The Company has adopted the following revised business segments since fiscal 2006:

- On October 1, 2006, Tokyo Electron's computer networks division was transferred to Tokyo Electron Device Limited. Accordingly, sales from computer networks, which were formerly included in the industrial electronic equipment segment, have been included as part of the electronic components and computer networks segment since fiscal 2007.
- Effective from fiscal 2009, the name of the former FPD production equipment division was changed to the FPD/PV production equipment division. In addition to production equipment for flat-panel displays, this division includes production equipment for photovoltaic cells, a market Tokyo Electron entered in 2008.

SALES AND INCOME

Operating environment

During fiscal 2010, the global economy headed toward a gentle recovery, despite the continued negative impact of the financial crisis that occurred in the fall of 2008, as various nations managed to overcome the worst of the downturn by the middle of the year through economic stimulus packages and other measures.

Although economic growth in Europe, the U.S., Japan and many other industrialized countries was lower than pre-crisis levels, the economies of China and other emerging nations grew strongly, driving the global economy to a better-than-expected recovery.

In the first half of fiscal 2010, the electronics industry, in which Tokyo Electron participates, saw cutbacks in the production of semiconductor products as demand for PCs, mobile phones and other electronic equipment stagnated. Semiconductor manufacturers, who are Tokyo Electron's customers, significantly reduced their capital investment as a result. From the second half, however, demand for finished products began to recover and, in tandem, our customers resumed their capital investment.

These business conditions severely affected Tokyo Electron's performance. Sales in the Company's mainstay semiconductor production equipment division were particularly affected, and the Company's performance was even worse than fiscal 2009 when results were initially affected by the financial crisis. However, the Company responded to changes in the business environment, successfully implementing urgent steps to cut fixed costs and other measures to stabilize earnings. As a result, the Company was able to minimize the extent of the operating loss for the full fiscal year.

	Millions of Yen				
	2006	2007	2008	2009	**2010**
Net sales	¥673,686	¥851,975	¥906,092	¥508,082	**¥418,637**
Gross profit	189,732	272,649	311,298	137,408	**108,316**
Gross profit margin	28.2%	32.0%	34.4%	27.0%	**25.9%**
Selling, general and administrative expenses	114,029	128,670	142,800	122,697	**110,497**
Operating income (loss)	75,703	143,979	168,498	14,711	**(2,181)**
Operating margin	11.2%	16.9%	18.6%	2.9%	**(0.5)%**
Income (loss) before income taxes and minority interests	75,328	144,414	169,220	9,637	**(7,768)**
Net income (loss)	48,006	91,263	106,271	7,543	**(9,033)**

Sales

Net sales declined 17.6% year on year in fiscal 2010, to ¥418.6 billion. This represented almost the same level of sales as the Company posted in fiscal 2002 (¥417.8 billion) when the collapse of the IT bubble negatively impacted results. Sales in Japan were down 22.1% year on year, to ¥162.6 billion, and overseas sales dropped 14.4%, to ¥256.0 billion. Overseas sales as a share of total consolidated sales increased from 58.9% in fiscal 2009 to 61.2% in fiscal 2010.

Orders received during the fiscal year rose by 30.7%, to ¥478.4 billion, and the order backlog at the end of March 2010 increased 32.7% year on year, to ¥242.6 billion, on the back of a recovery due to the resumption of capital investment by customers from the second half of fiscal 2010.

Gross Profit, SG&A Expenses and Operating Income

Cost of sales for the period was down 16.3% year on year, to ¥310.3 billion, and the cost of sales ratio was 74.1%, 1.1 percentage points worse than in fiscal 2009. Since the previous fiscal year, Tokyo Electron has been cutting manufacturing fixed costs, including outsourcing costs, but the ratio of manufacturing fixed costs to sales increased over the full year, reflecting a significant drop in plant capacity utilization in the first half of fiscal 2010. As a result, gross profit decreased by 21.2% year on year, to ¥108.3 billion, and the gross profit margin dropped to 25.9%, from 27.0% in fiscal 2009.

Efforts to reduce SG&A expenses allowed Tokyo Electron to decrease this total cost by 9.9% year on year, to ¥110.5 billion. As a percentage of consolidated net sales, however, the SG&A ratio rose to 26.4%, from 24.1% in the previous year. Consequently, an operating loss of ¥2.2 billion was incurred, compared with the operating income of ¥14.7 billion in fiscal 2009.

