

CREATE

New Value

ANNUAL REPORT 2010
For the Year Ended March 31, 2010

TOKYO ELECTRON

PROFILE

Tokyo Electron Limited (TEL) is a world-leading supplier of semiconductor production equipment (SPE) and flat panel display (FPD) production equipment. We provide a broad lineup of products that offer superior process performance and high productivity and related services to semiconductor and LCD panel manufacturers around the world. Additionally, photovoltaic (PV) cell production equipment has been in the product lineup since 2009.

An unwavering commitment to customer satisfaction that dates back to our founding in 1963 has cemented our position as the market leader. Our competitive strength lies in our capability to proactively and precisely identify real customer needs and respond to them with cutting-edge technology and products.

With a global network that spans Japan, the U.S., Europe and Asia, we are opening up new frontiers for digital networks by contributing to enhancing our customers' production lines through untiring dedication to technology innovation.

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Disclaimer Regarding Forward-looking Statements

Matters discussed in this annual report, including forecasts of future business performance of Tokyo Electron, management strategies, beliefs and other statements are based on Tokyo Electron's assumptions in light of information that is currently available. These forward-looking statements involve known or unknown risks, uncertainties and other factors that could cause actual results to differ materially from those referred to in the forward-looking statements.

Factors that have a direct or indirect impact on Tokyo Electron's future performance include, but are not limited to:

- Economic circumstances in Japan and overseas, consumption trends, and large fluctuations in foreign exchange rates
- Changes in semiconductor/FPD/PV markets
- Changes in the demand for products and services manufactured or offered by Tokyo Electron's customers, such as semiconductor manufacturers, FPD manufacturers, photovoltaic cell manufacturers and electronics makers
- Tokyo Electron's capabilities to continue to develop and provide products and services that respond to rapid technology innovation and changing customer needs in a timely manner

For details, please refer to Business-related and Other Risks on page 32.

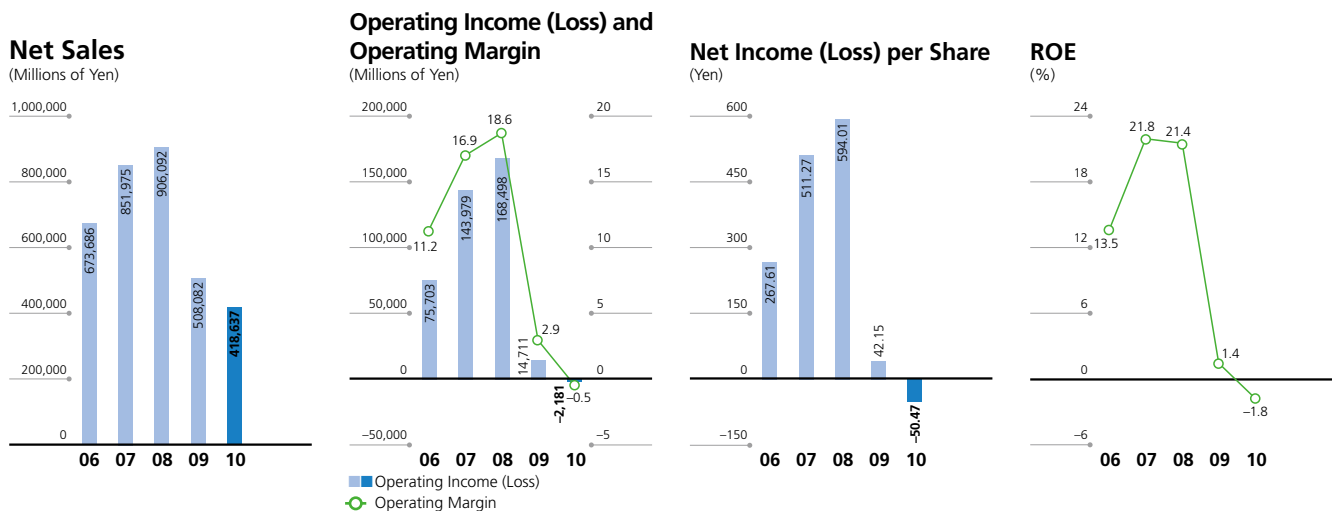
CONSOLIDATED FINANCIAL HIGHLIGHTS

Years ended March 31	Millions of yen					Thousands of U.S. dollars
	2006	2007	2008	2009	2010	2010
For the year:						
Net sales.....	¥673,686	¥851,975	¥906,092	¥508,082	¥418,637	\$4,499,538
Operating income (loss).....	75,703	143,979	168,498	14,711	(2,181)	(23,442)
Income (loss) before income taxes..	75,328	144,414	169,220	9,637	(7,768)	(83,491)
Net income (loss).....	48,006	91,263	106,271	7,543	(9,033)	(97,087)
Depreciation and amortization.....	19,170	18,820	21,413	23,068	20,002	214,983
Capital expenditures.....	13,335	27,129	22,703	18,108	14,919	160,350
R&D expenses.....	49,182	56,962	66,073	60,988	54,074	581,191
Free cash flows.....	68,317	29,004	86,753	(79,591)	57,898	622,291
Operating margin	11.2%	16.9%	18.6%	2.9%	(0.5)%	
ROE.....	13.5%	21.8%	21.4%	1.4%	(1.8)%	

