

# Consolidated Financial Review for the Third Quarter Ended December 31, 2002


**TOKYO ELECTRON LIMITED**

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For reference only: The accompanying financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan.

## 1. Matters relating to prepare quarterly consolidated financial statements

- 1) Accounting principles: Basically in accordance with those for the preparation of the interim consolidated financial statements.
  - \* Changes in accounting method: None
  - \* Accounting methods different from those adopted for the preparation of the interim financial statements: None
- 2) Changes in scope of consolidation and application of the equity method: Yes ( Deletion: 1)
- 3) Involvement of independent certified public accountants or auditors: None

## 2. Financial highlights for nine months ended December 31, 2002 (4/1/02 - 12/31/02)

Note: All figures are rounded down to the nearest million yen.

### (1) Operating results

	Net sales		Operating income		Ordinary income		Net Income	
	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)
Nine months ended 12/31/02	320,381	1.1%	(1,020)	-	(2,555)	-	(2,704)	-
Nine months ended 12/31/01	316,859	-37.9%	(2,931)	-	(3,796)	-	(8,095)	-
Year ended 3/31/02	417,825		(18,310)		(19,464)		(19,938)	

	Net income per share	Fully diluted net income per share
	Yen	Yen
Nine months ended 12/31/02	(15.50)	-
Nine months ended 12/31/01	(46.22)	-
Year ended 3/31/02	(113.85)	-

### Notes:

#### 1. Profit/loss on equity method:

Nine months ended 12/31/02: None  
 Nine months ended 12/31/01: None  
 Year ended 3/31/02: None

#### 2. Average number of shares of common stock (consolidated) issued:

Nine months ended 12/31/02: 174,417,233 shares  
 Nine months ended 12/31/01: 175,140,491 shares  
 Year ended 3/31/02: 175,123,740 shares

#### 3. Percentages for net sales, operating income, ordinary income and net income indicated changes from the the same period of the previous year.

(2) Financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
As of 12/31/02	546,195	291,095	53.3%	1,676.24
As of 12/31/01	594,594	317,856	53.5%	1,815.61
As of 3/31/02	556,915	307,578	55.2%	1,756.73

Note:

Number of shares of common stock (consolidated) issued as of:

December 31, 2002	173,660,019 shares
December 31, 2001	175,068,483 shares
March 31, 2002	175,086,036 shares

3. Corporate estimates for the year ending March 31, 2003 (4/1/02 - 3/31/03)

	Net sales	Ordinary income	Net income	Net income per share
	Millions of yen	Millions of yen	Millions of yen	Yen
Year ending 3/31/03	450,000	2,000	500	2.88

## Operating Results

### 1. Summary of Results

#### a. **Nine months ended December 31, 2002**

In the electronics industry during the period under the review, the market for mobile phones, personal computers and communications remained stagnant, while the demand for certain digital consumer electronics, such as DVD players and digital cameras were favorable. Against a backdrop of this market deterioration, semiconductor related industry has been in a harsh condition since the last fiscal year with the new investment drastically curtailed. Restructuring among semiconductor makers is accelerating, and integration/oligopoly is under way.

In these circumstances, Tokyo Electron continued our group-wide effort to lower expenses levels drastically and to implement cost-cutting through enhancing efficiency of business processes, including rationalizing of manufacturing and development operations, and strove to establish a business structure capable of responding to rapid changes in the business environment. As a result, consolidated net sales increased 1.1 percent from the same period of the previous year to ¥320,381 million, an ordinary loss of ¥2,555 million and a net loss of ¥2,704 million.

Looking at consolidated net sales by division, the sales of Semiconductor Production Equipment (SPE) division were ¥252,617 million, a 1.5% increase from the previous year, affected by the cutbacks in investment among semiconductor manufacturers. Sales of the Computer Network (CN) division were ¥11,221 million, a decrease of 4.2 percent, despite the division's efforts to increase sales of cutting-edge products, such as servers and high-speed network technology products.

In the Electronic Components (EC) division, efforts to expand sales of advanced devices for communications and network related products resulted in a 0.6 percent increase in net sales to ¥55,566.

#### b. **Third Quarter - three Months Ended December 31, 2002**

For the third quarter, consolidated net sales increased 52.2 percent from the same period of the previous year to ¥96,993 million, an ordinary loss of ¥1,853 million, and a net loss of ¥166 million.