Research & Development

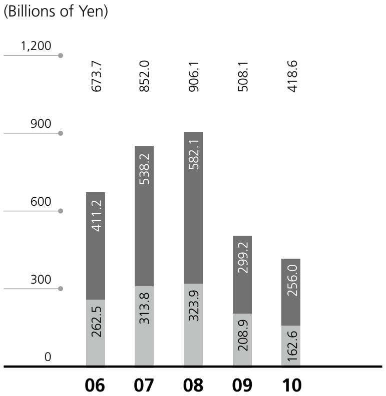
R&D expenses are included in SG&A expenses. Despite the severe economic climate during fiscal 2010, the Company views these expenses as the source of future growth and incurred ¥54.1 billion in R&D expenses in fiscal 2010, down 11.3% year on year.

Breaking down these costs by division, R&D investment in the semiconductor production equipment business focused on the development of next-generation models in various equipment fields, and on the development of original double-patterning technology, which helps to promote finer pattern delineation, of film deposition technologies for new materials, of technology for extreme ultraviolet (EUV) lithography, which is a promising next-generation lithography, and of 3D memory cell stack technology and 3D chip stack technology. Tokyo Electron's R&D investments focused not only on existing business segments, but also on the development of production equipment for OLED*, photovoltaic cells and other new product segments.

*OLED: Organic Light-Emitting Diode

Domestic and Overseas Sales

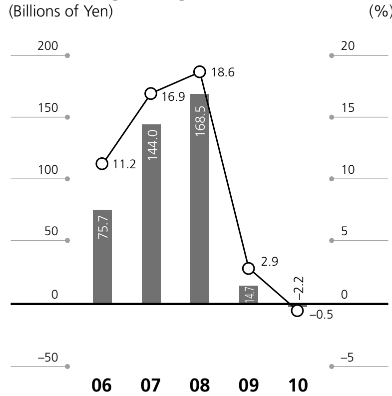
(Billions of Yen)



Domestic
Overseas

Operating Income (Loss) and Operating Margin

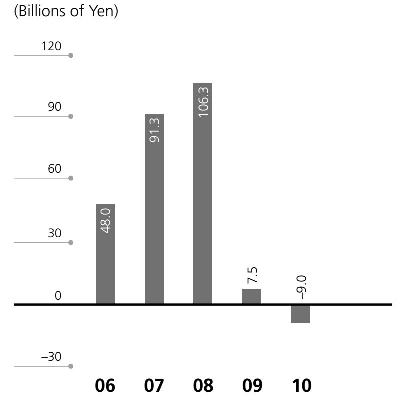
(Billions of Yen) (%)



Operating Income (Loss)
Operating Margin

Net Income (Loss)

(Billions of Yen)



Other Income (Expenses) and Net Income (Loss)

During fiscal 2010, Tokyo Electron posted ¥7.6 billion in impairment losses comprising ¥4.8 billion associated with streamlining bases and ¥2.8 billion associated with intangible assets of TEL Epion Inc. The Company also posted ¥1.9 billion as the expenses for facilty integration. As a result, other income (expenses) amounted to a net expense of ¥5.6 billion. This contributed to a ¥7.8 billion loss before income taxes and minority interests, compared with income before income taxes and minority interests of ¥9.6 billion in fiscal 2009.

A net loss for fiscal 2010 of ¥9.0 billion was recorded, compared to net income for fiscal 2009 of ¥7.5 billion. The net loss per share was ¥50.47 in fiscal 2010, compared with net income per share of ¥42.15 in fiscal 2009.

Dividend Policy and Dividends

It is the policy of Tokyo Electron to pay dividends on the basis of business performance and earnings results. In principle, the dividend payout ratio is set at 20% of consolidated net income.

In fiscal 2010, although the Company posted a net loss for the first half of the fiscal year, it paid an interim dividend of ¥4 per share in the interest of meeting the expectations of shareholders by ensuring stability and continuity in shareholder returns. The year-end dividend was set at ¥8 per share, reflecting the Company's consolidated results in the second half of the fiscal year and previously mentioned dividend policy. Thus, the total dividend applicable to fiscal 2010 was ¥12 per share.