	Millions of yen					Thousands of U.S. dollars
	2006	2007	2008	2009	2010	2010
At year-end:						
Total assets.....	¥663,243	¥770,514	¥792,818	¥668,998	¥696,352	\$7,484,437
Total net assets (Total shareholders' equity)	376,900	469,811	545,245	529,265	523,370	5,625,215

	Yen					U.S. dollars
	2006	2007	2008	2009	2010	2010
Per share:						
Net income (loss)—Basic.....	¥ 267.61	¥ 511.27	¥ 594.01	¥ 42.15	¥ (50.47)	\$ (0.54)
Cash dividends	55.00	103.00	125.00	24.00	12.00	0.13

Notes: 1. U.S. dollar amounts are translated from yen, solely for convenience, at the prevailing exchange rate on March 31, 2010 of ¥93.04=U.S.\$1.
2. Depreciation and amortization does not include amortization and loss on impairment of goodwill.



Dynamic changes in the area of global technology offer Tokyo Electron opportunities for new growth.



Over the past two years, the world has experienced one of the most severe economic recessions in living memory. I would like to sincerely thank all our stakeholders for continuing to support Tokyo Electron through these difficult times. Although global financial uncertainty has not yet been fully dispelled, in the electronics industry in which Tokyo Electron serves, notably in information and communication technologies (ICT)-related fields, our customers started to resume capital investment from spring 2009, and it has gained momentum since the beginning of 2010. Having completed a long period of structural reform, and with the advent of innovative technologies, I believe that the industry is now moving into a new phase of growth. Despite the fact that we were unable to achieve a net profit for the full fiscal year ended March 31, 2010, the Company moved into the black in the second half. Now we are seeing orders picking up, reflecting strong demand from customers for Tokyo Electron products.

The markets that we serve have been changing, with a shift to new types of network infrastructure as typified by “cloud computing.” Accompanying this trend, new products have emerged, such as tablets and smartphones, and these new applications have helped to boost global semiconductor demand in emerging economies as well as established ones. At the same time, people are recognizing that the issue of reducing our impact on the global environment is one that must be addressed by all of mankind. Semiconductor technology, and the applied technologies that have been accumulated through the manufacture of semiconductors, will play a critical role in addressing this challenge. Semiconductor technology forms the basis for a host of other “green” technologies, from “smart grids” (new types of energy infrastructure) to photovoltaic cells, LEDs and OLEDs. The Tokyo Electron Group will

do its utmost to encourage all of these trends, and turn them into opportunities for new growth, maximizing earnings to the levels that our stakeholders expect.

In order to better address the global trends and challenges mentioned above, Tokyo Electron will need a new generation of dynamic leadership to guide it into the future. For that reason, as of April 1, I handed over the top management responsibilities to our company president, Hiroshi Takenaka. As Chairman of the Board, I will lend my unwavering support to our new CEO, and help him to steer the company towards its goals. I am sure that the management team will fully meet the expectations of shareholders, customers, and all of Tokyo Electron’s stakeholders, and I thank everyone for your ongoing support.

A handwritten signature in black ink, reading "T. Higashi".

Tetsuro Higashi, Chairman of the Board



In order to further enhance our global leadership, Tokyo Electron is moving ahead with a future-oriented management stance.

In response to the global economic crisis, which occurred in the fall of 2008, semiconductor manufacturers sharply reduced capital investment, pushing Tokyo Electron's operations into the red. In fiscal 2010, the year ended March 31, 2010, Tokyo Electron posted net sales of ¥418.6 billion, an operating loss of ¥2.2 billion and a net loss of ¥9.0 billion. Although dividends are set at a payout ratio of 20% of consolidated net income in principle, despite these circumstances, the Company has set dividends for the period at ¥12 per share (an interim dividend of ¥4 and a year-end dividend of ¥8 per share). The Company would like to again express its thanks to our shareholders and all other stakeholders for their continued support in a severe operating environment.

Tokyo Electron offers a variety of production equipment that contributes to the manufacture of core components, such as semiconductors and LCD panels, which play a central role in the current age of digital networks. Our products contribute to providing more comfort in the lives of people. As the market increasingly requires us to pursue the continuous innovation of technology for production equipment, we see a great potential for further growth in this market.