By division, consolidated net sales were ¥75,391 million (a year-on-year increase of 67.8 percent) for the SPE division, ¥3,094 million (a year-on-year decrease of 6.3 percent) for the CN division, and ¥18,207 million (year-on-year increase of 19.9 percent) for the EC division.

**(For reference)**  
**Consolidated**

(Millions of yen)

		1Q	2Q	3Q	1Q-3Q Total	Full year (E)	
Net sales	Semiconductor Production Equip.	Japan	21,052	21,906	24,121	67,079	92,000
		U.S.	9,264	24,445	18,859	52,569	71,000
		Europe	5,731	7,384	4,093	17,210	26,000
		Korea	8,356	11,274	11,774	31,406	55,000
		Taiwan	16,078	23,532	12,978	52,589	70,000
		Other	10,792	17,407	3,563	31,762	41,000
	Total	71,275	105,950	75,391	252,617	355,000	
	Computer Network	3,334	4,791	3,094	11,221	16,000	
	Electronic Components	17,369	19,989	18,207	55,566	77,500	
	Other	327	348	299	975	1,500	
Total	92,307	131,080	96,993	320,381	450,000		
Ordinary income (loss)		-6,744	6,043	-1,853	-2,555	2,000	
Net income (loss)		-4,171	1,633	-166	-2,704	500	

Regional breakdown of the full-year SPE sales was revised from the previous estimates made on November 8, 2002, while total SPE sales (355,000 million yen) remain unchanged.

**Non-consolidated**

(Millions of yen)

		1Q	2Q	3Q	1Q-3Q Total	Full year (E)
Net sales	Semiconductor Production Equip.	68,315	103,739	72,827	244,881	345,000
	Computer Network	3,337	4,801	3,099	11,239	16,000
Total		71,652	108,540	75,927	256,120	361,000
Ordinary income (loss)		-5,127	951	-943	-5,120	-10,000
Net income (loss)		-2,420	490	-235	-2,166	-7,000

## 2. Forecast for the Year Ending March 31, 2003

The forecast for the full year ending March 31, 2003, at this time, remains the same as revised on November 8, 2002.

<b>Consolidated forecast</b>		Billions of yen (Y/Y change)	
		Full year	
Net sales		450.0	(+7.7%)
	Semiconductor Production Equipment	355.0	(+9.0%)
	Computer Network	16.0	(-6.1%)
	Electronic Components	77.5	(+5.2%)
	Other	1.5	(+5.5%)
Ordinary income (loss)		2.0	-
Net income (loss)		0.5	-

<b>Non-consolidated forecast</b>		Billions of yen (Y/Y change)	
		Full year	
Net sales		361.0	(+8.5%)
	Semiconductor Production Equipment	345.0	(+9.3%)
	Computer Network	16.0	(-6.2%)
Ordinary income (loss)		-10.0	-
Net income (loss)		-7.0	-

Note: The performance forecasts and estimates stated in this Financial Review are based on certain assumptions judged to be reasonable at the present time in light of information currently available concerning economic conditions in Japan and overseas, fluctuations in exchange rates and other factors that may have an impact on performance.

They are therefore susceptible to the impact of many uncertainties, including market conditions, competition, the launching of new products and their success or failure, and global conditions in the semiconductor related industry. Consequently, actual sales and profits may differ substantially from the projections stated in this Financial Review.

# Consolidated Balance Sheet

(Millions of yen)

	As of December 31, 2002		As of March 31, 2002		Increase (decrease)	As of December 31, 2001	
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount	Amount	Compo- sition (%)
<b>(Assets)</b>	546,195	100.0	556,915	100.0	(10,719)	594,594	100.0
<b>Current Assets</b>	354,548	64.9	353,423	63.5	1,124	412,301	69.3
Cash and time deposits	47,190		48,409			51,333	
Trade notes and accounts receivable	139,778		157,414			174,924	
Inventories	147,177		127,352			160,292	
Others	20,758		20,867			26,597	
Allowance for doubtful accounts	(358)		(620)			(846)	
<b>Long-term Assets</b>	191,647	35.1	203,491	36.5	(11,844)	182,293	30.7
<b>Tangible fixed assets</b>	122,200		134,510		(12,310)	129,372	
<b>Intangible fixed assets</b>	27,126		28,753		(1,626)	28,681	
<b>Investments and other assets</b>	42,664		40,513		2,150	24,484	
<b>Allowance for doubtful accounts</b>	(343)		(285)		(57)	(245)	
<b>Total Assets</b>	546,195	100.0	556,915	100.0	(10,719)	594,594	100.0