Meanwhile, the Company uses retained earnings to fund research and development, capital investment, overseas business expansion, M&As and other activities aimed at stimulating future earnings growth.

PERFORMANCE BY SEGMENT

Industrial Electronic Equipment Segment

Sales in the industrial electronic equipment segment (including inter-segment sales) were down 19.3% year on year in fiscal 2010, to ¥334.9 billion. On the earnings front, an operating loss of ¥4.3 billion was incurred, compared with operating income of ¥12.8 billion in fiscal 2009, reflecting the decreased sales. Sales to outside customers (excluding inter-segment sales) were down by 19.3% year on year, to ¥334.2 billion.

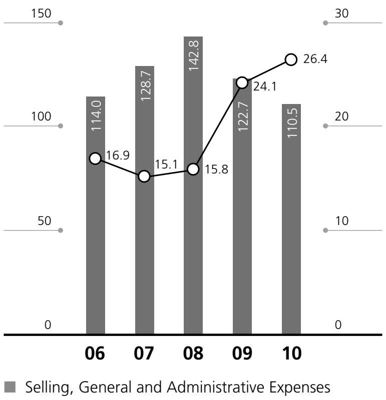
■ Semiconductor Production Equipment

Tokyo Electron's sales to outside customers fell 19.4% year on year, to ¥262.4 billion, because of the impact of curbs by semiconductor manufacturers on capital investment in response to depressed global demand for semiconductor devices since two years ago.

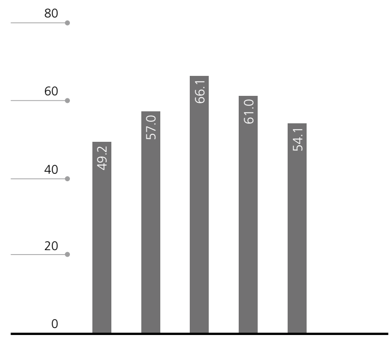
However, semiconductor manufacturers have been increasing capital investment since the second half of fiscal 2010. Consequently, orders in this division increased 68.2%, to ¥360.9 billion. The order backlog rose 133.5%, to ¥172.3 billion.

For a business overview of this division, please see pages 12 and 13.

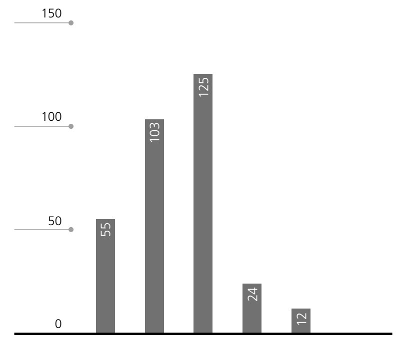
Selling, General and Administrative Expenses and Ratio to Net Sales
(Billions of Yen) (%)



R&D Expenses
(Billions of Yen)



Cash Dividends per Share
(Yen)



■ FPD/PV (Flat-Panel Display and Photovoltaic Cell) Production Equipment

Tokyo Electron's sales to outside customers declined 19.0% year on year, to ¥71.4 billion due to curbs by panel manufacturers on capital investment. Orders in this division decreased 52.8%, to ¥28.6 billion. The order backlog fell 43.0%, to ¥56.8 billion.

For a business overview of this division, please see pages 12 and 13.

■ Others

Sales in the "Others" segment mainly include non-life insurance operations, travel services and other in-house services. Net sales to outside customers in the segment amounted to ¥411 million, almost the same level as in fiscal 2009.

Electronic Components and Computer Networks (Tokyo Electron Device Limited.*)

Net sales in this segment (including inter-segment sales) declined 10.1% year on year in fiscal 2010, to ¥85.1 billion.

As a result of the improved gross profit margin due to the product mix, together with reduced SG&A expenses, operating income rose 13.0%, to ¥2.1 billion, and the operating margin improved to 2.4%, compared with 1.9% in fiscal 2009. Sales to outside customers were down 10.3% year on year, to ¥84.5 billion.

For a business overview of this segment, please see pages 12 and 13.