Although a severe business environment has persisted since 2008, Tokyo Electron has dealt with this challenge as the world's top supplier of production equipment, based on our consistent management stance. In the short term, we have implemented company-wide measures to curb fixed-costs that are not critical for our operations. At the same time, we have increased our emphasis on the medium-term perspective, and prioritized initiatives that have strong future potential. In line with this stance, we have continued to keep investments in technological development at a high level, because these are essential to our future growth. Also, by

leveraging our production equipment technology that we have developed over the years in areas such as semiconductors and flat panel displays, we have started to take on the challenges of innovative and cutting-edge technologies, such as photovoltaic cell production equipment. For Tokyo Electron, with our superior technological and financial resources, it is not too much to say that an exciting era has arrived in which the Company will be able to technologically differentiate itself even further.

The industries in which Tokyo Electron participates make a profound contribution to the lifestyles of people everywhere. As the global economy begins to brighten, these industries have been enjoying a more rapid recovery than other industries. Even now, most of our manufacturing facilities are operating at close to full capacity. Although the economy may continue to fluctuate in the short term, we must stay on course. We reaffirm our significant responsibility as the global leader in production equipment and are committed to providing high value to our customers and society through our business activities, which we conduct with a sense of mission and strong commitment. On behalf of all the management of Tokyo Electron, I would like to express our determination to continue working to expand our businesses, to pursue new technological advances, to further enhance management efficiency, and to make Tokyo Electron into an attractive company truly valued by all stakeholders. Looking ahead, I would like to thank all our stakeholders for continuing to support these objectives.

A handwritten signature in black ink that reads "Hiroshi Takenaka". The signature is fluid and cursive, written in a professional style.

Hiroshi Takenaka, President & CEO



Questions

&

Answers

Hiroshi Takenaka,
President & CEO



Q

Fiscal 2010, the year ended March 31, 2010, marked your first year as President of Tokyo Electron. How would you summarize your achievements in the first year?

A

Looking back, when I took over as president, we started off in a service business environment in which the future outlook was unclear. Nevertheless, we moved forward steadily believing in the importance of investing in people and product development for the future.

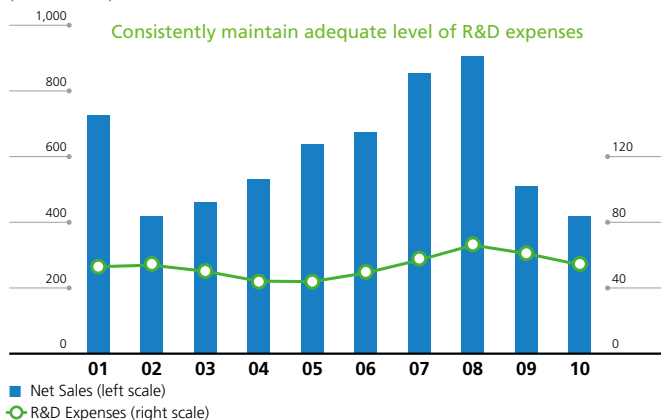
To put this in more concrete terms, my initiatives were not to necessarily cut personnel, but rather, to invest in their training, and use the downturn as an opportunity to enhance their skills to an even higher level. Similarly, we got employees to re-evaluate the operational efficiency of their work, which would have been hard to do during busier times, thereby preparing the Company for the next phase of business growth. Needless to say, the key to Tokyo Electron's success has always been rooted on its ability to develop technologically superior products in a timely manner. So we have not only sought to further improve existing products, but also fully channeled funds

into developing new technologies for a new generation of products. As a result, there were two achievements of note. First, we started the commercial introduction of a new etch system that incorporates radial-line slot antenna (RLSA) plasma technology, after around 8 years of continuous development. Second, the Company commenced shipping a plasma CVD system for thin-film silicon PV production. We have high expectations for these businesses in the future.

On the other hand, in the short term we also quickly adjusted the company's size to match market conditions. Management and employees alike combined forces and set about reducing costs in unnecessary or less critical areas of operations. These efforts allowed Tokyo Electron to surpass initial sales forecasts by ¥120.0 billion, while curbing fixed costs.

Net Sales and R&D Expenses

(Billions of Yen)



Tactras™ RLSA™ Etch, a new etch system with revolutionary plasma technology

In addition to a strong presence in BEOL etch processing, the Tactras™ RLSA™ Etch enables Tokyo Electron to focus on a wider range of solutions, targeting transistor-related processes (FEOL).

Q

It appears that as the macro-economy recovers, the equipment industry that are Tokyo Electron's main markets are also starting to recover. What is your view on industry growth and the outlook for the business environment?