# Consolidated Balance Sheet

(Millions of yen)

	As of December 31, 2002		As of March 31, 2002		Increase (decrease)	As of December 31, 2001	
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount	Amount	Compo- sition (%)
<b>(Liabilities)</b>	255,038	46.7	249,278	44.8	5,759	276,680	46.5
<b>Current liabilities</b>	151,055	27.7	109,501	19.7	41,553	133,148	22.4
Trade notes and accounts payable	34,940		26,625			24,139	
Short-term borrowings	21,771		20,311			24,274	
Commercial paper	30,000		10,000			35,000	
Straight Bonds due within 1 year	20,000		20,000			20,000	
Convertible Bonds due within 1 year	15,493		-			-	
Accrued income taxes	2,810		1,663			1,537	
Allowance for employees' bonuses	1,152		2,463			2,112	
Stock purchase warrant	1,288		694			699	
Others	23,599		27,744			25,385	
<b>Long-term liabilities</b>	103,982	19.0	139,776	25.1	(35,793)	143,532	24.1
Straight bonds	60,000		80,000			80,000	
Convertible bonds	-		15,500			15,500	
Long-term loans	7,623		9,951			14,379	
Allowance for retirement and severance benefits	34,207		31,714			31,001	
Allowance for retirement and severance benefits for directors	1,031		1,269			1,217	
Stock purchase warrant	-		624			630	
Others	1,120		716			803	
<b>(Minority interest)</b>	61	0.0	58	0.0	3	58	0.0
<b>(Shareholders' equity)</b>	291,095	53.3	307,578	55.2	(16,482)	317,856	53.5
<b>Common stock</b>	47,217	8.6	47,213	8.5	3	47,213	8.0
<b>Additional paid in capital</b>	70,279	12.9	70,275	12.6	3	70,275	11.8
<b>Consolidated retained earnings</b>	186,095	34.1	190,195	34.1	(4,099)	202,038	34.0
<b>Revaluation of investment in securities</b>	(802)	(0.2)	1,170	0.2	(1,973)	(344)	(0.1)
<b>Foreign currency translation adjustment</b>	1,540	0.3	3,737	0.7	(2,196)	3,762	0.6
<b>Treasury stock, at cost</b>	(13,234)	(2.4)	(5,014)	(0.9)	(8,220)	(5,089)	(0.8)
<b>Total liabilities, minority interest and shareholders' equity</b>	546,195	100.0	556,915	100.0	(10,719)	594,594	100.0

# Consolidated Statement of Income

(Millions of yen)

	Nine months ended December 31, 2002		Nine months ended December 31, 2001		Increase (decrease)		Year ended March 31, 2002	
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	(%)	Amount	Ratio to net sales
Net sales	320,381	100.0	316,859	100.0	3,521	1.1	417,825	100.0
Cost of sales	222,080	69.3	219,906	69.4	2,174	1.0	302,270	72.3
<b>Gross profit</b>	<b>98,300</b>	<b>30.7</b>	<b>96,953</b>	<b>30.6</b>	<b>1,346</b>	<b>1.4</b>	<b>115,555</b>	<b>27.7</b>
Selling, general & administrative expenses	99,321	31.0	99,884	31.5	(563)	(0.6)	133,865	32.1
<b>Operating income (loss)</b>	<b>(1,020)</b>	<b>(0.3)</b>	<b>(2,931)</b>	<b>(0.9)</b>	<b>1,910</b>	<b>-</b>	<b>(18,310)</b>	<b>(4.4)</b>
Non-operating income	1,531		1,355				1,796	
Non-operating expenses	3,066		2,220				2,950	
<b>Ordinary income (loss)</b>	<b>(2,555)</b>	<b>(0.8)</b>	<b>(3,796)</b>	<b>(1.2)</b>	<b>1,240</b>	<b>-</b>	<b>(19,464)</b>	<b>(4.7)</b>
Unusual or infrequent profit	543		1,091				1,471	
Unusual or infrequent loss	608		160				4,927	
<b>Income (loss) before income taxes</b>	<b>(2,620)</b>	<b>(0.8)</b>	<b>(2,864)</b>	<b>(0.9)</b>	<b>244</b>	<b>-</b>	<b>(22,919)</b>	<b>(5.5)</b>
Provision for income taxes and enterprise taxes	73	0.0	5,224	1.7			2,612	0.6
Deferred income taxes	-	-	-	-			(5,602)	(1.3)
Minority interest	9	0.0	6	0.0			8	0.0
<b>Net income (loss)</b>	<b>(2,704)</b>	<b>(0.8)</b>	<b>(8,095)</b>	<b>(2.6)</b>	<b>5,390</b>	<b>-</b>	<b>(19,938)</b>	<b>(4.8)</b>

