

Electronic Components division consolidated net sales decreased 4.0 percent year-on-year to ¥57,734 million. Stagnant corporate demand for personal computers in Japan was the principal factor in the decline.

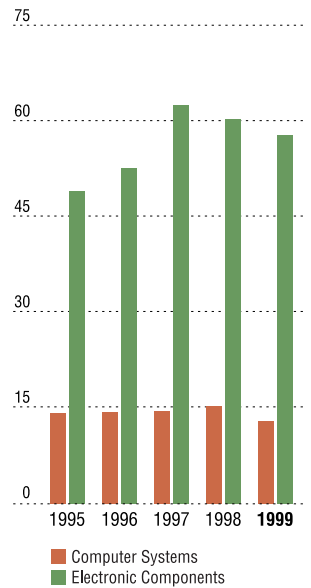
In July 1998, electronic components operations were transferred to wholly owned subsidiary Tokyo Electron Device Limited (TED). This marked the first step in achieving excellence in all areas of this business, including solid relationships with customers, in-depth product knowledge and technical support, and speedy, reliable distribution. A new logistics center opened in the spring of 1998, and an advanced computer network system introduced especially for TED provides strong support to the new organizational structure.

To strengthen our product lineup, we are adding new high-value-added products, focusing on fields with high growth prospects such as telecommunications, digital consumer electronics and networking. In the past fiscal year, we began distributing products from Harris, which has a strong product lineup for telecommunications, including wireless LANs and digital consumer applications, and from Pixelworks, which manufactures image processors for next-generation LCD projectors.

TED is also devoting efforts to developing and marketing Tokyo Electron Original Products (TOPs). A key example is our flash memory controller, which is incorporated in almost all digital still cameras that employ SmartMedia™.

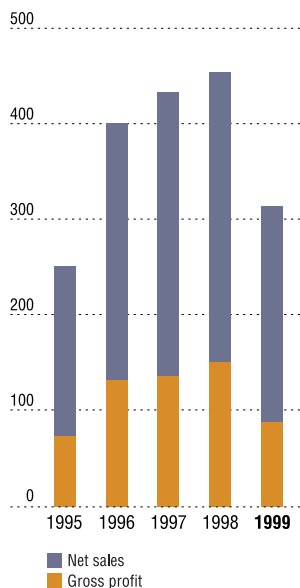
Demand for this product is expected to grow as the range of applications for SmartMedia™ expands.

CS & EC Sales
(¥ Billions)

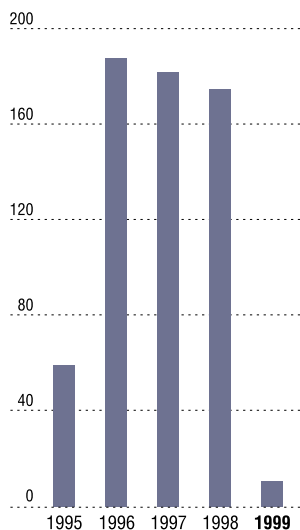


MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Sales & Gross Profit
(¥ Billions)



Net Income per Share
(¥)



Sales and Income

Sales and Cost of Sales

For the year ended March 31, 1999, consolidated net sales decreased 31.1 percent from the prior fiscal year to ¥313,820 million (US\$2,603 million), due primarily to a marked decline in sales of semiconductor production equipment to DRAM manufacturers. Geographically, sales in Japan decreased 35.0 percent to ¥149,838 million, while overseas sales dropped 27.1 percent to ¥163,982 million. By division, Semiconductor Production Equipment (SPE) sales, which include sales of LCD production equipment, decreased 36.3 percent to ¥242,240 million. Computer Systems (CS) sales were down 15.6 percent to ¥12,878 million, and Electronic Components (EC) sales were off 4.0 percent to ¥57,734 million.

Tokyo Electron only reports orders received and order backlogs on a non-consolidated basis. Orders received for the Semiconductor Production Equipment division declined 39.2 percent to ¥198,091 million as orders from memory manufacturers fell sharply and a number of orders were canceled due to poor market conditions. Consequently, order backlogs for the division decreased 32.5 percent to ¥83,985 million. Tokyo Electron considers orders to be canceled upon receipt of written notice of cancellation from customers or upon receiving notice that a delivery schedule has been delayed six months or more. In the fourth quarter of the fiscal year, however, orders from IC manufacturers trended upward as market conditions began to improve.

