

# Consolidated Financial Review for the Third Quarter Ended December 31, 2003

Company name:



TOKYO ELECTRON LIMITED

URL:

<http://www.tel.com/>

Headquarters address:

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Telephone number:

(03) 5561-7000

Stock exchange listing:

Tokyo Stock Exchange 1st Section

Code number:

8035

Company representative:

Kiyoshi Sato, President &amp; CEO

Person-in-charge

Yukio Saeki, Director, Accounting Department

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 prepared in accordance with those for the preparation of the interim consolidated financial statements.
- 2) Changes in the accounting method from the most recent fiscal year: None
- 3) Changes in scope of consolidation and application of the equity method: Yes (Addition: 2, Deletion: 3)
- 4) Involvement of independent certified public accountants or auditors: None

## 2. Financial highlights for nine months ended December 31, 2003 (4/1/03 - 12/31/03)

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 12/31/03	342,651	7.0%	(614)	-	(1,584)	-	(7,054)	-
Nine months ended 12/31/02	320,381	1.1%	(1,020)	-	(2,555)	-	(2,704)	-
Year ended 3/31/03	460,580		1,118		(230)		(41,554)	

	Net income per share	Fully diluted net income per share
	Yen	Yen
Nine months ended 12/31/03	(40.09)	-
Nine months ended 12/31/02	(15.50)	-
Year ended 3/31/03	(238.57)	-

### Notes:

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

Nine months ended 12/31/03: -90,000,000 yen

Nine months ended 12/31/02: None

Year ended 3/31/03: -43,000,000 yen

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

Nine months ended 12/31/03: 175,976,089 shares

Nine months ended 12/31/02: 174,417,233 shares

Year ended 3/31/03: 174,228,135 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 12/31/03	540,774	259,382	48.0	1,452.39
As of 12/31/02	546,195	291,095	53.3	1,676.24
As of 3/31/03	524,901	252,904	48.2	1,456.23

Note:

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

December 31, 2003	178,590,399 shares
December 31, 2002	173,660,019 shares
March 31, 2003	173,663,175 shares

[Consolidated cash flow position]

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of 12/31/03	(21,737)	(5,991)	22,718	48,349
As of 12/31/02	-	-	-	-
As of 3/31/03	21,393	(7,269)	(9,883)	52,982

Notes:

1. Regarding consolidated cash flow position, the same period of the previous year is not shown due to disclosure starting from this fiscal year.
2. Cash and cash equivalents are consisted of cash on hand, time deposits possible to withdraw anytime, and short-term investments which mature within 3 months after acquisition with low risk in value fluctuation.

3. Corporate estimates for the year ending March 31, 2004 (4/1/03 - 3/31/04)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Year ending 3/31/04	520,000	14,000	4,500

For reference: Estimate of net income per share for the year ending March 31, 2004: 25.20 yen

## Operating Results

### 1. Overview of the Results

#### **a. Nine Months ended December 31, 2003 (April 1, 2003 – December 31, 2003)**

In the electronics industry, the signs of resurgence have become evident, thanks to the rising demand for high-growth consumer products, such as DVD players, digital cameras and flat display TVs, along with replacement demand for PC and camera-equipped cellular phones. Because of the increased demand for electronic products, semiconductor manufacturers are increasing capacity utilization and have resumed capital investment.

Reflecting these positive developments, the Company's orders for semiconductor production equipment, its mainstay product line, further recovered from the second quarter, and marked record high levels since the second quarter of the fiscal year ended on March 31, 2001. Also, as a result of structural reform measures, including reduction of workforce, cost-cutting and efficiency enhancement through consolidation of manufacturing and development operations, the Company's profit during the second quarter and the third quarter increased and consolidated results for the nine months were improved as follows: net sales of 342,651 million yen, an increase of 7.0% compared with the same period of the previous year, ordinary loss of 1,584 million yen, and net loss of 7,054 million yen.

The breakdown of consolidated net sales by division is as follows.

Sales of the Semiconductor Production Equipment Division, the Company's principal business, was strong in Japan and Asia, and reached 268,729 million yen, an increase of 6.4% compared with the same period of the previous year.

Sales of the Computer Network Division were 12,458 million yen, an increase of 11.0% from the previous year, reflecting the division's efforts to expand sales of servers and high-speed network technology products.

Sales of the Electronic Components Division were 60,530 million yen, an increase of 8.9% from the previous year, resulting from expanded sales of cutting-edge devices for personal computers, communications and network equipment.