# Segment Information

## 1. Segment information by business type

Tokyo Electron Limited and its consolidated subsidiaries are primarily engaged in manufacturing and marketing industrial electronic equipment, and are deemed to operate in a single segment. Segment information has therefore been omitted.

## 2. Segment information by country

Segment information by country is abbreviated, as both net sales and the assets of the consolidated subsidiaries situated outside Japan are less than 10% of consolidated net sales or assets.

## 3. Net Sales Outside Japan

(Millions of yen)

Nine months ended December 31, 2002				
	U.S.	Taiwan	Others	Total
Net sales outside Japan	52,608	52,601	82,669	187,879
Consolidated net sales				320,381
Ratio to consolidated net sales (%)	16.4	16.4	25.8	58.6

### Notes:

1. Classifications of countries and regions are based on geographical proximity.

3. Net sales outside Japan represent net sales of Tokyo Electron Limited and its consolidated subsidiaries to countries and regions outside Japan.

(Millions of yen)

Nine months ended December 31, 2001				
	U.S.	Taiwan	Others	Total
Net sales outside Japan	63,385	44,862	59,092	167,340
Consolidated net sales				316,859
Ratio to consolidated net sales (%)	20.0	14.2	18.6	52.8

### Notes:

1. Classifications of countries and regions are based on geographical proximity.

3. Net sales outside Japan represent net sales of Tokyo Electron Limited and its consolidated subsidiaries to countries and regions outside Japan.

(Millions of yen)

Year ended March 31, 2002				
	U.S.	Taiwan	Others	Total
Net sales outside Japan	94,773	60,488	76,046	231,309
Consolidated net sales				417,825
Ratio to consolidated net sales (%)	22.7	14.5	18.2	55.4

### Notes:

1. Classifications of countries and regions are based on geographical proximity.

2. Principal countries included in others: Korea, Germany, Singapore and China

3. Net sales outside Japan represent net sales of Tokyo Electron Limited and its consolidated subsidiaries to countries and regions outside Japan.

# Production, Orders and Sales

(1) Production

(Millions of yen)

Division	Nine months ended December 31, 2002	Nine months ended December 31, 2001	Year ended March 31, 2002
	Amount	Amount	Amount
Semiconductor Production Equipment	275,290	271,503	343,240
Total	275,290	271,503	343,240

Notes:

1. Amounts are based on selling prices.
2. The above amounts do not include consumption taxes.

(2) Orders

(Millions of yen)

Division	Nine months ended December 31, 2002	Nine months ended December 31, 2001	Year ended March 31, 2002
	Orders	Orders	Orders
Semiconductor Production Equipment	292,189	127,135	207,188
Computer Network	10,890	10,933	16,408
Electronic Components	56,207	51,018	70,322
Others	975	1,099	1,421
Total	360,263	190,187	295,340

Division	As of December 31, 2002	As of December 31, 2001	As of March 31, 2002
	Backlog	Backlog	Backlog
Semiconductor Production Equipment	179,162	136,433	139,590
Computer Network	4,235	4,412	4,566
Electronic Components	9,242	7,726	8,601
Total	192,641	148,572	152,759

Note: The above amounts do not include consumption taxes.

(3) Sales

(Millions of yen)

Division	Nine months ended December 31, 2002	Nine months ended December 31, 2001	Year ended March 31, 2002
	Amount	Amount	Amount
Semiconductor Production Equipment	252,617	248,819	325,715
Computer Network	11,221	11,711	17,031
Electronic Components	55,566	55,229	73,657
Others	975	1,099	1,421
Total	320,381	316,859	417,825

Note: The above amounts do not include consumption taxes.