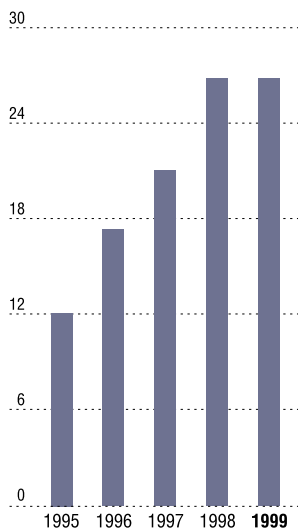
Cost of sales decreased 25.9 percent to ¥225,962 million. The cost of sales ratio, however, increased to 72.0 percent from 66.9 percent for the prior fiscal year. While outlays for outsourced labor declined significantly, the unit costs of proprietary Tokyo Electron products increased due mainly to lower capacity utilization rates at manufacturing facilities. Gross profit decreased 41.7 percent to ¥87,858 million, and the gross profit margin decreased to 28.0 percent from 33.1 percent for the prior fiscal year.

Expenses and Net Income

Selling, general and administrative expenses decreased 6.8 percent to ¥81,475 million, a result of Tokyo Electron's concerted efforts to reduce costs to create an efficient operating structure that will support future growth. Travel, transportation and personnel expenses were among items that decreased, although depreciation expenses rose. Due to the drop in sales, however, SG&A expenses as a percentage of net sales increased to 26.0 percent from 19.2 percent in the prior fiscal year. Research and development expenses, which are included in SG&A, increased marginally to ¥26,842 million. Management views consistent and considerable R&D spending, regardless of market conditions, as essential to technology leadership and global competitiveness. As a result, operating income decreased 89.9 percent to ¥6,383 million, and the operating margin was 2.0 percent, compared to 13.9 percent for the prior fiscal year.

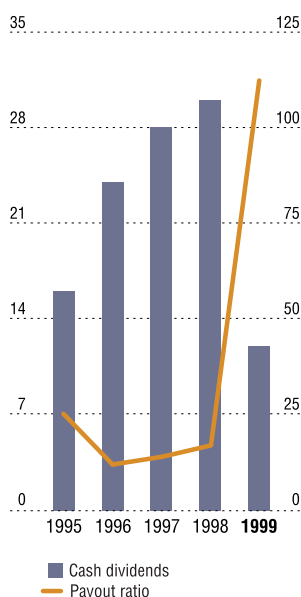
R&D Expenses

(¥ Billions)



Cash Dividends per Share & Payout Ratio

(¥ / %)



(Consolidated basis)

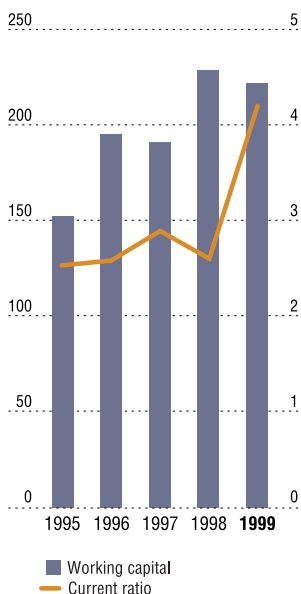
Net other expenses decreased 25.3 percent to ¥345 million, primarily because other, net represented income rather than expenses as in the prior fiscal year, offsetting lower interest and dividend income and increased interest expense. Income before income taxes was down 90.4 percent to ¥6,038 million, and provision for income taxes decreased 87.3 percent to ¥4,167 million. Net income totaled ¥1,866 million, compared to ¥30,009 million for the prior fiscal year. Cash dividends totaled ¥12.00 per share, compared to ¥30.00 per share for the prior fiscal year. Tokyo Electron links dividends to Company profitability, yet elected to restrain the rate of decrease in the dividend well below the drop in net income as part of the Company's commitment to shareholders. The payout ratio on a consolidated net income basis was 112.1 percent, compared with 17.3 percent in the prior fiscal year and that on a non-consolidated basis was 32.2 percent, compared with 18.7 percent in the prior fiscal year.

