

Consolidated Financial Review for the Year Ended March 31, 2004

Company name:	 TOKYO ELECTRON LIMITED
Headquarters address:	3-6 Akasaka 5-chome, Minato-ku, Tokyo 107-8481 Japan
Telephone number:	(03) 5561-7000
URL:	http://www.tel.com
Stock exchange listing:	Tokyo Stock Exchange 1st Section
Code number:	8035
Representative:	Kiyoshi Sato, President & CEO
Person-in-charge	Yukio Saeki, Director, Accounting Department
Board of Directors Meeting:	April 30, 2004
Application of U.S. GAAP:	None

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

1. Financial highlights for the year ended March 31, 2004 (4/1/03 - 3/31/04)

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

(1) Operating results

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended 3/31/04	529,653	15.0	22,279	-	21,167	-
Year ended 3/31/03	460,580	10.2	1,118	-	(230)	-

	Net income		Net income per share	Fully diluted net income per share	Return on equity	Ordinary income to total assets	Ordinary income to sales
	Millions of yen	%	Yen	Yen	%	%	%
Year ended 3/31/04	8,297	-	46.37	45.78	3.1	3.9	4.0
Year ended 3/31/03	(41,554)	-	(238.57)	-	(14.8)	(0.0)	(0.0)

Notes:

1. Profit/loss on equity method:

Year ended 3/31/04: (132) million yen

Year ended 3/31/03: (43) million yen

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

Year ended 3/31/04: 176,629,342 shares

Year ended 3/31/03: 174,228,135 shares

3. Changes in accounting methods: None

4. Percentages for net sales, operating income, ordinary income and net income indicated changes from the previous term.

(2) Financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
As of 3/31/04	561,631	275,799	49.1	1,543.73
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:

March 31, 2004	178,588,568 shares
March 31, 2003	173,663,175 shares

(3) Consolidated cash flow position

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at the end of the period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended 3/31/04	7,883	(8,544)	(10,270)	42,649
Year ended 3/31/03	21,393	(7,269)	(9,883)	52,982

(4) Scope of consolidation and application of equity method

Consolidated subsidiaries:	27 companies
Unconsolidated subsidiaries:	0 company
Affiliates using the equity method:	1 company

(5) Changes in scope of consolidation and application of equity method

Consolidated companies:	Additions: 2 companies	Deletions: 3 companies
Companies using the equity method:	Additions: 0 company	Deletions: 0 company

2. Corporate estimates for the year ending March 31, 2005 (4/1/04 - 3/31/05)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Six months ending 9/30/04	310,000	28,000	24,000
Year ending 3/31/05	630,000	60,000	52,000

For reference: Estimate of net income per share for the year ending March 31, 2005: 291.17 yen

1. Basic Management Policies

Tokyo Electron (the Company) focuses on the policy of increasing corporate value despite changes in the business environment by addressing 1) a policy of placing customers first; 2) strengthening product and technology development capability; 3) revitalization of employees; and 4) profit-oriented operations.

Based on the basic policies, the Company promotes strong global competitiveness, high growth and earnings capabilities as essential for building a powerful and dynamic company that is an attractive equity investment.

2. Basic Policies for Allocation of Earnings

The Company's dividend policy is to link dividends to overall results and earnings in providing returns to shareholders. As a rule, in setting dividends, the Company takes into account both consolidated results and a payout ratio of approximately 20 percent of parent company earnings. In addition, directors' bonuses also fluctuate according to overall results as part of an overall policy of linking compensation to results and earnings.

To meet the continued support of shareholders, the Company not only makes effective use of internal capital resources to further expand the scope of business through research and development, capital investment and global expansion, but also places priority on sound cash flow management and earnings growth.

3. Progress in Implementation of Measures Related to Corporate Governance

(1) Basic Policy concerning Corporate Governance

With globalization of corporate management is progressing, the basic operating policy and objectives are to make an intensive effort to establish a set of business ethics and comply with laws and regulations, to develop and strengthen internal control and risk management systems, and to ensure the transparency and objectivity of management with the aim of promoting a management emphasizing increasing corporate value for shareholders and all other stakeholders.

(2) Implementation of Measures of Corporate Governance

1) Management and administrative organizations involved in corporate management decision-making, execution, and supervision, as well as other systems for ensuring corporate governance

The Company uses an auditing system based on the board of directors, which is composed of eight directors (including two outside directors) and the board of statutory auditors, which is composed of four auditors (including two outside auditors).

2) **Development of internal control and risk management systems**

The guiding principles of the Company are to maintain its business ethics at a high level and comply with laws and international regulations when implementing actions. Based on these principles, the Company has appointed a chief business ethics director and established code of ethics to thoroughly implement business ethics throughout the Company. Reconfirming the importance of placing proper internal control and risk management systems appropriately, the Company has upgraded the internal auditing functions of the Internal Audit Dept. and established a new section within the General Affairs Dept. that carries out measures for managing business/operations and other risks. In addition, efforts are being made to develop internal regulations required to manage these risks, and hold activities such as education and enlightenment.

3) **Compensation for executives and auditing**

The compensation for the Company's directors and auditors during the current fiscal year, as well as the compensation paid to the independent auditors for audit certificates, is as follows:

Executive compensation

Total compensation paid to internal directors: 203 million yen

Total compensation paid to outside directors: 6 million yen

Total compensation paid to internal statutory auditors: 45 million yen

Total compensation paid to outside statutory auditors: 25 million yen

Compensation for auditing

Compensation for audit certificates: 36 million yen

(3) Overview of the Human, Capital and Business Relations between the Company and its Outside Directors and Statutory Auditors, and Other Interests in the Company

Mr. Yukio Sunahara, an outside director, is the director & chairman of Tokyo Broadcasting Systems, Inc. Although the Company has signed an office rental agreement with the broadcasting company, this agreement is a standard transaction between two companies, with the outside statutory director having no direct personal interests in it.