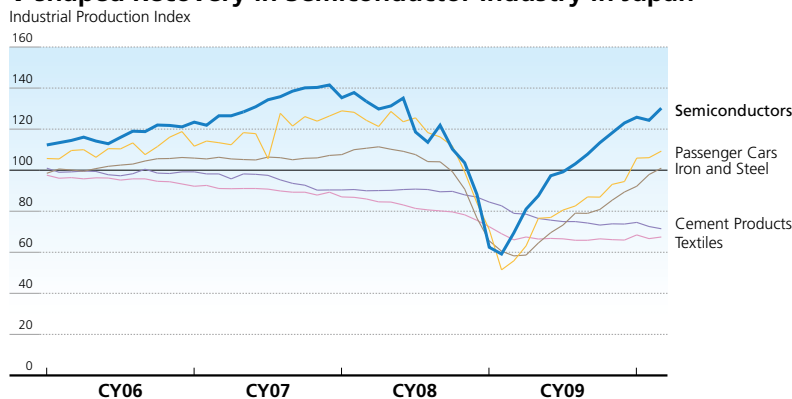
A

Product inquiries have been recovering since about August 2009, and manufacturing volume has now recovered to the point where we are even struggling to meet delivery schedules. The products that Tokyo Electron makes have deep connections with social infrastructure and people's lives. Consequently, as the economy begins to rebound, our business is showing signs of recovery sooner than most industries.

Under these circumstances, I expect continued technological advances to support renewed growth in the market for semiconductor production equipment (SPE). At the same time, I also think that the competitive environment will intensify and "the strongest survive" will become a watchword in the industry. That is the reason we are prioritizing investment for technological differentiation. In the flat panel display (FPD) production equipment area, China's efforts to promote TV market penetration will

stimulate investment for the time being, but at the same time reducing costs is becoming imperative for us. In addition, we will accelerate the development of various anticipated technologies such as production equipment for OLED, a new next generation display. The business climate in the photovoltaic (PV) cell production equipment business has changed dramatically over the past year. While new chemical compounds have been attracting attention, crystalline solar is maintaining a high market share due to lower silicon costs. Up to now, we have focused most of our resources on thin-film technology, and we expect thin-film to remain the best area for a production equipment supplier, like us, to leverage its expertise. Photovoltaic cells is a market that we expect to grow steadily over the next ten to twenty years. We will continue watching the market, seeking whatever technology and business model is most appropriate to meet our goal.

V-shaped Recovery in Semiconductor Industry in Japan



Note: Mining production index = Index of production trend with 2005 average set as 100.
Source: Ministry of Economy, Trade and Industry

Q

The markets that Tokyo Electron serves are changing, with increasing customer consolidation and a shift of customers to Asia. How is Tokyo Electron responding to these changes?

A

The scale of capital investment by our customers has become massive, and disparities in technological prowess are steadily growing. As a result, only a limited number of our customers will be able to continue making these large-scale investments. The production equipment industry is experiencing the same changes, with market leaders capturing a rising share of the overall market. Therefore it is increasingly vital for equipment suppliers to maintain the technological expertise and financial strength needed to continue introducing the most advanced equipment in a timely manner.

Another trend we are seeing is that of the growing post-sales business. Customers are not only purchasing cutting-edge production equipment, but also wish to use the equipment they have already installed for longer periods by improving and upgrading it. Tokyo Electron has shipped over 50,000 units of equipment which are currently in operation worldwide. This installed base offers the Company excellent opportunities to develop new business in the future.

Any of these recent changes in the business environment are ones that I think will benefit Tokyo Electron. In fiscal 2010, we introduced the following measures aimed at responding to market change:

- Decided to construct the Miyagi Plant to strengthen the growing etcher business, while closing the production/development site for cleaning systems at the Saga plant and consolidating it into the Koshi Plant
- Decided to close the Kansai Technology Center in Amagasaki and integrated RLISA development work at our facility in Sendai, to strengthen our focus on this area of technology
- Reorganized the sales and R&D structure with the goal of developing closer cooperative ties to our customers
- Strengthened TEL Technology Center, America, and established a new technology center in Taiwan
- Established the "Field Solutions" business unit in order to enhance post-sales business operations

Global R&D and Manufacturing Bases



Q

Please tell us more about Tokyo Electron's efforts to develop next-generation technology and new businesses.