	Millions of yen (percentage of net sales)		Thousands of U.S. dollars
	1999	1998	1999
Net sales.....	¥313,820(100.0)	¥455,585 (100.0)	\$2,603,235
Cost of sales.....	225,962 (72.0)	304,825 (66.9)	1,874,425
Gross profit	87,858 (28.0)	150,760 (33.1)	728,810
SG&A expenses	81,475 (26.0)	87,464 (19.2)	675,861
Operating income	6,383 (2.0)	63,296 (13.9)	52,949
Other income (expenses).....	(345) -	(462) -	(2,862)
Income before income taxes	6,038 (1.9)	62,834 (13.8)	50,087
Provision for income taxes.....	4,167 (1.3)	32,825 (7.2)	34,567
Net income	¥ 1,866 (0.6)	¥ 30,009 (6.6)	\$ 15,479

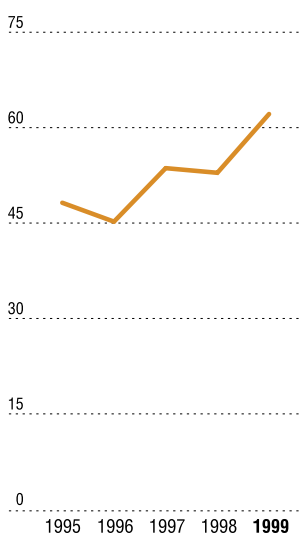
Effect of Exchange Rates

Exports from Japan are generally denominated in yen. While changes in exchange rates have no material effect on Tokyo Electron's results, a stronger yen vis-a-vis the U.S. dollar typically raises prices from the purchaser's perspective. The ratio of U.S. dollar-denominated transactions involving equipment and devices imported to Japan is comparatively low and did not have a material effect in the past fiscal year.

Working Capital & Current Ratio (¥ Billions / Times)



Shareholders' Equity Ratio (%)



Financial Position and Cash Flows

Financial Position

Tokyo Electron's financial position improved despite lower profitability. Current assets at March 31, 1999 decreased 22.1 percent from a year earlier to ¥290,748 million as the Company funded operating cash flow needs through internal resources, and reduced inventories. In addition, trade notes and accounts receivable declined 26.7 percent to ¥140,746 million, reflecting the decrease in sales. Current liabilities decreased 52.3 percent to ¥69,055 million, mainly because Tokyo Electron reduced external short-term funding, paid down short-term loans, and settled accrued income taxes. While working capital decreased marginally to ¥221,693 million, the current ratio improved to 4.2 to 1 from 2.6 to 1 a year earlier, signifying improved liquidity. Total assets decreased 15.9 percent to ¥414,903 million, a result of the decrease in current assets and disciplined control of investment in new fixed assets.

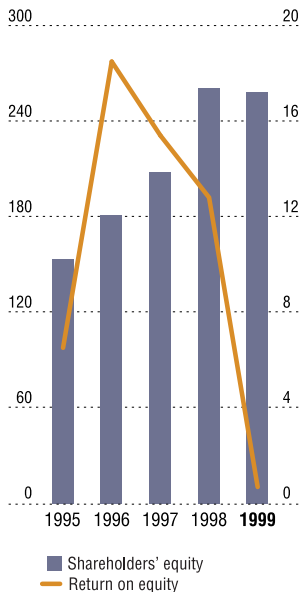
	Millions of yen (percentage of total assets)		Thousands of U.S. dollars
	1999	1998	1999
Total assets.....	¥414,903 (100.0)	¥493,600 (100.0)	\$3,441,750
Trade notes and accounts receivable....	140,746 (33.9)	192,005 (38.9)	1,167,532
Cash and time deposits.....	46,910 (11.3)	71,057 (14.4)	389,133
Inventories.....	88,085 (21.2)	100,372 (20.3)	730,693
Investments and other assets.....	32,063 (7.7)	33,618 (6.8)	265,972
Property, plant and equipment.....	92,092 (22.2)	86,899 (17.6)	763,932
Total liabilities.....	156,885 (37.8)	230,875 (46.8)	1,301,410
Trade notes and accounts payable.....	36,235 (8.7)	48,734 (9.9)	300,580
Short-term borrowings.....	21,657 (5.2)	56,917 (11.5)	179,652
Accrued income taxes.....	1,488 (0.4)	18,818 (3.3)	12,343
Long-term debt.....	77,709 (18.7)	77,657 (15.7)	644,621
Shareholders' equity.....	¥257,716 (62.1)	¥261,009 (52.9)	\$2,137,835

Long-term debt was essentially unchanged from a year earlier at ¥77,709 million as Tokyo Electron completed several major capital projects in the prior fiscal year, reducing the need for long-term external funding. Shareholders' equity decreased 1.3 percent to ¥257,716 million, primarily due to cash dividends payments. With the decrease in assets, however, shareholders' equity as a percentage of total assets rose to 62.1 percent, compared to 52.9 percent a year earlier. Return on average total shareholders' equity decreased to 0.7 percent due to the decrease in net income.