## **b. Trends in the third quarter (October 1, 2003 – December 31, 2003)**

Looking at consolidated results for the third quarter, net sales came to 121,234 million yen, up by 25.0% compared with the same period of the preceding year. Ordinary income came to 4,040 million yen, and the net income for the period to 2,751 million yen.

By division, consolidated sales were 96,496 million yen (up 28.0% year-on-year) in the Semiconductor Production Equipment Division, 3,815 million yen (up 23.3% year-on-year) in the Computer Network Division and 20,619 million yen (up 13.2% year-on-year) in the Electronic Components Division.

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

(Millions of yen)

			1Q	2Q	3Q	1Q-3Q Total	Full Year (E)
Net sales	Semiconductor Production Equipment	Japan	22,254	50,911	27,715	100,882	140,000
		U.S.	9,519	13,464	12,982	35,966	50,000
		Europe	7,281	9,227	5,884	22,392	33,000
		Korea	10,671	10,444	14,538	35,654	61,000
		Taiwan	13,039	15,816	26,558	55,414	99,000
		China	1,261	3,697	4,121	9,080	17,000
		S.E. Asia	1,292	3,350	4,695	9,338	17,000
		Total	65,320	106,912	96,496	268,729	417,000
	Computer Network	3,397	5,244	3,815	12,458	18,000	
	Electronic Components	18,768	21,141	20,619	60,530	84,000	
Other	291	338	302	932	1,000		
Total	87,778	133,637	121,234	342,651	520,000		
Ordinary income (loss)	(8,740)	3,115	4,040	(1,584)	14,000		
Net income (loss)	(10,366)	559	2,751	(7,054)	4,500		

## **2. Analysis of Cash Flows for the Nine Months (April 1, 2003 - December 31, 2003)**

Net cash used in operating activities amounted to 21,737 million yen. The main factors included loss before income taxes, in the amount of 4,785 million yen, and depreciation and amortization in the amount of 18,576 million yen, an increase in trade notes and accounts receivable, and an increase in inventories.

Net cash used in investing activities was 5,991 million yen, mainly due to the purchase of property, plant and equipment and software for production and R&D.

Net cash provided in financing activities was 22,718 million yen as a result of issuance of unsecured bonds despite redemption of unsecured bonds and commercial paper, repayment of debts and payment of cash dividends.

As a result, cash and cash equivalents at the end of the nine-month period of the current fiscal year amounted to 48,349 million yen.

### 3. Forecast for the Year Ending March 31, 2004

#### Projected Operating Results

Orders for the Semiconductor Production Equipment Division, the Company's principal business, is rapidly recovering with growing capital investment from semiconductor manufacturers. This recovery was stimulated by increasing demand of semiconductors related to digital consumer electronics, thus the demand is expected to surpass forecast sales announced on October 31, 2003.

Due to these circumstances, we have surpassed the financial forecast for the year ending March 31, 2004 announced on October 31, 2003 as follows:

#### Consolidated forecast

		Billions of yen: Y/Y change	
		Full year	
Net sales		520.0	12.9%
	Semiconductor Production Equipment	417.0	14.3%
	Computer Network	18.0	4.7%
	Electronic Components	84.0	8.6%
	Other	1.0	(24.1%)
Ordinary income		14.0	-
Net income		4.5	-

#### Non-consolidated forecast

		Billions of yen: Y/Y change	
		Full year	
Net sales		427.0	15.6%
	Semiconductor Production Equipment	409.0	16.1%
	Computer Network	18.0	4.4%
Ordinary income		2.5	-
Net income		1.0	-

Note: The performance forecasts and estimates stated in this Overview of the Results for the Third Quarter ended December 31, 2003 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 may have an impact on performance.

The forecasts 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 production equipment business. Consequently, actual sales and profits may differ substantially from the projections stated in this Overview of the Results for the Third Quarter ended December 31, 2003.

## Consolidated Balance Sheet

(Millions of yen)

	As of December 31, 2003		As of March 31, 2003		Increase (decrease)	As of December 31, 2002	
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount	Amount	Compo- sition (%)
<b>(Assets)</b>	540,774	100.0	524,901	100.0	15,872	546,195	100.0
<b>Current Assets</b>	379,007	70.1	356,438	67.9	22,568	354,548	64.9
Cash and time deposits	48,349		52,982			47,190	
Trade notes and accounts receivable	193,832		170,286			139,778	
Inventories	114,097		111,810			147,177	
Others	22,830		21,701			20,758	
Allowance for doubtful accounts	(102)		(341)			(358)	
<b>Long-term Assets</b>	161,767	29.9	168,462	32.1	(6,695)	191,647	35.1
<b>Tangible fixed assets</b>	110,892		119,611		(8,719)	122,200	
<b>Intangible fixed assets</b>	24,208		25,342		(1,133)	27,126	
<b>Investments and other assets</b>	26,992		23,940		3,051	42,664	
<b>Allowance for doubtful accounts</b>	(325)		(431)		105	(343)	
<b>Total Assets</b>	540,774	100.0	524,901	100.0	15,872	546,195	100.0