For reference

## Consolidated Balance Sheet (Quarterly comparison)

(Millions of yen)

	As of December 31, 2002		As of September 30, 2002		Increase (decrease)
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount
<b>(Assets)</b>	546,195	100.0	548,988	100.0	(2,793)
<b>Current Assets</b>	354,548	64.9	353,781	64.4	766
Cash and time deposits	47,190		47,733		
Trade notes and accounts receivable	139,778		155,719		
Inventories	147,177		133,097		
Others	20,758		17,646		
Allowance for doubtful accounts	(358)		(415)		
<b>Long-term Assets</b>	191,647	35.1	195,206	35.6	(3,559)
<b>Tangible fixed assets</b>	122,200		125,346		(3,146)
<b>Intangible fixed assets</b>	27,126		27,136		(9)
<b>Investments and other assets</b>	42,321		42,724		(403)
<b>Total Assets</b>	546,195	100.0	548,988	100.0	(2,793)

For reference

## Consolidated Balance Sheet (Quarterly comparison)

(Millions of yen)

	As of December 31, 2002		As of September 30, 2002		Increase (decrease)
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount
<b>(Liabilities)</b>	255,038	46.7	255,688	46.6	(650)
<b>Current liabilities</b>	151,055	27.7	149,967	27.3	1,087
Trade notes and accounts payable	34,940		40,750		
Short-term borrowings	21,771		21,603		
Commercial paper	30,000		20,000		
Bonds due within 1 year	20,000		20,000		
Convertible bonds due within 1 year	15,493		15,495		
Accrued income taxes	2,810		3,202		
Allowance for employees' bonuses	1,152		2,416		
Others	24,887		26,500		
<b>Long-term liabilities</b>	103,982	19.0	105,720	19.3	(1,738)
Straight bonds	60,000		60,000		
Long-term loans	7,623		8,164		
Allowance for retirement and severance benefits	34,207		33,197		
Allowance for retirement and severance benefits for directors	1,031		987		
Others	1,120		3,371		
<b>(Minority interest)</b>	61	0.0	60	0.0	1
<b>(Shareholders' equity)</b>	291,095	53.3	293,240	53.4	(2,144)
<b>Common stock</b>	47,217	8.6	47,216	8.6	0
<b>Additional paid in capital</b>	70,279	12.8	70,278	12.8	0
<b>Consolidated retained earnings</b>	186,095	34.1	186,956	34.1	(861)
<b>Revaluation of investment in securities</b>	(802)	(0.1)	(22)	(0.0)	(779)
<b>Foreign currency translation adjustment</b>	1,540	0.3	1,915	0.3	(374)
<b>Treasury stock, at cost</b>	(13,234)	(2.4)	(13,104)	(2.4)	(130)
<b>Total liabilities, minority interest and shareholders' equity</b>	546,195	100.0	548,988	100.0	(2,793)

For reference

## Consolidated Statement of Income (Quarterly comparison)

(Millions of yen)

	Three months ended December 31, 2002		Three months ended September 30, 2002		Three months ended June 30, 2002		Three months ended December 31, 2001	
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	Ratio to net sales
Net sales	96,993	100.0	131,080	100.0	92,307	100.0	63,738	100.0
Cost of sales	66,914	69.0	88,893	67.8	66,272	71.8	46,959	73.7
<b>Gross profit</b>	30,078	31.0	42,187	32.2	26,034	28.2	16,778	26.3
Selling, general & administrative expenses	31,600	32.6	35,543	27.1	32,176	34.9	31,643	49.6
<b>Operating income (loss)</b>	(1,522)	(1.6)	6,643	5.1	(6,141)	(6.7)	(14,864)	(23.3)
Non-operating income	410		584		535		472	
Non-operating expenses	742		1,185		1,139		378	
<b>Ordinary income (loss)</b>	(1,853)	(1.9)	6,043	4.6	(6,744)	(7.3)	(14,770)	(23.2)
Unusual or infrequent profit	53		(21)		512		175	
Unusual or infrequent loss	120		456		31		18	
<b>Income (loss) before income taxes</b>	(1,921)	(2.0)	5,564	4.2	(6,264)	(6.8)	(14,613)	(22.9)
Provision for income taxes and enterprise taxes	(1,757)	(1.8)	3,928	3.0	(2,096)	(2.3)	(3,933)	(6.1)
Minority interest	2	0.0	3	0.0	3	0.0	0	0.0
<b>Net income (loss)</b>	(166)	(0.2)	1,633	1.2	(4,171)	(4.5)	(10,680)	(16.8)