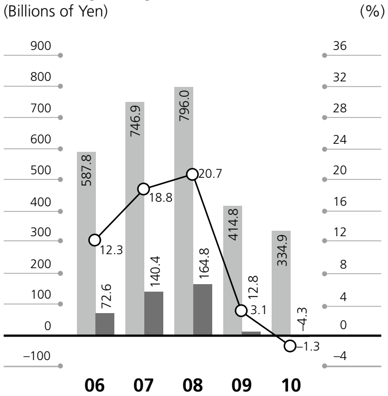
*Tokyo Electron Device Limited is listed on the Second Section of the Tokyo Stock Exchange.

Segment Information

	Millions of yen				
2010:	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income (loss)					
Net sales					
(1) Sales to external customers	**¥334,164**	**¥84,473**	**¥418,637**	**¥ –**	**¥418,637**
(2) Intersegment sales or transfers	**785**	**673**	**1,458**	**(1,458)**	**–**
Total	**334,949**	**85,146**	**420,095**	**(1,458)**	**418,637**
Operating expenses	**339,218**	**83,066**	**422,284**	**(1,466)**	**420,818**
Operating income (loss)	**¥ (4,269)**	**¥ 2,080**	**¥ (2,189)**	**¥ 8**	**¥ (2,181)**
2. Assets, depreciation and amortization expenses, impairment losses and capital expenditures					
Assets	**¥654,026**	**¥45,649**	**¥699,675**	**¥(3,323)**	**¥696,352**
Depreciation and amortization expenses	**19,792**	**485**	**20,277**	**–**	**20,277**
Loss on impairment of property, plant and equipment and intangible assets	**7,553**	**–**	**7,553**	**–**	**7,553**
Capital expenditures, including intangible and other assets	**16,070**	**122**	**16,192**	**–**	**16,192**

Industrial Electronic Equipment Segment Net Sales, Operating Income (Loss) and Operating Margin

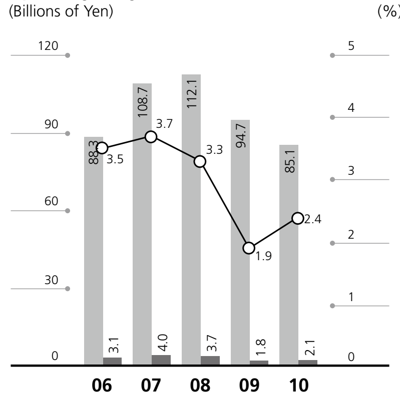
(Billions of Yen) (%)



■ Net Sales
■ Operating Income (Loss)
-O- Operating Margin

Electronic Components and Computer Networks Segment Net Sales, Operating Income and Operating Margin

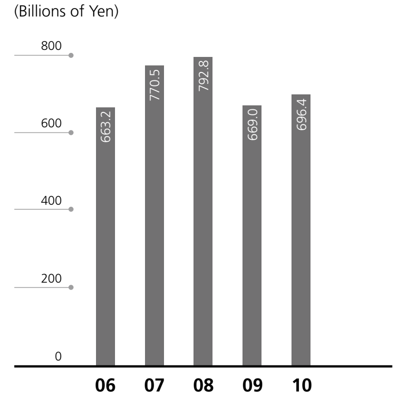
(Billions of Yen) (%)



■ Net Sales
■ Operating Income
-O- Operating Margin

Total Assets

(Billions of Yen)



FINANCIAL POSITION AND CASH FLOWS

Assets, Liabilities and Net Assets

■ Assets

Current assets increased by ¥47.3 billion from the end of the previous fiscal year, to ¥552.9 billion, reflecting increases of ¥33.8 billion in liquidity on hand (cash and cash equivalents + short-term investments) and ¥15.1 billion in deferred tax assets. The turnover period for trade notes and accounts receivable increased from 86 days in fiscal 2009 to 109 days in fiscal 2010, and the inventory turnover period increased to 121 days, from 96 days in fiscal 2009.

Net property, plant and equipment declined by ¥7.8 billion year on year, to ¥92.1 billion, as ¥14.9 billion in fixed asset acquisitions were outweighed by ¥20.0 billion in depreciation.

Investments and other assets decreased by ¥12.1 billion year on year, to ¥51.3 billion, which mainly reflected an ¥11.4 billion decrease in deferred tax assets.

As a result, as of March 31, 2010, total assets stood at ¥696.4 billion, an increase of ¥27.4 billion year on year.