Mr. Toshiyuki Kondo, an outside director, has no business relation with the Company.

Mr. Fujio Kimura, an outside statutory auditor, has no business relation with the Company.

Mr. Hiroshi Maeda, an outside auditor, is a lawyer who works for Mitsui, Yasuda, Wani & Maeda. Since the Company has not concluded a continuous retainer agreement with the law office, the external auditor has no particular interests in the Company and vice versa. If the Company has necessity to ask the law office to provide legal services, both organizations negotiate conditions for an agreement on a per project basis and conclude individual agreements as independent parties.

(4) Recent engagement to enhance corporate governance

As the pace of change in the business environment and technological innovation are expected to accelerate, we are convinced that, in order to respond flexibly and ensure dynamic decision-making, promotion of youthful human resources working at the forefront of the market is required. Accordingly, the Company has changed its president after the 40th annual shareholders' meeting in June 2003. Also, in order to further clarify the role of the board of directors and that of the executive body, the Company introduced the executive officer system, which replaced the Corporate Senior Staff (CSS) system, in April 2003, enabling rapid business strategy planning and implementation. In accordance to these changes, the main functions of the board of directors, to maximize corporate value and thus fully represent the shareholders' interests, are clarified as follows: 1) decision on basic management policies, 2) deliberation and decision on basic business strategies planned by the executive officers, and 3) supervision and evaluation of group (the Company and its subsidiaries) management.

4. Issues to Be Addressed by the Company

The Company's main short-term task is the establishment of a highly profitable structure and a speedy management system through structural reforms. The Company is actively promoting policies to accomplish this task. In order to achieve further growth and increase corporate value, the Company intends to bring new products to the market promptly and create new businesses through the introduction of cutting-edge technologies, thus enhancing the satisfaction of shareholders and other stakeholders.

During the fiscal year, the Company endeavored to reduce personnel, inventories, capital investments, and other resources, and strongly advanced measures to shift to a more efficient business structure. This was done in order to math the Company's assets and costs, which grew with the expansion of the market up to the year 2000, with the current business environment. Meanwhile, in addition to promoting differentiation of its existing products from others and implementing further cost reductions, the Company believes that it will be necessary to enter new fields of business and launch new products, by introducing cutting-edge technologies, in order to ensure revenue that exceeds market growth. The Company will place an even greater emphasis on development in these new fields than in the past.

Moreover, the Company will speed up its operations to respond promptly to the increasingly rapid changes in the business environment, that is, the ever-shortening product life cycle, and enhancing its competitive advantage. Semiconductor and semiconductor production equipment industries, where the Company participates, enjoy broad growth of the market through technological change, on the other hand, if the balance of supply and demand is upset, the size of the market may temporarily contract. However, there is no doubt that the industries will continue to grow in the medium- to long-term. To achieve technological innovation that makes product differentiation possible, enhances strength, and increases corporate value, the Company will implement these measures and also strengthen its corporate structure.

5. Policy Concerning the Reduction in Size of the Stock Trading Unit

As part of its efforts to consider and implement measures to offer individual shareholders greater convenience, the Company reduced the size of its share trading unit from 1,000 shares to 100 shares on August 1, 2000. The Company also made efforts to improve its website, financial reports and the running of shareholders' meetings.

The Company believes that it has achieved greater liquidity for its shares as a result. The Company intends to adopt a careful approach toward making further reductions in the size of the share trading unit, taking into consideration trends in the stock market, financial performance and other factors.

Operating Results

1. Operating Environment for the Year Ended March 31, 2004

In the fiscal year ended March 31, 2004, despite the uncertain factors affecting the global economy, such as the growing tension in Iraq and the spread of severe acute respiration syndrome (SARS) at the beginning of the fiscal year, the U.S. economy remained firm thanks to the benefits of tax cuts and other positive factors. In Asia, China's economy continued to grow and the economies of Taiwan and Korea also rallied. Japan's economy posted a mild recovery; corporate performances improved despite the negative impact of the appreciation in the yen and other pressures, and capital investment and exports advanced mainly led by the manufacturing industry.

During the fiscal year, there was robust demand in the electronics market where the Company participates. Growth of the market was supported by replacement demand stimulated by new models of personal computers (PCs) and mobile phones with embedded cameras and the expanding market for digital consumer products, such as DVD recorders, digital cameras, and flat panel televisions. Upon this background, rate of capacity utilization of semiconductor manufacturers rose, many of which have their production bases in Japan and other Asian countries, and steps were taken to increase capacity, especially in the latter part of the fiscal year.

2. Sales Overview of the Fiscal Year Ended March 31, 2004

Under this business climate, consolidated net sales for the fiscal year ended March 31, 2004 increased 15.0 percent from the prior fiscal year to 529,653 million yen. Sales of the Company's core Semiconductor Production Equipment (SPE) division grew 16.7 percent, to 425,747 million yen, primarily by favorable growth in sales to semiconductor and flat panel display (FPD) manufacturers in Asia, including Japan. The sales growth of the Computer Network and Electronic Components divisions also contributed to overall sales expansion.

By regions, domestic sales rose 27.2 percent to 242,318 million yen and overseas sales expanded 6.4 percent to 287,335 million yen. As a result, the contribution of overseas sales to net sales decreased to 54.2 percent from 58.6 percent in the previous fiscal year.