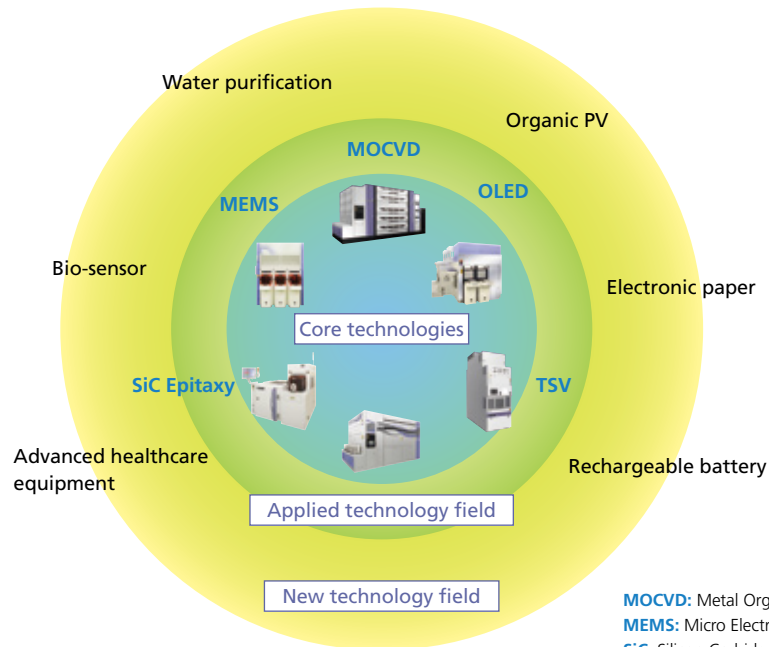
A

In the semiconductor industry, design rules have been improving from 30nm to 20nm, then to 10nm. As this shows, we are increasingly required to develop ultimate technologies and, as we did in the past, we continue to explore and open up new frontiers. We are pursuing many new ideas that employ immersion technology such as double-patterning technology and 3DI, a chip stack technology, and thus pushing the boundaries to get higher density. With each passing day we are progressing closer towards our goal. In the flat-panel display industry, meanwhile, we are developing technology to support a larger panel size, and also accelerating development of production equipment for OLED displays. Finally, we are



channeling more resources into the development of our own unique production equipment for photovoltaic cells. Tokyo Electron is making the utmost effort to realize these technological advances using an international R&D infrastructure that includes not only consortia in Japan, but also the Albany Nanotech project, in Albany, New York, and imec in Belgium.

Meeting the Challenge of New Technologies



MOCVD: Metal Organic Chemical Vapor Deposition
MEMS: Micro Electro Mechanical Systems
SiC: Silicon Carbide
TSV: Through Silicon Via
OLED: Organic Light-Emitting Diode

Q

What do you view as currently the most important issue for Tokyo Electron management, and how do you plan to address the issue?

A

The most important issue for the Company is how to realize sustainable growth over the long term. To do this, we have to build a robust and flexible earnings base that can withstand market fluctuations. Tokyo Electron will soon mark the 50th anniversary of its founding. As we are fortunately doing business in the semiconductor industry, an unusual industry in that persistent growth is possible as long as technological innovation continues to take place, we continue to put semiconductor technology at the center of our business and pursue the following strategies:

- In existing product segments in which there is a large space for growth, we will concentrate our efforts on strengthening our position of leadership
- We will pursue technological innovations that enhance value, investing resources to develop differentiated products

- We intend to enhance our manufacturing skills, to ensure that Tokyo Electron is hard-to-beat by new manufacturers particularly in Asia
- In this way, we will continue to introduce products that enjoy high profitability and high market share
- The new products in new business areas will be developed centering on the use of our core technology—production equipment technology—that Tokyo Electron has accumulated over many years
- We will respond flexibly to market changes

By implementing these strategies, I believe the Company will rebuild its earnings capabilities and achieve record levels of business performance in the near future.