The balance of convertible bonds outstanding at March 31, 1999 was ¥18,864 million. The

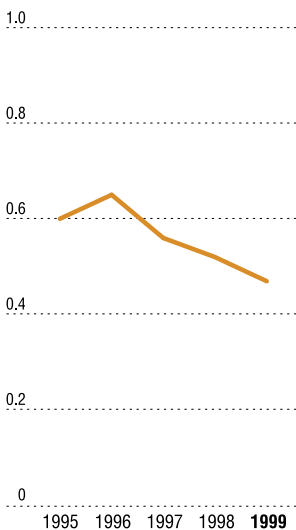
Shareholders' Equity and ROE

(¥ Billions / %)



Debt-to-Equity Ratio

(Times)



potential number of shares if all convertible bonds had been converted at the balance sheet date represented 3.4 percent of total common stock issued and outstanding.

Cash Flows

Operating activities generated net cash of ¥49,828 million, 2.85 times the ¥17,473 million generated in the prior fiscal year. Net cash flow, the sum of net income and depreciation, fell sharply to ¥19,787 million, due to the drop in net income, but positive adjustments to working capital components, primarily trade notes and accounts receivable and inventories, resulted in improved operating liquidity.

Investing activities used net cash of ¥24,346 million, down significantly from ¥45,326 million in the prior fiscal year. Tokyo Electron reduced capital expenditures by 29.5 percent to ¥23,478 million, which exceeded net cash flow by 18.7 percent, and decreased investments in and advances to subsidiaries and affiliates. Main capital investment themes during the past fiscal year included purchases of land for manufacturing facilities in Kumamoto Prefecture, Japan; buildings in Japan and Korea; and equipment for evaluation.

Net cash used in financing activities totaled ¥48,189 million; in the prior fiscal year, financing activities generated net cash of ¥66,878 million. Tokyo Electron paid down short-term debt by ¥35,261 million, funding this effort internally rather than through additional borrowings. As a result, cash and cash equivalents at the end of the year were ¥47,745 million, a significant decrease from ¥71,892 million at the end of the prior fiscal year.

Management believes that Tokyo Electron's positive cash flow, manageable debt and strong working capital give the Company the liquidity and financial base necessary to continue expanding globally and to prepare for the next upward cycle of the semiconductor industry.

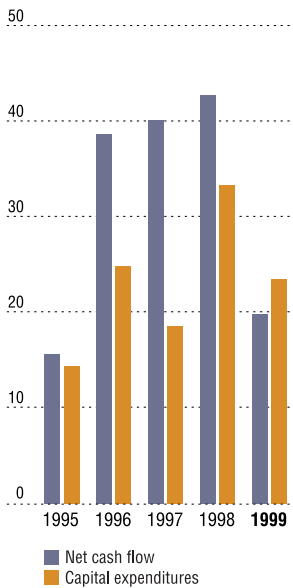
Year 2000 (Y2K) Readiness

Tokyo Electron is taking a number of measures to ensure that its internal information systems and all of the products the Company handles are ready for the century date change. In June 1998, the Company initiated the TEL Group Year 2000 Readiness Project, assigning a representative director to oversee and delegate responsibility for risk assessment, corrective measures and progress management worldwide for both information technology (IT) systems and equipment with embedded microprocessors (non-IT systems) in three areas: internal IT systems and electronic data interchange (EDI) with external parties; products and services of TEL Group companies; and goods and services from external vendors.

Internal IT systems have been surveyed for Y2K readiness, and as of April 1999, remediation had been completed for more than 90 percent of the mission-critical systems and application software surveyed. Some mission-critical systems were replaced with newly installed systems in January 1999, while in-company computers and installed software are being upgraded or replaced with

Net Cash Flow & Capital Expenditures

(¥ Billions)



Y2K-compliant products, with remediation scheduled for completion by July 1999.

Semiconductor production equipment was evaluated using standard international evaluation tests for the semiconductor industry. All TEL Group companies are scheduled to complete any necessary compliance measures by June 1999. For computer systems distributed by Tokyo Electron and electronic components handled by wholly owned subsidiary Tokyo Electron Device Ltd., the compliance status of each product is confirmed with suppliers and the results reported to customers.