Consolidated orders received for the fiscal year under increased 42.5 percent from the previous fiscal year to 653,623 million yen. The order backlogs at the fiscal year-end increased 82.3 percent to 274,676 million yen.

3. Overview of Operations by Division for the Fiscal Year Ended March 31, 2004

<Semiconductor Production Equipment Division>

Triggered by the bursting of the bubble in the IT market, the global electronics industry, especially the semiconductor-related industry, experienced a serious downturn for approximately two years. At the beginning of 2003, replacement demand for PCs and mobile phones began to build and the digital consumer products market began to emerge. These trends prompted a sharp recovery in capital investment sentiment among semiconductor manufacturers producing devices related to these markets. In particular subsequent orders from semiconductor manufacturers in Japan began to rise from the spring of 2003, since Japanese semiconductor manufacturers are especially strong in the fields of image sensors for digital cameras and the ICs for FPD engines. Accordingly, semiconductor manufacturers, particularly Asian, started to increase capital investment in their plants and equipments in response to the increased demand for memory and PC-related devices.

Consolidated orders of the SPE division for the fiscal year amounted to 549,773 million yen, rising 51.3 percent from the previous fiscal year. Consolidated sales climbed 16.7 percent to 425,747 million yen. Contribution to consolidated sales also rose, increasing to 80.4 percent from 79.2 percent. Japanese and overseas FPD manufacturers also increased their capital investment, building new factories and capacity based on the long-term growth expectations for the flat panel television market. As a result, sales of FPD production equipment, which are also included in this division, expanded compared with the previous fiscal year.

Looking at performance by region, capital investment in semiconductor devices for digital consumer products was active in Japan, and sales rose 45.7 percent, to 141,916 million yen. In Korea, capital investment in semiconductor memory and FPD increased, boosting sales 7.2 percent, to 61,411 million yen. Capital investment in the semiconductor industry in Taiwan recovered from a recent weak spell, supporting a 49.9 percent increase in sales, to 100,455 million yen. On the other hand, sales in the U.S. market fell 31.9 percent, to 50,621 million yen due to continuing low capital investment by major semiconductor manufacturers.

Focusing on individual products, the sale of major products such as coater/developers, etch systems, thermal processing systems, CVD systems, wafer probers, cleaning systems and FPD production equipment rose during the fiscal year. Among the latest products, sales of TELFORMULA™, a new thermal processing tool, and CLEAN TRACK LITHIUS™, a new coater/developer, rose.

In terms of wafer sizes, capital investment in 300mm wafer manufacturing lines continued to rise among semiconductor manufacturers in Japan and Asia. In total, the sales contribution of 300mm equipment is approximately 60 percent of our SPE sales.

<Computer Network Division>

Net sales of the Computer Network (CN) division advanced 7.3 percent, to 18,447 million yen. The division's business is principally based on providing customers with storage area network (SAN: high speed network that interconnects data storages devices and computers), Internet and broadband solutions.

Among SAN-related products, which generated 37 percent of CN division sales, Brocade Communications Systems, Inc.'s fibre channel fabric switches and Emulex Corporation's fibre channel host bus adapters expanded sales. NeoScale Systems, Inc.'s backup data encryption systems, which the division started handling in recognition of the growing importance of security for data storage systems, are now starting to be used as a solution for preventing data leaks.

Among network-related products, newly added secure socket layer-virtual private network (SSL-VPN) product from F5 Networks', one of the division's core product lines, expanded sales in a new market. Moreover, sales of Procket Networks, Inc.'s ultra-high-end routers, which the division started marketing in the previous fiscal year, also contributed to sales growth of the division.

During the fiscal year, the division added Ruff Systems HDV, a new version of its own proprietary high-definition video and voice broadcasting systems, that enables the IP protocol transmission of video camera images processed with a high-definition video (HDV) standard which is more economical than HDTV (High Vision) cameras. The division believes that as High Vision image transmission over broadband networks becomes a reality, this product has the possibility to be equally popular with professionals and general consumers and contribute to the spread of HDTV content.

<Electronic Components Division (Tokyo Electron Device Limited)>

Semiconductor products accounted for about 90 percent of divisional net sales. During the fiscal year, the division worked to expand sales of high-value-added items, such as Xilinx, Inc.'s programmable logic devices (PLDs), for which applications are expanding in consumer electronics products, such as flat panel televisions, and Linear Technology Corporation's analog ICs for power sources of mobile devices. Furthermore, the sales of Texas Instruments, Inc.'s products that the division started marketing in 2002 increased due to growth in sales of semiconductor testing equipment, ATMs and other industrial devices. Consequently, sales of semiconductor products rose compared with the prior fiscal year.

Sales of board products, such as motherboards, VME boards, and other boards sold well during the fiscal year and sales of software rose, benefited by expanded sales of operating system software for embedded system devices. Sales of general electronic components slightly declined despite the efforts to increase sales of panel programmable controllers and power switches as consumer electronics devices.

The division is aggressively developing its design and development services for custom ICs,

motherboards and software. In response to the increased number of orders received for these services, in January 2004, the Company established a subsidiary in Shanghai, China, to expand its capacity for design and development services. In the development of original products, the division has been one of the quickest to respond to large-scale integrated circuit (LSI) market needs, developing such products as high-definition simultaneous separator LSIs for picture devices for LCD projectors, plasma televisions and other displays, and host controllers for SD memory cards used extensively in mobile phones.

As a result, sales of the division amounted to 84,229 million yen, up 8.9 percent from the previous fiscal year.