Q

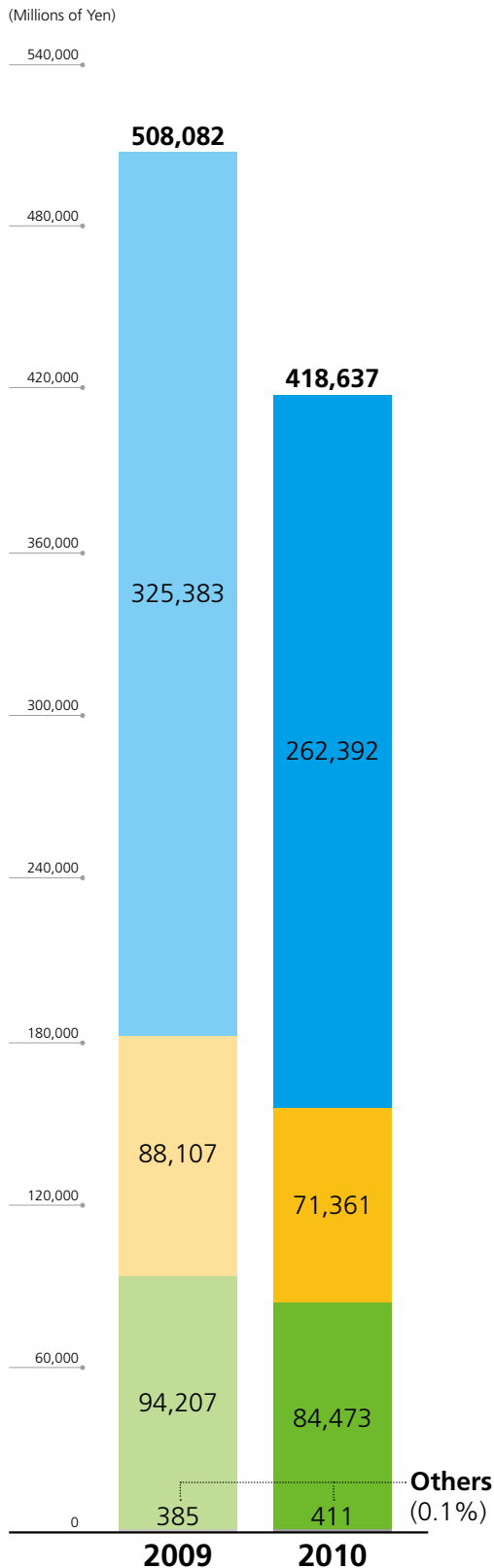
Finally, what is your long-term vision for Tokyo Electron?

A

We believe Tokyo Electron must conduct business as the best production equipment supplier, one that helps to establish a prosperous society through contributing to an improved quality of life for people. As a trusted partner of our customers and as a company that contributes to society, we will establish ourselves as a company that is full of vision and energy while at the same time fulfilling our mission which is shared by all our employees. I believe that

a company in which the employees are working with vigor and enthusiasm attracts great interest from all the stakeholders and also provides value. Standing firm with our management policy which places much importance on transparency and fairness, we will strive to raise corporate value by growing the Company, thereby meeting the expectations of our stakeholders and earning their continued loyalty and support.

Net Sales



Semiconductor Production Equipment

Semiconductor devices (IC chips) are the key components of PCs, mobile phones and other digital products. Tokyo Electron offers a wide range of equipment for producing these devices, along with superior technical support and service.

Tokyo Electron has a lineup of six product groups that includes coater/developer, plasma etch system, thermal processing system, single wafer deposition system and cleaning system used in wafer processes, as well as wafer prober used in testing processes. Many of these products have captured top shares in their worldwide markets.

FPD/PV Production Equipment

Tokyo Electron supplies flat-panel display (FPD) production equipment used to manufacture displays for PCs, LCD TVs and other electronic devices, along with solid technical support and service.

The product lineup includes FPD coater/developer and plasma etch/ash system. The size of substrates handled by such equipment is increasing each year with the growing popularity of large-screen LCD TVs.

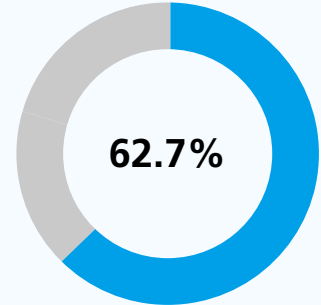
Photovoltaic (PV) cells are in the spotlight these days as an environmentally friendly form of clean energy. In 2008, Tokyo Electron added PV cell production equipment as a new field of operations.

Electronic Components and Computer Networks*

Tokyo Electron has developed a new type of dual model for this business: the trading business handles sales, in which it acts as a distributor of a wide array of sophisticated electronic components and computer network equipment, while the development business designs and develops products in response to customer needs, as well as our own in-house brand products. Business operations for this segment are handled by Tokyo Electron Device Limited.

*Tokyo Electron Device Limited operates this business

- **Coater/Developer**
- **Plasma Etch System**
Dielectric Etch System, Silicon Etch System
- **Thermal Processing System**
- **Single Wafer Deposition System**
CVD System, Plasma Processing System
- **Cleaning System**
Auto Wet Station, Single Wafer Cleaning System, Pre-clean System, Scrubber System
- **Wafer Prober**



Coater/Developer
CLEAN TRACK™ LITHIUS Pro™ V-i



Etch System
Tactras™



Thermal Processing System
TELINDY PLUS™



Single Wafer CVD System
Trias™ e+

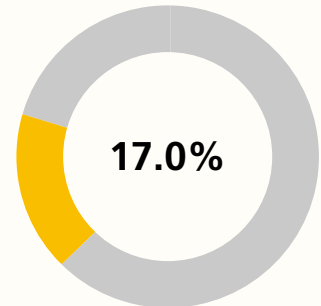


Single Wafer Cleaning System
CELLESTA™+



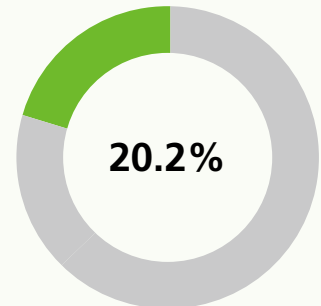
Wafer Prober
Precio™

- **FPD Coater/Developer**
- **FPD Plasma Etch/Ash System**
- **Plasma CVD System for Thin-film Silicon PV Cells**
- **End-to-end Thin-film Silicon PV Solutions** (as Swiss company Oerlikon Solar's exclusive representative for the Asia/Oceania region)



