

To Our Shareholders

As always, during the fiscal year ended March 2001, Tokyo Electron (TEL) focused on generating high shareholder value. Consolidated net sales gained 64.2 percent year-on-year to ¥723.9 billion, while operating income increased 3.4 times to ¥121.1 billion. Both net sales and operating income substantially exceeded previous records, making fiscal 2001 Tokyo Electron's best year ever.

Rapid diffusion of Internet- and mobile-related products drove expansion in the semiconductor market, supporting strong demand for Tokyo Electron's core semiconductor and liquid crystal display (LCD) production equipment that surpassed projections. Particularly, solid performance in the United States, with sales more than doubling, enabled us to increase our share of the semiconductor production equipment market, which made a

major contribution to Tokyo Electron's overall results. Moreover, the Computer Network division and the Electronic Components division generated double-digit growth under a product strategy that emphasizes the information and communications sectors. This also contributed measurably to overall performance.

Consolidated net income tripled to ¥62.0 billion, and basic net income per share totaled ¥353.76. Return on equity (ROE) rose to 20.4 percent, another record that indicates the success of management's strategies for maximizing corporate value. Cash dividends per share were ¥38.00, a ¥24.00 increase from the prior year.



Focusing Investment on Growth Sectors

During the past fiscal year, Tokyo Electron geared up operations to stay abreast of surging orders. With demand for the Company's products rising sharply, Tokyo Electron devoted substantial effort to expanding production capability in order to deliver on its commitments to customers. We also executed a cost reduction project that included the deployment of information technologies (IT) with the aim of shortening lead time. We are now halfway through this project, which is designed to result in significantly higher productivity as we move toward its completion at the end of 2002. Tokyo Electron also invested ¥52.9 billion in research and development, a 42.5 percent increase year-on-year, as we worked to create the core technologies of tomorrow. We have assembled a development portfolio that devotes the highest percentage of investment to date to the high-growth sectors of the future.

Acquisitions are another component of our product strategy based on high-potential product segments. During the fiscal year, Tokyo Electron purchased two companies in the United States that have given the Company access to highly promising and innovative technologies. The acquisition of Supercritical Systems gives Tokyo Electron a breakthrough cleaning technology for sub-100nm nodes. The purchase of Timbre Technologies strengthens Tokyo Electron's ability to add value to its product lineup with metrology solutions for Advanced Process Control. These two acquisitions will support Tokyo Electron's drive to further build its position in the semiconductor production equipment market.

Investments during a Market Downturn Lay the Foundation for Future Growth

While 2001 carried the excitement of the beginning of a new century, it also brought with it a turbulent market for semiconductor production equipment. Inventories of semiconductors for personal computers and cellular phones rose and economic growth cooled in the United States, the world's largest consumer market. Moreover, demand for digital consumer appliances, which are expected to be a new growth driver replacing PCs, has not grown enough to create a significant market. The world's semiconductor manufacturers curtailed investment as a result.

While these trends are making the year ending March 2002 especially challenging, Tokyo Electron will implement thorough measures to cut costs during this period. We are also increasing our emphasis on continuing to implement concerted measures, such as the cost reduction project mentioned previously, to build a powerful earnings structure. Moreover, our staunch commitment to developing next-generation technologies will play a critical role in our ability to benefit from the next phase of market expansion. We intend to maintain high-level investment in research and development during the current fiscal year, despite the difficult period we are experiencing.

Driving the Information and Communications Revolution of the Twenty-first Century

Over the mid- to long-term, we are standing by our projection that the semiconductor and LCD production equipment business will continue to substantially outperform other industries because they are essential to the IT revolution. The growing importance of the Internet and increased mobility throughout society has only just begun, and the broadband era is now dawning. These trends will drive strong demand for semiconductors and LCDs, which in turn will fuel a rapid rebound in global capital investment in the products we manufacture.

In addition, the Computer Network and Electronic Components divisions have quickly reoriented their product portfolios toward information and communications, and will continue to devote their resources to areas with the strongest growth potential.

Our ongoing emphasis on maintaining or achieving number-one positions in each of our selected arenas should make Tokyo Electron a ¥1 trillion company over the next few years. Our objective is to further strengthen our corporate capabilities by contributing to the information and communications revolution.

Earn the Trust of Global Capital Markets by Defending Shareholder Interests

A worldwide network of sales and service bases and the creation of manufacturing and development bases in the United States are representative of Tokyo Electron's progress since 1994 in implementing its global strategy. One result is that about 70 percent of the Semiconductor Production Equipment division's sales now come from outside Japan, demonstrating our increased global presence. This is indicative of the importance we place on overseas operations and on reforming corporate systems in order to be accepted internationally.

We are determined to earn the trust of global capital markets, and so have been a leader among Japanese corporations in implementing policies to embrace corporate governance. These efforts have included reorga-

nizing the Board of Directors, establishing the Compensation Committee, disclosing the compensation of corporate officers, and implementing a stock option program.

New initiatives in the past fiscal year included the establishment within the Board of Directors of the Nomination Committee to select director and chief executive officer candidates. The creation of a process for selecting statutory auditors that ensures their autonomy was another advance in the past fiscal year. Tokyo Electron also began quarterly reporting in 2000 as part of our commitment to ensuring access to information.

Tokyo Electron's dedication to managing in the interest of shareholders has recently received the recognition of numerous investor relations institutions and the investors they represent. In March 2001, Tokyo Electron received the Excellence in Corporate Governance award from Institutional Shareholder Services of the United States, which is the world's leading provider of proxy voting and corporate governance consulting services. Tokyo Electron was one of just five companies worldwide to receive this recognition of outstanding corporate governance, and became the second Japanese corporation to receive the award. We intend to maintain the superior standards that this award represents.

People. Technology. Commitment.

Tokyo Electron has adopted a new, globally oriented corporate message at the start of the twenty-first century: People. Technology. Commitment. Chosen after soliciting the opinions of employees worldwide, these three themes have been an integral part of Tokyo Electron's history and clarify our corporate culture and management philosophy both internally and externally. People are our greatest asset. They support our customers by creating innovative technologies and value-added products. Keeping our promises allows us to earn the trust of customers, which is the basis of our future.

We believe in the boundless possibilities of people and technology, and our goal is to be a company that continually creates true value. I would like to thank our shareholders for the support they have given us, and invite you to share in the benefits as we make our vision for the future a reality.



Tetsuro Higashi
C.E.O., President
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