■ Liabilities and Net Assets

Current liabilities increased by ¥29.9 billion, from the end of fiscal 2009, to ¥119.2 billion. This reflected a ¥30.4 billion rise in trade notes and accounts payable because of an increase in purchases for production due to the recovery in orders from the second half of the fiscal year. The balance of interest-bearing debt, which consists only of short-term borrowings, stood at ¥5.1 billion as of March 31, 2010. The D/E ratio rose to 1.0%, 0.3 points higher than the end of March 2009.

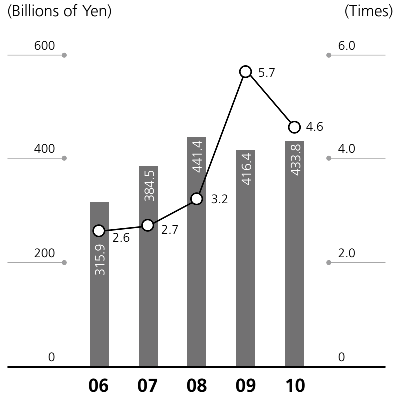
Non-current liabilities increased by ¥3.4 billion, to ¥53.8 billion.

Net assets declined by ¥5.9 billion year on year, to ¥523.4 billion. This reflected a decrease in retained earnings of ¥10.5 billion resulting from the net loss of ¥9.0 billion and the payment of ¥1.4 billion in dividends, and also an increase in unrealized gains on investment securities of ¥3.3 billion.

As a result, the equity ratio fell from 77.5% at the end of March 2009 to 73.5% as of March 31, 2010, and ROE declined to -1.8%, from 1.4% in fiscal 2009.

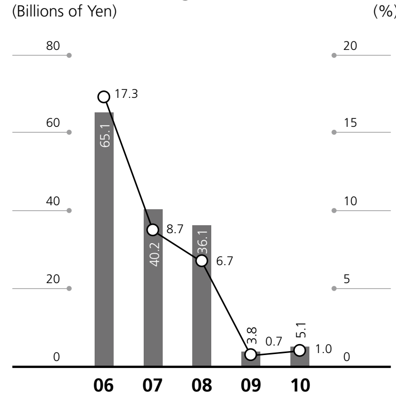
	Millions of Yen				
	2006	2007	2008	2009	**2010**
Total current assets	¥517,488	¥610,363	¥640,234	¥505,687	**¥552,939**
Net property, plant and equipment	94,738	104,930	104,106	99,906	**92,128**
Total investments and other assets	51,017	55,221	48,478	63,405	**51,285**
Total assets	663,243	770,514	792,818	668,998	**696,352**
Total current liabilities	201,627	225,855	198,821	89,272	**119,162**
Total liabilities	281,621	300,703	247,573	139,733	**172,982**
Total net assets (Total shareholders' equity)	376,900	469,811	545,245	529,265	**523,370**

Working Capital and Current Ratio
(Billions of Yen) (Times)



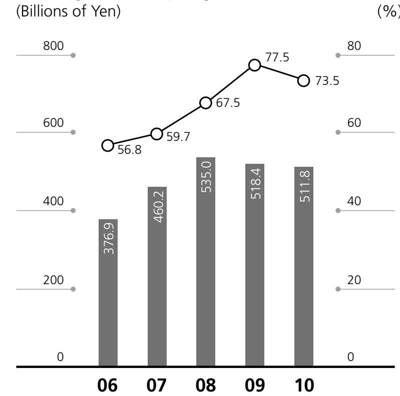
■ Working Capital
-O- Current Ratio

Interest-Bearing Debt, D/E Ratio
(Billions of Yen) (%)



■ Interest-Bearing Debt
-O- D/E Ratio

Equity and Equity Ratio
(Billions of Yen) (%)



■ Equity
-O- Equity Ratio

Capital Expenditures*[1] and Depreciation and Amortization*[2]

Total capital expenditures declined by 17.6% year on year in fiscal 2010, to ¥14.9 billion. Spending focused on the acquisition of land for a plant scheduled to be constructed in a suburb of Sendai City in Miyagi Prefecture, and on evaluation and measuring equipment used for product development. Depreciation fell by 13.3% year on year, to ¥20.0 billion.

*[1] Capital expenditures represent only the gross increase in property, plant and equipment.

*[2] Depreciation does not include amortization and losses on impairment of goodwill.