Making efforts to understand customer needs, and to pursue further growth in its design, development and original products business, the division will focus on providing thorough technical support for high-value-added products such as custom, dedicated, or analog ICs.

4. Overview of Profit and Loss

Although gross profit increased 4.6 percent to 140,155 million yen, cost of sales increased 19.3 percent to 389,498 million yen, thus gross profit margin decreased 2.6 percent to 26.5 percent compared with the previous fiscal year. There were reductions in production fixed costs and an increase in plant utilization rates due to sales growth, however, the gross profit margin decreased slightly due to the fact that expenses related to field engineering services that were previously included in selling, general and administrative expenses, has been transferred to cost of sales as of the fiscal year under review.

Selling, general and administrative expenses (SG&A) decreased 11.3 percent to 117,875 million yen, and SG&A to net sales declined from 28.9 percent to 22.3 percent. Based on efforts to focus on selected R&D projects that the Company undertakes, to reduce development lead times and transferring the expenses related to field engineering services to cost of sales mentioned as above, R&D expenses decreased 11.9 percent to 44,149 million yen, year on year. R&D expenses were allocated principally to the development of 65 nanometer-and-smaller design rule process technology and equipment, as well as new product development.

Operating income increased 21,160 million yen to 22,279 million yen from 1,118 million yen in the previous fiscal year.

Ordinary income, after netting non-operating income of 2,659 million yen and non-operating expenses of 3,771 million yen, improved 21,397 million yen from previous fiscal year, to 21,167 million yen.

Extraordinary losses declined 16,541 million yen from the previous fiscal year, to 6,231 million yen, attributed to restructuring costs and revaluation of the capital value of subsidiaries.

Income before income taxes increased 37,946 million yen from the prior fiscal year to 14,935 million yen. Net income, therefore, improved 49,852 million yen, to 8,297 million yen. Consequently, net income per share improved from minus 238.57 yen to 46.37 yen.

5. Analysis of Financial Position and Cash Flows

(1) Financial Position

Current assets at March 31, 2004 increased 46,535 million yen year on year, to 402,974 million yen. Among the main factors in this change were a 60,758 million yen rise in trade notes and accounts receivable, along with greater sales, and a 10,332 million yen decrease in cash and cash equivalents due to increase of working capital. Even though products in progress at plants increased due to the manufacturing ramp, inventory decreased to 6,623 million yen year on year by reducing products.

Property, plant and equipment decreased 10,822 million yen year on year to 108,788 million yen. During the fiscal year, Company placed an investment 11,006 million yen in property, plant and equipment, consisting primarily of the purchase of equipment for evaluation and IT-related purchases.

Investments and other assets increased 4,847 million yen to 28,356 million yen. The main factors in the increase in investments and other assets was the increase of fair value of marketable securities due to improvement of stock prices. Therefore, total assets increased 36,730 million yen year on year to 561,631 million yen.

Current liabilities decreased 19,233 million yen year on year to 141,472 million yen. Major factors behind this decrease were an increase in trade notes and accounts payable due to greater procurement necessary for the higher production levels and the redemption of 35,000 million yen worth of commercial paper.

Long-term debt increased 32,717 million yen year on year to 140,412 million yen due to a 20,000 million yen tenth unsecured bond issue and a 30,000 million yen eleventh unsecured bond issue.

Shareholders' equity increased 22,895 million yen to 275,799 million yen, principally due to the conversion of convertible bonds and greater retained earnings resulting from the increase in net income. As a percentage of total assets, shareholders' equity rose to 49.1 percent from 48.2 percent a year earlier. Return on average total shareholders' equity was 3.1 percent.

(2) Cash Flows

Net cash provided by operating activities amounted to 7,883 million yen, decreasing from 21,393 million yen a year earlier. The main factors included a loss before income taxes amounting to 14,935 million yen, depreciation and amortization totaling 24,962 million yen, increases in purchase liabilities amounting to 29,153 million yen and increases in accounts receivable

amounting to 61,789 million yen.

Net cash used in investing activities was 8,544 million yen, increased from 7,269 million yen in the previous fiscal year. Investment in property, plant and equipment totaling 7,530 million yen mainly comprised the purchase of equipment for R&D.

Net cash used in financing activities amounted to 10,270 million yen compared with 9,883 million yen a year earlier. The Company had outlays during the fiscal year related to commercial papers and the redemption of the eighth unsecured bond issue, the repayment of short-term borrowings, and the payment of dividends. These outlays were offset, however, by proceeds from the 20,000 million yen tenth unsecured bond issue and the 30,000 million yen eleventh unsecured bond issue.

Cash and cash equivalents at the end of the year amounting to 42,649 million yen, down 10,332 million yen from 52,982 million yen at the end of the previous fiscal year.

The trend of cash flow indices is as follows.

	Year ended March 31, 2003	Year ended March 31 2004
Equity ratio (%)	48.2	49.1
Equity ratio at market value (%)	153.5	221.0
Debt redemption paid (number of years)	7.1	16.1
Interest coverage ratio	12.81	6.03

Equity ratio : $\text{Shareholders' equity} / \text{Total assets} \times 100$

Equity ratio at market value : $\text{Market capitalization} / \text{Total assets} \times 100$

Debt redemption period: $\text{Interest-bearing liabilities} / \text{Cash flow from operating activities}$

Interest coverage ratio: $\text{Cash flow from operating activities} / \text{Interest expenses}$

- All indices are calculated using figures on a consolidated basis.
- Market capitalization is calculated based on the following formula: Closing stock price at fiscal year-end x Number of shares outstanding at fiscal year-end.
- Cash flow from operating activities corresponds to the cash flow from operating activities in the consolidated statement of cash flows. Interest-bearing liabilities include all liabilities for which the Company is paying interest among the liabilities reported on the consolidated balance sheet. Interest expenses correspond to the interest paid in the consolidated statement of cash flows.

