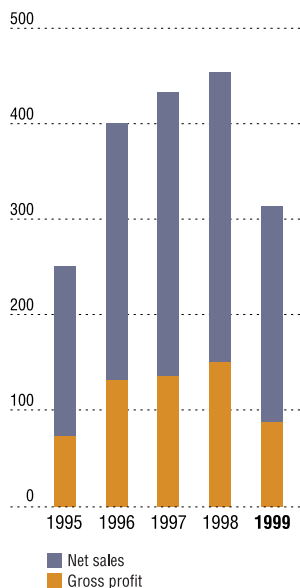
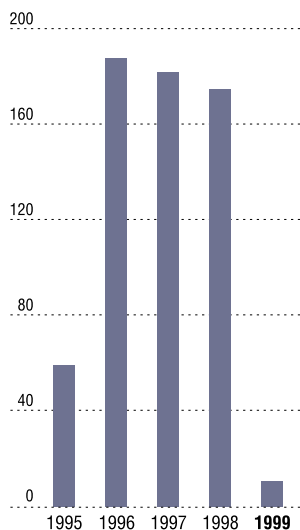


MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

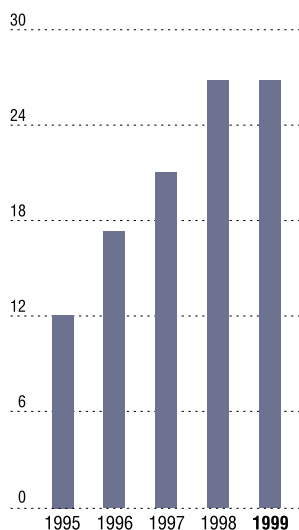
Cost of sales decreased 25.9 percent to ¥225,962 million. The cost of sales ratio, however, increased to 72.0 percent from 66.9 percent for the prior fiscal year. While outlays for outsourced labor declined significantly, the unit costs of proprietary Tokyo Electron products increased due mainly to lower 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.

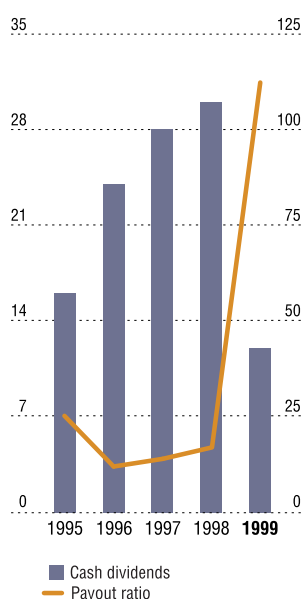
R&D Expenses

(¥ 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.

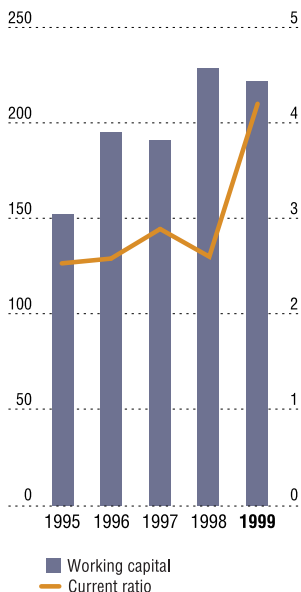
	Millions of yen (percentage of net sales)		Thousands of U.S. dollars
	1999	1998	1999
Net sales.....	¥313,820(100.0)	¥455,585 (100.0)	\$2,603,235
Cost of sales.....	225,962 (72.0)	304,825 (66.9)	1,874,425
Gross profit	87,858 (28.0)	150,760 (33.1)	728,810
SG&A expenses	81,475 (26.0)	87,464 (19.2)	675,861
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.

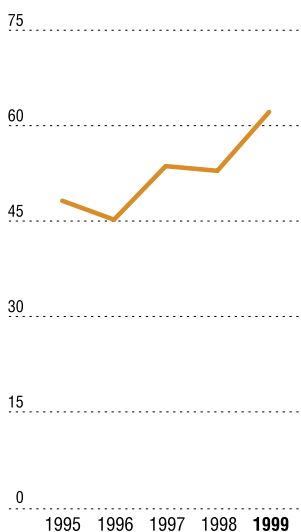
Working Capital & Current Ratio

(¥ 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.

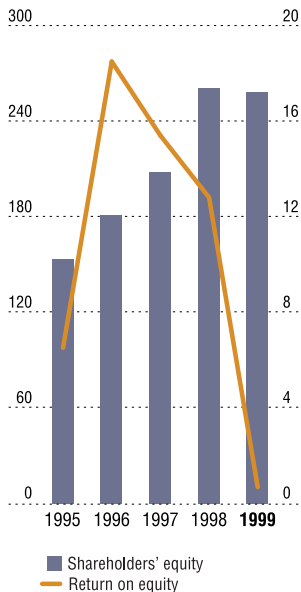
	Millions of yen (percentage of total assets)		Thousands of U.S. dollars
	1999	1998	1999
Total assets.....	¥414,903 (100.0)	¥493,600 (100.0)	\$3,441,750
Trade notes and accounts receivable....	140,746 (33.9)	192,005 (38.9)	1,167,532
Cash and time deposits.....	46,910 (11.3)	71,057 (14.4)	389,133
Inventories.....	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

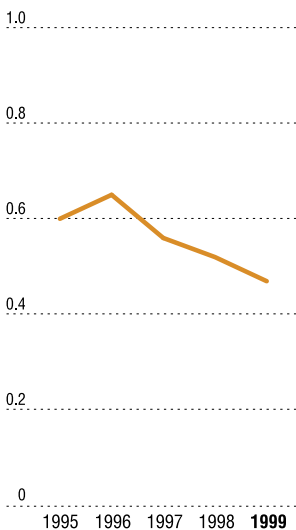
Shareholders' Equity and ROE

(¥ 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.

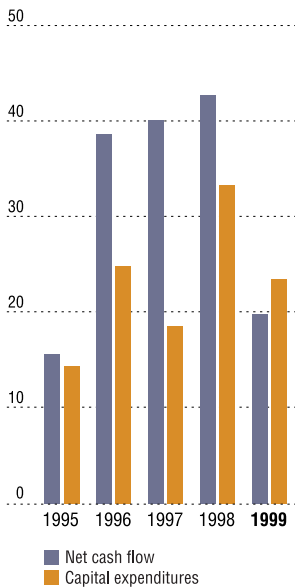
Year 2000 (Y2K) Readiness

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.