Manufacturing subsidiaries and external vendors have been surveyed for Y2K readiness and most have been confirmed as satisfactory. The same holds true for external suppliers of goods and services including computers, telecommunications and financial services.

Tokyo Electron estimates total consolidated Y2K-related expenditures at ¥3.2 billion, including the cost of newly installed systems not directly associated with Y2K remediation efforts. These expenses are not expected to have a material impact on our future business operations or financial results. While the Company is working to ensure Y2K causes no disruption to business activities, a comprehensive contingency plan detailing responses to foreseeable risks is scheduled for completion in June 1999. The contingency plan will include methods of response should any problems occur, the composition of response teams, and the dates on which problems are believed most likely to occur.

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 and in an industry characterized by rapid changes in technology and supply-demand balance. 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, 1999, 1998, 1997, 1996, 1995 and 1994

	Thousands of U.S. dollars		Millions of yen				
	1999	1999	1998	1997	1996	1995	1994
Net sales	\$2,603,235	¥313,820	¥455,585	¥432,785	¥401,775	¥251,683	¥189,712
Semiconductor production equipment ¹	2,009,457	242,240	380,184	355,877	334,983	188,661	128,750
Computer systems ¹	106,827	12,878	15,262	14,408	14,314	14,071	14,509
Electronic components.....	478,922	57,734	60,139	62,500	52,478	48,951	46,453
Other	8,029	968	–	–	–	–	–
Operating income	52,949	6,383	63,296	60,389	67,754	24,425	10,898
Income before income taxes	50,087	6,038	62,834	60,487	65,098	22,648	11,067
Net income	15,479	1,866	30,009	29,975	30,964	9,731	5,129
Domestic sales	1,242,953	149,838	230,550	256,808	264,660	187,305	147,992
Overseas sales.....	1,360,282	163,982	225,035	175,977	137,115	64,378	41,720
Depreciation and amortization.....	148,660	17,921	12,652	10,167	7,730	5,911	4,874
Capital expenditures	194,757	23,478	33,302	18,456	25,606	14,884	6,583
R&D expenses	222,663	26,842	26,813	20,988	17,277	12,068	9,202
Total assets	3,441,750	414,903	493,600	387,077	400,050	318,275	269,189
Shareholders' equity	2,137,835	257,716	261,009	207,476	180,842	153,267	146,148
Number of employees.....		7,835	7,287	6,277	5,616	4,751	3,467
	U.S. dollars		Yen				
Net income per share of common stock: ²							
Basic	\$ 0.09	¥ 10.70	¥ 174.68	¥ 181.97	¥ 188.05	¥ 59.11	¥ 31.15
Diluted ³	0.09	10.70	168.43	172.74	178.25	59.11	31.15
Cash dividends per share of common stock:							
Actual.....	0.10	12.00	30.00	28.00	24.00	16.00	14.00
Adjusted ²	0.10	12.00	30.00	25.45	21.82	14.55	12.73
Number of shares outstanding (thousands)....		174,624	174,569	150,189	149,706	149,674	149,674
Number of shareholders		8,576	9,562	11,097	12,676	12,231	12,458
			Percent				
ROE		0.7	12.8	15.4	18.5	6.5	3.5
Operating income margin		2.0	13.9	14.0	16.9	9.7	5.7
Shareholders' equity ratio		62.1	52.9	53.6	45.2	48.2	54.3
Asset turnover (times)		0.76	0.92	1.12	1.00	0.79	0.70
	U.S. dollars		Thousands of yen				
Net sales per employee	\$ 332,257	¥ 40,054	¥ 62,520	¥ 68,948	¥ 71,541	¥ 52,975	¥ 54,719

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 1994, March 1995 and March 1999.

CONSOLIDATED BALANCE SHEET

March 31, 1999 and 1998

ASSETS	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Current assets:			
Cash and time deposits	¥ 46,910	¥ 71,057	\$ 389,133
Marketable securities (Note 4)	835	835	6,926
Trade notes and accounts receivable:			
Customers	140,487	191,107	1,165,384
Subsidiaries and affiliates	259	898	2,148
	140,746	192,005	1,167,532
Short-term loans to subsidiaries and affiliates	10,752	7,676	89,191
Allowance for doubtful accounts	(1,134)	(1,822)	(9,406)
Inventories (Note 5)	88,085	100,372	730,693
Prepaid expenses and other current assets	4,554	2,960	37,777
Total current assets	290,748	373,083	2,411,846
Investments and other assets:			
Investments in securities (Note 4)	8,633	8,020	71,613
Investments in and advances to subsidiaries and affiliates	9,363	11,958	77,669
Intangible and other assets	14,067	13,640	116,690
Total investments and other assets	32,063	33,618	265,972
Property, plant and equipment:			
Land	17,163	13,678	142,372
Buildings	81,527	73,847	676,292
Machinery and equipment	62,777	46,967	520,755
Construction in progress	97	4,181	805
Total property, plant and equipment	161,564	138,673	1,340,224
Less: Accumulated depreciation	69,472	51,774	576,292
Net property, plant and equipment	92,092	86,899	763,932
Total assets	¥414,903	¥493,600	\$3,441,750