# Consolidated Balance Sheet

(Millions of yen)

	As of December 31, 2003		As of March 31, 2003		Increase (decrease)	As of December 31, 2002	
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount	Amount	Compo- sition (%)
<b>(Liabilities)</b>	277,642	51.3	268,401	51.1	9,240	255,038	46.7
<b>Current liabilities</b>	139,755	25.8	160,705	30.6	(20,950)	151,055	27.7
Trade notes and accounts payable	46,486		36,676			34,940	
Short-term borrowings	11,210		10,651			21,771	
Commercial paper	30,000		35,000			30,000	
Straight Bonds due within 1 year	20,000		20,000			20,000	
Convertible Bonds due within 1 year	-		15,481			15,493	
Accrued income taxes	1,236		3,645			2,810	
Allowance for employees' bonuses	2,690		3,629			1,152	
Provision for loss on restructuring	528		8,577			-	
Others	27,602		27,045			24,887	
<b>Long-term liabilities</b>	137,887	25.5	107,695	20.5	30,191	103,982	19.0
Straight bonds	90,000		60,000			60,000	
Long-term loans	8,870		10,229			7,623	
Allowance for retirement and severance benefits	35,752		35,317			34,207	
Allowance for retirement and severance benefits for directors	658		1,074			1,031	
Others	2,604		1,074			1,120	
<b>(Minority interest)</b>	3,749	0.7	3,595	0.7	153	61	0.0
<b>(Shareholders' equity)</b>	259,382	48.0	252,904	48.2	6,478	291,095	53.3
<b>Common stock</b>	54,961	10.2	47,223	9.0	7,737	47,217	8.6
<b>Additional paid in capital</b>	78,023	14.4	70,285	13.4	7,737	70,279	12.9
<b>Consolidated retained earnings</b>	138,990	25.7	147,464	28.1	(8,474)	186,095	34.1
<b>Revaluation of investment in securities</b>	1,392	0.3	(58)	(0.0)	1,451	(802)	(0.2)
<b>Foreign currency translation adjustment</b>	(794)	(0.2)	1,228	0.2	(2,023)	1,540	0.3
<b>Treasury stock, at cost</b>	(13,189)	(2.4)	(13,238)	(2.5)	48	(13,234)	(2.4)
<b>Total liabilities, minority interest and shareholders' equity</b>	540,774	100.0	524,901	100.0	15,872	546,195	100.0

## Consolidated Statement of Income

(Millions of yen)

	Nine months ended December 31, 2003		Nine months ended December 31, 2002		Increase (decrease)		Year ended March 31, 2003	
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	(%)	Amount	Ratio to net sales
Net sales	342,651	100.0	320,381	100.0	22,269	7.0	460,580	100.0
Cost of sales	256,609	74.9	222,080	69.3	34,528	15.5	326,539	70.9
<b>Gross profit</b>	86,041	25.1	98,300	30.7	(12,258)	(12.5)	134,040	29.1
Selling, general & administrative expenses	86,656	25.3	99,321	31.0	(12,664)	(12.8)	132,921	28.9
<b>Operating income (loss)</b>	(614)	(0.2)	(1,020)	(0.3)	405	-	1,118	0.2
Non-operating income	1,634		1,531		103		2,208	
Non-operating expenses	2,604		3,066		(462)		3,557	
<b>Ordinary income (loss)</b>	(1,584)	(0.5)	(2,555)	(0.8)	971	-	(230)	(0.0)
Unusual or infrequent profit	435		543		(108)		624	
Unusual or infrequent loss	3,637		608		3,028		23,405	
<b>Income (loss) before income taxes</b>	(4,785)	(1.4)	(2,620)	(0.8)	(2,164)	-	(23,010)	(5.0)
Provision for income taxes and enterprise taxes	1,951	0.6	73	0.0	1,877	-	4,805	1.0
Deferred income taxes	-	-	-	-	-	-	13,726	3.0
Minority interest	318	0.1	9	0.0	308	-	12	0.0
<b>Net income (loss)</b>	(7,054)	(2.1)	(2,704)	(0.8)	(4,350)	-	(41,554)	(9.0)