Cash Flows

Cash flows from operating activities showed a net inflow of ¥48.3 billion, ¥32.7 billion less than in fiscal 2009. The main contributors were ¥20.0 billion in depreciation and amortization, ¥7.6 billion in impairment losses, and a ¥28.0 billion increase in trade notes and accounts payable. Major negative factors included a ¥7.8 billion net loss before income taxes and minority interests, a ¥6.4 billion decrease in customer advances, a ¥4.9 billion increase in trade notes and accounts receivable, and a ¥4.9 billion increase in inventories.

Investing activities provided net cash of ¥9.6 billion, compared to net cash used of ¥160.6 billion in fiscal 2009. This reflected a ¥24.3 billion inflow from a net decrease in short-term investments, and a ¥14.2 billion outflow to purchase property, plant and equipment.

Financing activities used net cash of ¥288 million, compared with ¥46.0 billion in fiscal 2009. The main outflow was a ¥1.4 billion dividend paid.

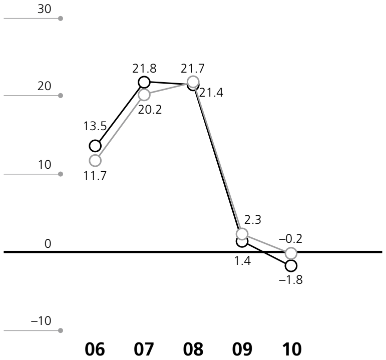
As a result, the balance of cash and cash equivalents at the end of March 2010 stood at ¥123.9 billion, an increase of ¥58.1 billion from the ¥65.9 billion balance at the end of fiscal 2009.

Total liquidity on hand, which includes short-term investments as well as cash and cash equivalents, increased by ¥33.8 billion year on year, from ¥210.2 billion at the end of March 2009 to ¥243.9 billion at the end of March 2010.

	Millions of Yen				
	2006	2007	2008	2009	**2010**
Cash flows from operating activities	¥ 78,854	¥ 54,297	¥116,939	¥ 81,030	**¥ 48,285**
Cash flows from investing activities	(10,537)	(25,293)	(30,186)	(160,622)	**9,613**
Cash flows from financing activities	(43,420)	(34,719)	(27,033)	(46,016)	**(288)**
Cash and cash equivalents at end of year	140,024	134,390	193,493	65,883	**123,940**

ROE and ROA

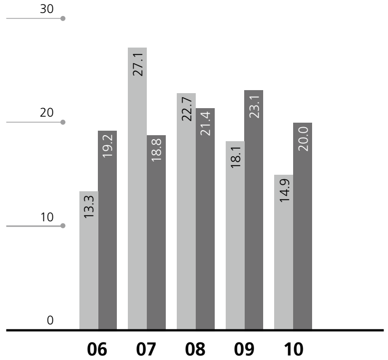
(%)



Return on Equity Ratio (ROE)
Return on Assets Ratio (ROA)
ROA=(Operating income+Interest and dividend income)/Average total assets x100

Capital Expenditures and Depreciation and Amortization

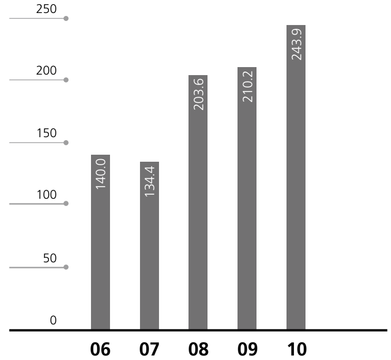
(Billions of Yen)



Capital Expenditures
Depreciation and Amortization

Total Liquidity on Hand

(Billions of Yen)



Total liquidity on hand
=Cash and cash equivalents+Short-term investments

BUSINESS-RELATED AND OTHER RISKS

The following are possible risks that may have an impact on Tokyo Electron's business performance, stock price, or financial position.

(1) Impact From Changes in the Semiconductor Market

Tokyo Electron has achieved a high profit margin by concentrating resources in high-tech fields, including semiconductor production equipment, where technological innovation is rapid but Tokyo Electron can effectively use its strengths. Although technological change is responsible for the semiconductor market's rapid growth, Tokyo Electron has actively undertaken structural reforms to be able to generate profits under any circumstances, including when the market contracts temporarily due to imbalance of supply and demand. However, order cancellations, excess capacity and personnel and increased inventories resulting from an unexpectedly large market contraction, losses from bad debts resulting from the worsening of a customer's financial position, and supply shortages resulting from the worsening of a supplier's management situation, could adversely affect Tokyo Electron's business performance.