6. Projected allocation of profit

Based on basic policies for allocation of earnings, cash dividends for the year ended March 31, 2004, have been planned, taking into consideration the outcome of the fiscal year and policies emphasizing shareholders. It is planned to propose a year-end dividend of 6 yen per share (in addition to interim dividend of 4 yen, total cash dividends for the year ending March 31, 2004 has increased 2 yen compared with the previous fiscal year) in the 41st Annual Shareholders' Meeting to be held in June, 2004.

With the fiscal year's operating results, it is also planned to propose a total of 50 million yen as bonuses for board members at the annual shareholders' meeting.

7. Trends in the Fourth Quarter

Looking at consolidated results for the fourth quarter, net sales came to 18,702 million yen, up by 33.4 percent compared with the same quarter of the previous year and up by 54.2 percent compared with the previous quarter. Ordinary income came to 22,751 million yen, up by 878.4 percent compared with the same quarter of the previous fiscal year and the net income for the year to 15,352 million yen.

By division, consolidated sales came to 157,017 million yen (up 40.1 percent year-on-year) in the Semiconductor Production Equipment division, 5,989 million yen (up 0.3 percent year-on-year) in the Computer Network division and 23,698 million yen (up 8.6 percent year-on-year) in the Electronic Components division.

(For reference)

Consolidated (Millions of yen)

			1Q	2Q	3Q	4Q	Full year
Net sales	Semiconductor Production Equip.	Japan	22,254	50,911	27,715	41,034	141,916
		U.S.	9,519	13,464	12,982	14,655	50,621
		Europe	7,281	9,227	5,884	11,502	33,895
		Korea	10,671	10,444	14,538	25,757	61,411
		Taiwan	13,039	15,816	26,558	45,041	100,455
		China	1,261	3,697	4,121	8,476	17,557
		South East Asia	1,292	3,350	4,695	10,550	19,888
		Total	65,320	106,912	96,496	157,017	425,747
	Computer Network		3,397	5,244	3,815	5,989	18,447
	Electronic Components		18,768	21,141	20,619	23,698	84,229
	Other		291	338	302	296	1,229
	Total		87,778	133,637	121,234	187,002	529,653
	Ordinary income (loss)			(8,740)	3,155	4,040	22,751
Net income (loss)			(10,366)	559	2,751	15,352	8,297

8. Projected Operating Results for the Next Fiscal Year

(1) Overall projected operating results for the next fiscal year

Capital investment of semiconductor manufacturers has been recovering rapidly, and the Company expects expansion in demand in the Company's products. Various measures to streamline operations and reduce costs will continue to be made, and the Company will make further efforts to improve profitability. The next fiscal year forecast projects an increase in income and profit.

Consolidated forecast

Billions of yen : Y/Y change

		Interim		Full year	
Net sales		310.0	40.0%	630.0	18.9%
	Semiconductor Production	256.5	48.9%	520.0	22.1%
	Equipment				
	Computer Network	9.0	4.1%	19.0	3.0%
	Electronic Components	44.0	10.2%	90.0	6.9%
	Other	0.5	(20.6%)	1.0	(18.7%)
Ordinary income		28.0	-	60.0	183.5%
Income before income tax		28.0	-	60.0	301.7%
Net income		24.0	-	52.0	526.7%

Non-consolidated forecast

Billions of yen : Y/Y change

		Interim		Full year	
Net sales		261.0	49.0%	530.0	22.2%
	Semiconductor Production	252.0	51.3%	511.0	23.1%
	Equipment				
	Computer Network	9.0	4.0%	19.0	2.9%
Ordinary income		14.0	-	30.0	261.7%
Income before income tax		14.0	-	30.0	588.5%
Net income		14.0	-	30.0	694.1%

(2) Projected Allocation of Profit for the Next Fiscal Year

Taking into account the Company's consolidated performance outlook, Tokyo Electron plans to pay total cash dividends of 30 yen per share for the year ending March 31, 2005, comprising interim and year-end dividend of 15 yen per share.

9. Business-related and Other Risks

The following are possible risks that may have an impact on the Company's operating results, stock prices, or financial position.

(1) Impact of fluctuating foreign exchange rates

By succeeding in the active overseas development of operations, the Company has increased the proportion of sales from overseas. As a rule, the Company carries out export transactions

on a yen-basis in order to avert exchange-related risks, yet there are some exports involving foreign currency. In these cases, the Company employs an exchange risk hedge, such as a forward exchange contract at the time an order is placed. However, since for overseas customers, exchange-related risks can arise from fluctuations in prices due to drastic exchange fluctuations, it may have indirect negative impact on the Company's performance.

(2) Impact from research and development

Through the ongoing implementation of proactive R&D investment and activities for cutting-edge technologies—miniaturization, vacuum, plasma, thermal-processing, coating/developing, cleaning, wafer-transfer, and clean technologies—the Company has created cutting-edge technologies. Promptly introducing new products on the market that are equipped with these technologies, the Company has successfully obtained a large market share in each of the product fields, along with a high profit margin. However, the possibility does exist that the ill-timed introduction of new products may have a negative impact on the Company's performance.