FPD Plasma Etch/Ash System
Impressio™

- **Semiconductor Products**
- **Other Electronic Components**
- **Computer Networks**
- **Software**



Xilinx, Inc.
FPGA

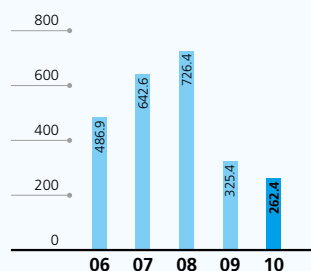


F5 Networks, Inc.
Load Balancer

Semiconductor Production Equipment

Semiconductor Production Equipment Sales

(Billions of Yen)



Overview of FY2010

The global economic downturn, triggered by the economic crisis which began in the fall of 2008, caused business conditions to deteriorate during the first half of fiscal 2010, to a level even below that which followed the collapse of the IT bubble in 2001. However, semiconductor demand recovered significantly from mid 2009, elevating capacity utilization levels at major semiconductor manufacturers' production facilities. As a result, capital investment in semiconductor production equipment in the second half of the year became brisk.

The Division's sales dropped off sharply in the first half, but recovered steadily in the second half, thanks to increased investment by foundries and memory manufacturers. Sales for the full fiscal year were down 19% year on year, to ¥262.4 billion.

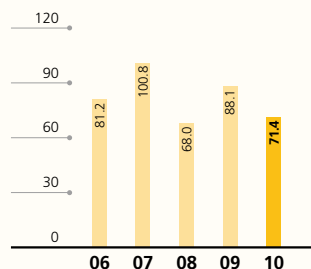
By region, sales in Taiwan rose 56% year on year, and sales in Korea were up 19%, due to the surge in demand during the second half. However, in all other regions, sales for fiscal 2010 declined year on year.

By product, sales of etch systems maintained almost the same level as in the previous fiscal year partly due to the adoption of chip scaling technology by memory manufacturers and in capacity investment by logic manufacturers. However, sales of the other products further decreased year on year.

FPD/PV Production Equipment

FPD/PV Production Equipment Sales

(Billions of Yen)



Overview of FY2010

The global economic downturn, which began in the latter half of 2008, created a situation of oversupply in the market for LCD panels. LCD manufacturers held back on new investments through the first half of 2009. However, the rising market penetration of LCD TVs, particularly in China, has been steadily closing the supply-demand gap. This contributed to an upturn in orders for FPD production equipment from mid 2009. Due to the economic downturn, government subsidies for photovoltaic power generation were reduced, and many customers postponed investments, causing a sudden drop in demand for photovoltaic (PV) cell production equipment.

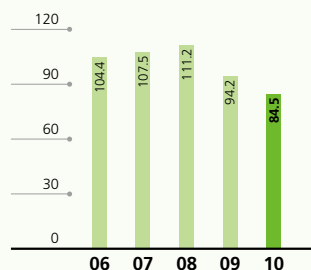
The Division's sales declined 19% year on year in fiscal 2010, to ¥71.4 billion.

By region, sales in Japan rose 131% year on year, supported by shipments of production equipment for 10th-generation glass substrates. However, sales in Korea fell 77% year on year, and sales in Taiwan dropped by 49%. A product breakdown highlights the rapid shift towards larger panel sizes. FPD production equipment for glass substrates for the 8th generation or larger accounted for 67% of total FPD production equipment sales. From fiscal 2010, Tokyo Electron commenced shipments of PV cell production equipment.

Electronic Components and Computer Networks*

Electronic Components and Computer Networks Sales

(Billions of Yen)



Overview of FY2010

Sales in Japan account for almost 90% of total sales in this business. Looking at the domestic electronics market, the semiconductor market turned toward a recovery from mid 2009, with the completion of adjustments made in response to the economic slump that occurred in the fall of 2008. Investment in IT and network infrastructure, however, has remained weak despite the signs of economic recovery.

The Division's sales declined 10.3% year on year in fiscal 2010, to ¥84.5 billion. Sales of semiconductors used in consumer electronics products, such as flat-screen TVs and digital home electronics, remained firm from the start of the fiscal year, thanks in part to economic stimulus measures. Sales of semiconductors used in industrial equipment and computers recovered in the latter half of the fiscal year, but sales of storage and other IT infrastructure products remained weak, as corporations held back on new IT investment.