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME

Years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	1999
Net sales	¥313,820	¥455,585	¥432,785	\$2,603,235
Cost of sales	225,962	304,825	297,546	1,874,425
Gross profit	87,858	150,760	135,239	728,810
Selling, general and administrative expenses	81,475	87,464	74,850	675,861
Operating income	6,383	63,296	60,389	52,949
Other income (expenses):				
Interest and dividend income	898	1,664	909	7,449
Interest expenses	(2,003)	(1,640)	(1,870)	(16,615)
Other, net	760	(486)	1,059	6,304
Income before income taxes	6,038	62,834	60,487	50,087
Provision for income taxes (Note 8)	4,167	32,825	30,512	34,567
Minority Interest	5	—	—	41
Net income	¥ 1,866	¥ 30,009	¥ 29,975	\$ 15,479
Per share of common stock:		Yen		U.S. dollars
Net income — basic ¹ (Note 9)	¥ 10.70	¥ 174.68	¥ 181.97	\$ 0.09
Net income — diluted ¹ (Note 9)	10.70	168.43	172.74	0.09
Cash dividends paid — actual (Note 9)	12.00	30.00	28.00	0.10
Cash dividends paid — adjusted ¹ (Note 9)	12.00	30.00	25.45	0.10

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, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	1999
Common stock				
Balance at beginning of year	¥ 45,445	¥ 30,755	¥ 29,922	\$ 376,980
Conversion of convertible bonds (Note 9).....	87	5,476	3	722
Exercise of warrants (Note 9)	0	9,214	830	0
Balance at end of year	45,532	45,445	30,755	377,702
Additional paid-in capital				
Balance at beginning of year	68,507	53,823	52,991	568,287
Conversion of convertible bonds (Note 9).....	87	5,476	3	722
Exercise of warrants (Note 9)	0	9,208	829	0
Balance at end of year	68,594	68,507	53,823	569,009
Retained earnings				
Balance at beginning of year	147,082	122,914	97,939	1,220,091
Increase (decrease) resulting from consolidation net.....	(210)	(816)	(454)	(1,742)
Net income for year	1,866	30,009	29,975	15,479
Cash dividends (Note 9)	(3,665)	(4,689)	(4,192)	(30,402)
Bonuses to directors	(358)	(336)	(354)	(2,970)
Balance at end of year	144,715	147,082	122,914	1,200,456
Treasury stock, at cost (Note 10)	(1,125)	(25)	(16)	(9,332)
(1997: 4,219 shares; 1998: 4,101 shares; 1999: 247,191 shares)				
Total shareholders' equity	¥257,716	¥261,009	¥207,476	\$2,137,835