(3) Impact from changes in semiconductor market

The Company has been able to achieve a high profit margin by concentrating resources in the high-tech field, including semiconductor production equipment, where technologies undergo rapid changes and the Company is able to display its strength. Although the semiconductor market enjoys broad growth through technological change, the Company has been actively involved in structural reforms to be able to generate profit under any circumstance, for example, when the size of the market temporarily contracts due to imbalance of supply and demand. However, the possibility does exist that business results and cash flow may receive a negative impact from an unexpectedly broad contraction in the size of the market, resulting in order write-offs, over capacity and personnel, or increased inventories.

(4) Impact from transactions concentrated on particular customers

Providing products equipped with superior, cutting-edge technology and offering a system of high customer satisfaction, the Company has been successful in expanding its business transactions with the world's leading semiconductor manufacturers both inside and outside of Japan. Yet since the Company's net sales may at times be temporarily concentrated on particular customers due to the timing of large-scale capital investments, there is the possibility of a negative impact on business results from intensified sales competition.

(5) Impact from quality issues

The Company has been proactively developing superior, cutting-edge technologies utilized in new products that are promptly introduced onto the market, while at the same time the Company has established a quality assurance system, including obtaining ISO 9001 certification. The Company has also worked to establish a world-class service system, and this has resulted in a large number of customers adopting our products. However, because they are cutting-edge technology products, in addition to other factors, many of the technologies developed are in unknown fields, and the possibility exists that business results may be negatively affected by the

occurrence of unforeseen defective products.

(6) Impact of intellectual property rights

In order for the Company to set its products apart and enhance its competitive strength, the Company has promoted its R&D strategy for the prompt development of cutting-edge technologies, together with its business and intellectual property strategies. This has made it possible to obtain many of the Company's own proprietary technologies, thereby successfully ensuring a large market share and high profit margin in each product field. However, partly because the Company's products use many of the consolidated and optimized cutting-edge technologies, there may be cases where a negative impact on business results arises from avoiding the use of a third party's technology and intellectual property rights.

(7) Other risks

Seeking the creation of new high-growth, high-return businesses, while pursuing higher revenues for existing businesses, the Company has been actively involved in making improvements to corporate structure so that profit can be generated even during contractions in market size, and the Company has also overhauled its risk management system. However, to the extent that the Company performs its operations, like other companies in the same or different industries, it is subject to the impact from factors such as the global or local economic environment, natural disasters, wars, terrorism, unavoidable incidents (such as infectious diseases), financial or stock markets, government regulation, provision systems of suppliers, market conditions for products and real estate, securing of personnel domestically or overseas, competition over standardization, loss of important personnel, etc., and at times it can be assumed that such factors may have a negative impact on the Company's business performance.

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 production equipment business. Consequently, actual sales and profits may differ substantially from the projections stated in this Financial Review.

Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2004		As of March 31, 2003		Increase (Decrease)	
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount	(%)
(Assets)	561,631	100.0	524,901	100.0	36,730	7.0
Current Assets	402,974	71.8	356,438	67.9	46,535	13.1
Cash and time deposits	42,649		52,982			
Trade notes and accounts receivable	231,044		170,286			
Inventories	105,186		111,810			
Others	24,247		21,701			
Allowance for doubtful accounts	(154)		(341)			
Long-term Assets	158,657	28.2	168,462	32.1	(9,805)	(5.8)
Tangible fixed assets	108,788	19.4	119,611	22.8	(10,822)	(9.0)
Buildings & structures	53,741		59,655			
Machinery & carriers	25,350		28,510			
Tools, furniture & fixtures	7,567		9,246			
Land	19,577		19,718			
Construction in progress	2,552		2,479			
Intangible fixed assets	21,512	3.8	25,342	4.8	(3,829)	(15.1)
Consolidated good will	11,200		15,031			
Others	10,311		10,310			
Investments and other assets	28,356	5.0	23,509	4.5	4,847	20.6
Investment securities	10,873		7,216			
Long-term loans	11		85			
Deferred taxes	10,203		9,362			
Others	7,579		7,277			
Allowance for doubtful accounts	(311)		(431)			
Total Assets	561,631	100.0	524,901	100.0	36,730	7.0

Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2004		As of March 31, 2003		Increase (Decrease)	
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount	(%)
(Liabilities)	281,885	50.2	268,401	51.1	13,483	5.0
Current liabilities	141,472	25.2	160,705	30.6	(19,233)	(12.0)
Trade notes and accounts payable	65,419		36,676			
Short-term borrowings	8,569		10,651			
Commercial paper	-		35,000			
Bonds due within 1 year	20,000		20,000			
Convertible bonds due within 1 year	-		15,481			
Accrued income taxes	3,272		3,645			
Allowance for employees' bonuses	6,376		3,629			
Provision for loss on restructuring	-		8,577			
Stock purchase warrant	1,084		1,273			
Others	36,750		25,771			
Long-term liabilities	140,412	25.0	107,695	20.5	32,717	30.4
Straight bonds	90,000		60,000			
Long-term loans	8,475		10,229			
Allowance for retirement and severance benefits	37,575		35,317			
Allowance for retirement and severance benefits for directors	700		1,074			
Others	3,661		1,074			
(Minority interest)	3,946	0.7	3,595	0.7	351	9.8
(Shareholders' equity)	275,799	49.1	252,904	48.2	22,895	9.1
Common stock	54,961	9.8	47,223	9.0	7,737	
Capital surplus	78,023	13.9	70,285	13.4	7,737	
Retained earnings	154,342	27.5	147,464	28.1	6,877	
Revaluation of investment in securities	2,395	0.4	(58)	(0.0)	2,454	
Foreign currency translation adjustment	(719)	(0.1)	1,228	0.2	(1,948)	
Treasury stock, at cost	(13,203)	(2.4)	(13,238)	(2.5)	35	
Total liabilities, minority interest and shareholders' equity	561,631	100.0	524,901	100.0	36,730	7.0