For reference

## Consolidated Balance Sheet (Quarterly comparison)

(Millions of yen)

	As of December 31, 2003		As of September 30, 2003		Increase (decrease)
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount
<b>(Assets)</b>	540,774	100.0	506,459	100.0	34,314
<b>Current Assets</b>	379,007	70.1	341,165	67.4	37,841
Cash and time deposits	48,349		42,987		
Trade notes and accounts receivable	193,832		174,370		
Inventories	114,097		105,244		
Others	22,830		18,653		
Allowance for doubtful accounts	(102)		(89)		
<b>Long-term Assets</b>	161,767	29.9	165,293	32.6	(3,526)
<b>Tangible fixed assets</b>	110,892		114,554		(3,662)
<b>Intangible fixed assets</b>	24,208		24,649		(441)
<b>Investments and other assets</b>	26,666		26,089		577
<b>Total Assets</b>	540,774	100.0	506,459	100.0	34,314

For reference

## Consolidated Balance Sheet (Quarterly comparison)

(Millions of yen)

	As of December 31, 2003		As of September 30, 2003		Increase (decrease)
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount
<b>(Liabilities)</b>	277,642	51.3	244,946	48.4	32,695
<b>Current liabilities</b>	139,755	25.8	108,624	21.5	31,130
Trade notes and accounts payable	46,486		37,844		
Short-term borrowings	11,210		10,672		
Commercial paper	30,000		5,000		
Bonds due within 1 year	20,000		20,000		
Accrued income taxes	1,236		1,724		
Allowance for employees' bonuses	2,690		5,443		
Provision for loss on restructuring	528		1,195		
Others	27,602		26,743		
<b>Long-term liabilities</b>	137,887	25.5	136,322	26.9	1,565
Straight bonds	90,000		90,000		
Long-term loans	8,870		9,441		
Allowance for retirement and severance benefits	35,752		33,697		
Allowance for retirement and severance benefits for directors	658		668		
Others	2,604		2,514		
<b>(Minority interest)</b>	3,749	0.7	3,704	0.7	44
<b>(Shareholders' equity)</b>	259,382	48.0	257,807	50.9	1,574
<b>Common stock</b>	54,961	10.2	54,961	10.9	-
<b>Additional paid in capital</b>	78,023	14.4	78,023	15.4	-
<b>Consolidated retained earnings</b>	138,990	25.7	136,953	27.0	2,036
<b>Revaluation of investment in securities</b>	1,392	0.3	993	0.2	399
<b>Foreign currency translation adjustment</b>	(794)	(0.2)	62	0.0	(857)
<b>Treasury stock, at cost</b>	(13,189)	(2.4)	(13,185)	(2.6)	(4)
<b>Total liabilities, minority interest and shareholders' equity</b>	540,774	100.0	506,459	100.0	34,314

For reference

## Consolidated Statement of Income (Quarterly comparison)

(Millions of yen)

	Three months ended December 31, 2003		Three months ended September 30, 2003		Three months ended June 30, 2003		Three months ended December 31, 2002	
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	Ratio to net sales
Net sales	121,234	100.0	133,637	100.0	87,778	100.0	96,993	100.0
Cost of sales	91,461	75.4	98,539	73.7	66,607	75.9	66,914	69.0
<b>Gross profit</b>	29,772	24.6	35,097	26.3	21,171	24.1	30,078	31.0
Selling, general & administrative expenses	25,592	21.2	31,598	23.7	29,465	33.5	31,600	32.6
<b>Operating income (loss)</b>	4,180	3.4	3,499	2.6	(8,294)	(9.4)	(1,522)	(1.6)
Non-operating income	461		783		390		410	
Non-operating expenses	600		1,167		836		742	
<b>Ordinary income (loss)</b>	4,040	3.3	3,115	2.3	(8,740)	(10.0)	(1,853)	(1.9)
Unusual or infrequent profit	134		36		264		53	
Unusual or infrequent loss	367		2,744		525		120	
<b>Income (loss) before income taxes</b>	3,808	3.1	407	0.3	(9,001)	(10.3)	(1,921)	(2.0)
Provision for income taxes and enterprise taxes	947	0.7	(290)	(0.2)	1,294	1.4	(1,757)	(1.8)
Minority interest	109	0.1	138	0.1	70	0.1	2	0.0
<b>Net income (loss)</b>	2,751	2.3	559	0.4	(10,366)	(11.8)	(166)	(0.2)