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	1999
Cash flows from operating activities:				
Net income.....	¥ 1,866	¥30,009	¥29,975	\$ 15,479
<i>Adjustments to reconcile net income to net cash generated by operating activities</i>				
Depreciation and amortization.....	17,921	12,652	10,167	148,660
Loss (gain) on disposal of property, plant and equipment, net.....	381	622	362	3,160
Decrease (increase) in trade notes and accounts receivable.....	51,259	(11,356)	10,594	425,209
Decrease (increase) in inventories.....	12,287	(24,037)	(1,748)	101,924
Increase (decrease) in trade notes and accounts payable.....	(12,499)	2,685	(12,138)	(103,683)
Increase (decrease) in accrued income taxes.....	(17,330)	3,304	(12,040)	(143,758)
Increase (decrease) in allowances.....	(2,104)	2,553	459	(17,453)
Other, net.....	(1,953)	1,041	(1,468)	(16,200)
Net cash generated by operating activities.....	49,828	17,473	24,163	413,338
Cash flows from investing activities:				
Payment for purchase of property, plant and equipment.....	(23,478)	(33,302)	(18,456)	(194,757)
Proceeds from disposition of property, plant and equipment.....	1,126	101	433	9,341
Decrease (increase) in investments in securities.....	(613)	882	(217)	(5,085)
Decrease (increase) in investments in and advances to subsidiaries and affiliates.....	2,595	(3,712)	(2,518)	21,526
Decrease (increase) in short-term loans to subsidiaries and affiliates.....	(3,075)	(6,470)	305	(25,508)
Other, net.....	(901)	(2,825)	(3,524)	(7,474)
Net cash used in investing activities.....	(24,346)	(45,326)	(23,977)	(201,957)
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings.....	(35,261)	44,850	(7,327)	(292,501)
Increase (decrease) in current portion of long-term debt.....	(7,822)	(8,561)	8,919	(64,886)
Increase (decrease) in long-term debt, less current portion (Note 7).....	52	7,066	(17,242)	431
Cash dividends paid (Note 11).....	(3,665)	(4,689)	(4,192)	(30,402)
Other, net.....	(1,493)	28,212	850	(12,385)
Net cash generated by (used in) financing activities.....	(48,189)	66,878	(18,992)	(399,743)
Effect of exchange rate changes.....	(1,440)	873	479	(11,945)
Net increase (decrease) in cash and cash equivalents.....	(24,147)	39,898	(18,327)	(200,307)
Cash and cash equivalents at beginning of year.....	71,892	31,994	50,321	596,366
Cash and cash equivalents at end of year.....	¥47,745	¥71,892	¥31,994	\$396,059

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 21 subsidiaries: Tokyo Electron Tohoku Limited, Tokyo Electron Yamanashi Limited, Tokyo Electron Kyushu Limited, Tokyo Electron FE Limited, Tokyo Electron Device Limited, Tokyo Electron Sapporo Limited, Tokyo Electron Leasing Co., Limited, Tokyo Electron Logistics Limited, Tokyo Electron Agency Limited, Tokyo Electron America, Inc., Tokyo Electron Oregon, Inc., Tokyo Electron Korea Limited, Tokyo Electron Europe Limited, Tokyo Electron Deutschland GmbH, Tokyo Electron Italia S.p.A., Tokyo Electron Switzerland Limited, Tokyo Electron Nederland B.V., Tokyo Electron España S.L., Tokyo Electron Ireland Limited, Tokyo Electron Israel Limited and Tokyo Electron Taiwan Limited.

Tokyo Electron Sapporo Limited, Tokyo Electron Leasing Co., Limited, Tokyo Electron Logistics Limited, Tokyo Electron Agency Limited, Tokyo Electron Taiwan Limited, Tokyo Electron Ireland Limited and Tokyo Electron Israel Limited were consolidated in 1999 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 ¥210 million at the beginning of the year ended March 31, 1999. 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 ¥120.55 to \$1.00, the exchange rate prevailing at March 31, 1999. 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, 1999 and 1998 were as follows:

	Millions of yen		Thousands of
	1999	1998	U.S. dollars
Listed stock	¥825	¥825	\$6,843
Other	10	10	83
Total	¥835	¥835	\$6,926

Investments in securities at March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of
	1999	1998	U.S. dollars
Listed stock	¥8,107	¥7,258	\$67,250
Mutual funds	216	702	1,792
Other	310	60	2,571
Total.....	¥8,633	¥8,020	\$71,613

5. Inventories

Inventories at March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of
	1999	1998	U.S. dollars
Finished products	¥32,595	¥ 39,571	\$270,386
Work in process, raw materials and supplies.....	55,490	60,801	460,307
Total.....	¥88,085	¥100,372	\$730,693

6. Pledged Assets

The Company did not hold any assets pledged as collateral at March 31, 1999 and 1998.

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 2.18% at March 31, 1999. Long-term debt at March 31, 1999 and 1998 was as follows:

	Millions of yen		Thousands of
	1999	1998	U.S. dollars
0.90% unsecured convertible bonds due 2003.....	¥18,864	¥19,038	\$156,483
2.45% unsecured bonds due 2000	30,000	30,000	248,860
2.00% unsecured bonds due 2002	20,000	20,000	165,906
Other loans from banks.....	8,845	8,619	73,372
Total.....	¥77,709	¥77,657	\$644,621

The 0.90% yen unsecured convertible bonds due 2003 are convertible into common stock at a conversion price of ¥3,150.00 per share at March 31, 1999, subject to adjustment in certain events.