Consolidated Statement of Income

(Millions of yen)

	Year ended March 31, 2004		Year ended March 31, 2003		Increase (decrease)	
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	(%)
Net sales	529,653	100.0	460,580	100.0	69,073	15.0
Cost of sales	389,498	73.5	326,539	70.9	62,958	19.3
Gross profit	140,155	26.5	134,040	29.1	6,114	4.6
Selling, general & administrative expenses	117,875	22.3	132,921	28.9	(15,046)	(11.3)
Operating income (loss)	22,279	4.2	1,118	0.2	21,160	-
Non-operating income						
Interest income	158		133			
Dividend income	41		57			
Rent revenue	779		867			
Miscellaneous income	1,679		1,149			
Non-operating expenses						
Interest expenses	1,326		1,601			
Rent expenses	436		516			
Foreign currency translation loss	531		503			
Depreciation expenses	169		449			
Miscellaneous expenses	1,307		486			
Ordinary income (loss)	21,167	4.0	(230)	(0.0)	21,397	-
Unusual or infrequent profit						
Prior term adjustment	-		29			
Reversal of allowance for doubtful accounts	226		244			
Gain on sale of fixed assets	404		100			
Revenue from government subsidies	-		250			
Others	0		-			
Unusual or infrequent loss						
Loss on proceeds or disposal of fixed assets	1,298		1,746			
Provision for possible loan loss reserve	44		185			
Restructuring costs	2,540		12,055			
Transfer to allowance for restructuring costs	-		8,577			
Impairment of consolidated good will	1,933		-			
Others	1,046		841			
Income (loss) before income taxes	14,935	2.8	(23,010)	(5.0)	37,946	-
Provision for income taxes and enterprise taxes	5,107	0.9	4,805	1.0	301	6.3
Deferred income taxes	1,015	0.2	13,726	3.0	(12,710)	(92.6)
Minority interest	515	0.1	12	0.0	503	-
Net income (loss)	8,297	1.6	(41,554)	(9.0)	49,852	-

Consolidated Statement of Retained Earnings

(Millions of yen)

	Year ended March 31, 2004	Year ended March 31, 2003	Increase (Decrease)
	Amount	Amount	Amount
(Capital surplus)			
Capital surplus at the beginning of the period	70,285	70,275	9
Additional paid-in capital at the beginning of the period	70,285	70,275	9
Increase in capital surplus	7,737	9	7,728
Conversion of convertible bonds	7,737	9	7,728
Capital surplus at the end of the period	78,023	70,285	7,737
(Retained earnings)			
Retained earnings at the beginning of the period	147,464	190,195	(42,730)
Consolidated retained earnings at the beginning of the period	-	190,195	(190,195)
Retained earnings at the beginning of the period	147,464	-	147,464
Increase in retained earnings	8,297	219	8,077
Net income	8,297	-	8,297
Increase due to the change in the equity holding as a result of a public offering by a consolidated subsidiary	-	219	(219)
Decrease in retained earnings	1,419	42,949	(41,530)
Net loss	-	41,554	(41,554)
Cash dividends	1,409	1,395	13
Bonuses to directors and statutory auditors	10	-	10
Loss on disposal of treasury stocks	0	-	0
Retained earnings at the end of the period	154,342	147,464	6,877

Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2004	Year ended March 31, 2003	Increase (Decrease)
	Amount	Amount	Amount
I Cash flow from operating activities			
Income (loss) before income taxes	14,935	(23,010)	37,946
Depreciation and amortization	24,962	27,373	(2,410)
Amortization of consolidating adjustments	1,897	1,897	-
Increase in allowance for retirement and severance benefits (decrease)	2,264	3,611	(1,346)
Increase in allowance for retirement and severance benefits for directors (decrease)	(374)	(195)	(178)
Increase in allowance for doubtful accounts (decrease)	(302)	(123)	(178)
Increase in allowance for employees' bonuses (decrease)	2,764	1,166	1,598
Interest and dividend revenue	(200)	(191)	(9)
Interest expenses	1,332	1,605	(272)
Foreign currency translation loss (gain)	369	287	82
Prior term adjustment	-	(29)	29
Loss (gain) on sale of fixed assets	(363)	(61)	(301)
Loss on disposal of fixed assets	1,257	1,706	(449)
Temporary impairment of consolidating adjustments	1,933	-	1,933
Restructuring costs	2,540	12,055	(9,514)
Transfer to allowance for restructuring costs	-	8,577	(8,577)
Decrease in trade notes and accounts receivable (increase)	(61,789)	(13,661)	(48,127)
Decrease in inventories (increase)	(5,326)	(3,890)	(1,435)
Increase in accounts payable (decrease)	29,153	10,351	18,801
Decrease in prepaid consumption tax (increase)	333	(926)	1,259
Others	7,079	(3,142)	10,221
Subtotal	22,471	23,400	(929)
Receipts from interest and dividends	192	190	2
Interest paid	(1,306)	(1,670)	363
Payment for special retirement benefits	(6,513)	-	(6,513)
Income taxes paid	(6,960)	(527)	(6,433)
Net cash generated by (used in) operating activities	7,883	21,393	(13,510)
II Cash flow from investing activities			
Payment for purchase of tangible fixed assets	(7,530)	(7,028)	(501)
Proceeds from sale of tangible fixed assets	2,391	2,732	(341)
Payment for acquisition of intangible fixed assets	(3,200)	(2,779)	(420)
Proceeds from sale of intangible fixed assets	28	61	(32)
Loans to third parties	(460)	(38)	(422)
Collection of loans	84	39	45
Others	141	(257)	399
Net cash used in investing activities	(8,544)	(7,269)	(1,274)
III Cash flow from financing activities			
Net increase in short-term borrowings (decrease)	(1,464)	(4,828)	3,364
Net increase in commercial paper (decrease)	(35,000)	25,000	(60,000)
Proceeds from long-term debt	-	3,000	(3,000)
Repayment of long-term debt	(1,922)	(7,183)	5,260
Proceeds from issuance of bonds	49,767	-	49,767
Redemption of straight bonds	(20,005)	(20,000)	(5)
Net decrease in treasury stock (increase)	35	(8,223)	8,258
Dividends paid	(1,409)	(1,395)	(13)
Income from a public offering by a consolidated subsidiary	-	3,750	(3,750)
Others	(272)	(3)	(268)
Net cash generated by financing activities	(10,270)	(9,883)	(386)
IV Foreign currency translation difference in cash and cash equivalents	599	332	266
V Net increase in cash and cash equivalents (decrease)	(10,332)	4,573	(14,905)
VI Cash and cash equivalents at the beginning of the period	52,982	48,409	4,573
VII Cash and cash equivalents at the end of the period	42,649	52,982	(10,332)