(2) Impact From Concentration of Transactions on Particular Customers

Tokyo Electron has been successful at increasing transactions with the leading semiconductor manufacturers worldwide, including those in Japan, through the provision of products featuring outstanding, cutting-edge technology and of services offering a high level of customer satisfaction. However, Tokyo Electron's sales may from time to time be temporarily concentrated on particular customers due to the timing of large capital investments of major semiconductor manufacturers. The resulting escalation in sales competition could adversely affect Tokyo Electron's business performance.

(3) Impact From Research and Development

Through ongoing and proactive R&D investment and activities in cutting-edge technologies—miniaturization, vacuum, plasma, thermal processing, coating/developing, cleaning, wafer-transfer and clean technologies—Tokyo Electron has created advanced technologies. At the same time, by quickly bringing to market new products incorporating these technologies, Tokyo Electron has successfully captured a high market share in each of the product fields it has entered and generated a high profit margin. However, delays in the launch of new products and other factors could adversely affect Tokyo Electron's business performance.

(4) Safety-related Impacts

Tokyo Electron's basic philosophy is to always bear in mind safety and health in the execution of business activities, including development, manufacturing, sales, services and management. In accordance with this philosophy, Tokyo Electron works actively and continuously to improve the safety of its products and to eliminate any harmful impact on health. However, harm to customers, order cancellations or other circumstances resulting from safety or other problems related to Tokyo Electron's products could adversely affect Tokyo Electron's business performance.

(5) Impact From Quality Issues

Tokyo Electron actively develops outstanding, cutting-edge technologies for incorporation in new products that are brought quickly to market. At the same time, Tokyo Electron works to establish a quality assurance system, efforts that include obtaining ISO 9001 certification, as well as to establish a world-class service system. These actions have resulted in a large number of customers adopting Tokyo Electron's products. However, because Tokyo Electron's products are based on cutting-edge technologies, and due to other factors, many of the technologies developed are in unfamiliar fields. The occurrence of unforeseen defects or other issues could adversely affect Tokyo Electron's business performance.

(6) Impact of Intellectual Property Rights

In order to distinguish its products and make them more competitive, Tokyo Electron has promoted its R&D strategy for the early development of cutting-edge technologies together with its business and intellectual property strategies. This approach has enabled Tokyo Electron to obtain sole possession of many proprietary technologies that have been instrumental to the Company's ability to capture a high market share and generate high profit margins in each of its product fields. Tokyo Electron's products incorporate and optimize many of these proprietary cutting-edge technologies. There may be cases in which, by avoiding the use of third-party technologies and intellectual property rights, Tokyo Electron's business performance could be adversely affected.

(7) Impact of Fluctuating Foreign Exchange Rates

Success in the development of overseas operations has increased the share of sales generated overseas. As a rule, Tokyo Electron conducts export transactions on a yen basis to avert exposure to foreign currency risks. However, some exports are denominated in foreign currencies. In these cases, Tokyo Electron hedges foreign currency risk by using a forward foreign exchange contract when an order is received or by other means. However, foreign exchange rate risks can arise from fluctuations in prices due to sudden foreign exchange movements, which could have an indirect adverse effect on Tokyo Electron's business performance.

(8) Other Risks

Tokyo Electron is actively engaged in reforming its corporate structure so that it can generate profits even when markets contract. These reforms have entailed creating new high-growth and high-return businesses and pursuing higher earnings from existing businesses. At the same time, Tokyo Electron has promoted activities to preserve the environment and worked to restructure its compliance and risk management systems. However, as long as it conducts business activities, as with peer companies or companies in different industries, Tokyo Electron is subject to the effect of many other factors. These include the world and regional economic environments, natural disasters, war, terrorism, unavoidable occurrences (such as infectious diseases), financial or stock markets, government or other regulations, supply systems of suppliers, market conditions for products and real estate, the ability to recruit personnel in Japan and overseas, competition over standardization, and loss of key personnel. Any of these factors could adversely affect Tokyo Electron's business performance.