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 48% in 1999 and approximately 52% in 1998 and 1997. 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.

During 1999 and 1998, the Company issued 55,237 shares and 3,476,785 shares of common stock, respectively, in connection with conversion of convertible bonds.

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. Share Repurchase Under Stock Option Program

At the Annual Shareholders' Meeting held on June 26, 1998, a stock option plan was approved in order to further increase directors' incentive and motivation to raise corporate performance with the aim of maximizing corporate value. Pursuant to this approval, from July 1, 1998 to July 7, 1998, the Company repurchased 240,000 shares of its common stock with a total value of ¥1,090 million.

11. Retained Earnings

As amended in the Japanese Securities and Exchange Law, "legal reserve," formerly disclosed separately in the shareholders' equity section, has been included in "retained earnings" in fiscal 1999. Prior year figures have been adjusted to reflect this change.

12. Segment Information

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

13. Contingent Liabilities

The Company did not hold any contingent liabilities at March 31, 1999 and 1998.

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, 1999 and 1998, and the related statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1999, 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, 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 29, 1999



Masatoshi Yoshino
Certified Public Accountant



Eiji Miyashita
Certified Public Accountant



Fumihiko Sugiura
Certified Public Accountant

CORPORATE DIRECTORY

(as of June 29, 1999)

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

Oita, Kagoshima

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Santa Clara Office, South Portland Office

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BOARD OF DIRECTORS, STATUTORY AUDITORS AND CORPORATE SENIOR STAFF

(as of June 29, 1999)



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

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.

* Compensation Committee
** Chief Business Ethics Director

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, Accounting,
Finance, Order Process, Information Systems

Kousuke Ishii
General Manager, General Affairs, Personnel,
Global Operation of Administration

Yasuyuki Kuriki
General Manager, Diffusion Systems B.U.

Kiyoshi Sunohara
General Manager, Single Wafer Deposition B.U.

Mitsuru Onozato
General Manager, Etch Systems B.U.

Yoshinori 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.

Hironobu Sato
General Manager, Sales Promotion, Asia

Makoto Mizokuchi
General Manager, Sales Promotion, Japan

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

Mamoru Hara
President, Tokyo Electron EE 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

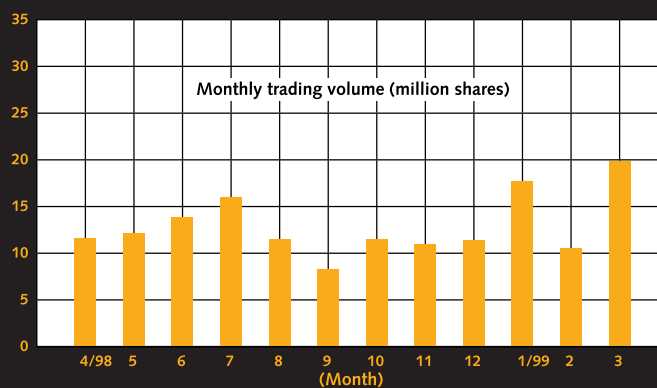
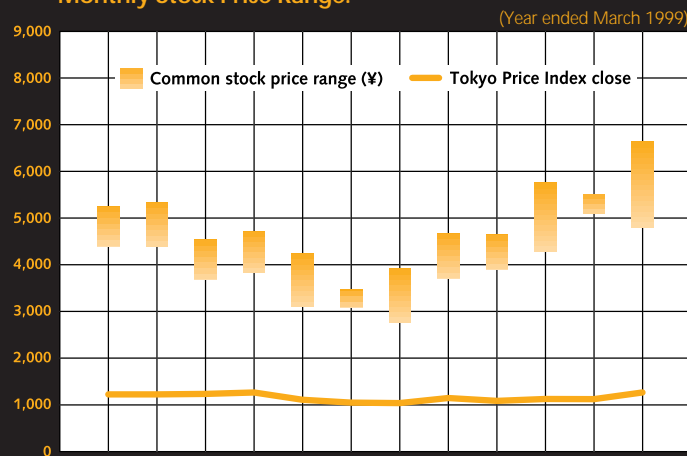
"B.U." indicates Tokyo Electron's product-specific business unit.

INVESTOR INFORMATION

(as of March 31, 1999)

Corporate Name:	Tokyo Electron Limited
Established:	November 11, 1963
Common Stock:	Par value ¥50 Authorized 300,000,000 shares Issued and outstanding 174,623,995 shares
Number of Shareholders:	8,576
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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