Note: Figures in parentheses in the consolidated statement of cash flows represent outflows of cash and cash equivalents.

For reference

Consolidated Balance Sheet (Quarterly comparison)

(Millions of yen)

	Three months ended March 31, 2004		Three months ended December 31, 2003		Increase (decrease)
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount
(Assets)	561,631	100.0	540,774	100.0	20,857
Current Assets	402,974	71.8	379,007	70.1	23,966
Cash and time deposits	42,649		48,349		
Trade notes and accounts receivable	231,044		193,832		
Inventories	105,186		114,097		
Others	24,247		22,830		
Allowance for doubtful accounts	(154)		(102)		
Long-term Assets	158,657	28.2	161,767	29.9	(3,109)
Tangible fixed assets	108,788		110,892		(2,103)
Intangible fixed assets	21,512		24,208		(2,695)
Investments and other assets	28,356		26,666		1,689
Total Assets	561,631	100.0	540,774	100.0	20,857

For reference

Consolidated Balance Sheet (Quarterly comparison)

(Millions of yen)

	Three months ended March 31, 2004		Three months ended December 31, 2003		Increase (decrease)
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount
(Liabilities)	281,885	50.2	277,642	51.3	4,242
Current liabilities	141,472	25.2	139,755	25.8	1,716
Trade notes and accounts payable	65,419		46,486		
Short-term borrowings	8,569		11,210		
Commercial paper	-		30,000		
Bonds due within 1 year	20,000		20,000		
Accrued income taxes	3,272		1,236		
Allowance for employees' bonuses	6,376		2,690		
Provision for loss on restructuring	-		528		
Others	37,834		27,602		
Long-term liabilities	140,412	25.0	137,887	25.5	2,525
Straight bonds	90,000		90,000		
Long-term debt	8,475		8,870		
Allowance for retirement and severance benefits	37,575		35,752		
Allowance for retirement and severance benefits for directors	700		658		
Others	3,661		2,604		
(Minority interest)	3,946	0.7	3,749	0.7	197
(Shareholders' equity)	275,799	49.1	259,382	48.0	16,416
Common stock	54,961	9.8	54,961	10.2	-
Capital Surplus	78,023	13.9	78,023	14.4	-
Retained earnings	154,342	27.5	138,990	25.7	15,352
Revaluation of investment in securities	2,395	0.4	1,392	0.3	1,002
Foreign currency translation	(719)	(0.1)	(794)	(0.2)	75
Treasury stock, at cost	(13,203)	(2.4)	(13,189)	(2.4)	(13)
Total liabilities, minority interest and shareholders' equity	561,631	100.0	540,774	100.0	20,857

For reference

Consolidated Statement of Income (Quarterly comparison)

(Millions of yen)

	Three months ended March 31, 2004		Three months ended December 31, 2003		Three months ended September 30, 2003		Three months ended June 30, 2003	
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	Ratio to net sales
Net sales	187,002	100.0	121,234	100.0	133,637	100.0	87,778	100.0
Cost of sales	132,889	71.1	91,461	75.4	98,539	73.7	66,607	75.9
Gross profit	54,113	28.9	29,772	24.6	35,097	26.3	21,171	24.1
Selling, general & administrative expenses	31,218	16.7	25,592	21.2	31,598	23.7	29,465	33.5
Operating income (loss)	22,894	12.2	4,180	3.4	3,499	2.6	(8,294)	(9.4)
Non-operating income	1,024		461		783		390	
Non-operating expenses	1,167		600		1,167		836	
Ordinary income (loss)	22,751	12.2	4,040	3.3	3,115	2.3	(8,740)	(10.0)
Unusual or infrequent profit	196		134		36		264	
Unusual or infrequent loss	3,227		367		2,744		525	
Income (loss) before income taxes	19,721	10.5	3,808	3.1	407	0.3	(9,001)	(10.3)
Provision for income taxes and enterprise taxes	4,171	2.2	947	0.7	(290)	(0.2)	1,294	1.4
Minority interest	197	0.1	109	0.1	138	0.1	70	0.1
Net income (loss)	15,352	8.2	2,751	2.3	559	0.4	(10,366)	(11.8)

Note:

Income tax adjustment includes Provision for income taxes and enterprise taxes.