*Tokyo Electron Device Limited operates this business

Business Outlook

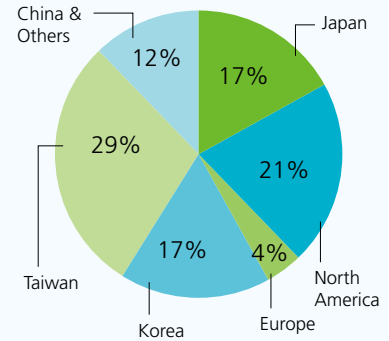
Strong demand for new PCs and “smartphones,” coupled with expansions in network infrastructure are driving a strong recovery in the semiconductor market, and it is expected that investments to increase capacity will become active in 2010.

Initially, the Company will work to rigorously solidify operations in existing product segments. In addition to bolstering operations in segments where it is already strong, Tokyo Electron will further expand its business by introducing strategic new products in areas where there is still strong potential to increase market share, such as etch systems and cleaning systems, and by enhancing collaborations with core customers to develop future technologies.

Meanwhile, new semiconductor-related technologies such as double patterning, chip scaling technology using new materials, 3D memory cell stack and 3D chip stack technologies are advancing efforts to enhance chip density. These trends are supported by core Tokyo Electron technologies, and should allow the Company to make strong inroads into new markets.

The Company expects markets for new, high-end products to expand. Meanwhile, as chipmakers seek to extend the operating life of their equipment through upgrades and refurbishing, the market for post-sales business is likely to grow. For Tokyo Electron, which already has an installed global base of over 50,000 units of semiconductor production equipment, efforts to provide value-added solutions should help the company to attract business from existing customers and elevate earnings.

Sales by Region



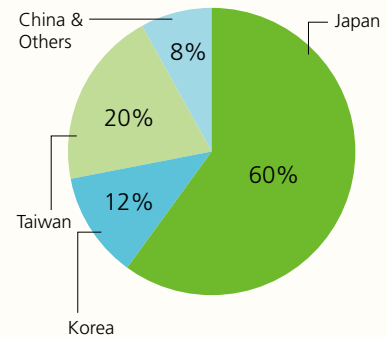
Business Outlook

China’s policy of promoting the consumer electronics market with subsidies to rural residents has contributed to strong demand for flat-screen TVs, and many manufacturers are expected to invest in new LCD production lines in China to address the demand. In addition to the trend towards larger screen size, technology advances will be needed to make displays more responsive and improve picture definition to higher levels. We aim to introduce differentiated products and technology that customers require from us, while at the same time we will make efforts to reduce costs as the competition is intensifying.

A new generation of display technology is also starting to emerge—Organic Light-Emitting Diode (OLED) displays. Efforts to develop production equipment for manufacturing OLED displays are accelerating, and these will probably reach the market in the near future.

In the market for PV cell production equipment, Tokyo Electron currently focuses on production equipment for thin-film silicon PV cells. As efforts to address global warming intensify, demand for these products is likely to enjoy strong growth over the medium-to-long term. Tokyo Electron currently operates a joint development with Sharp, and serves as the Asian and Oceanian representative for Oerlikon Solar, a Swiss equipment supplier. In addition, the Company is developing its own in-house technology. The Company continues to seek the best business model for the growing PV cell production equipment market, and expects this business to expand into a third core source of income, alongside the semiconductor production equipment and FPD production equipment businesses.

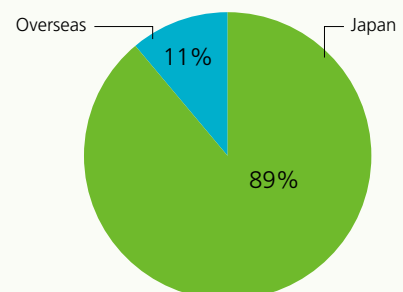
Sales by Region



Business Outlook

Demand for semiconductors in Japan is expected to continue improving, supported largely by expanding demand from the Asian region. The Company also expects the current freeze in IT investment to thaw slowly. As a semiconductor-related trading company, Tokyo Electron Device will work to strengthen its sales structure and product support capabilities. The Company is also focusing efforts on the development of new in-house products such as the *inrevium*™ product line, and will work to increase sales in Asia to support earnings growth.

Sales by Region



■ Research and Development

Today, technology is not only increasingly advanced but also changing rapidly. Consequently, R&D operations have to be more flexible to anticipate the market needs and more aggressive to meet the challenge of new unknown technologies as well.

In order to enhance both early starts and the streamlining of the R&D process, Tokyo Electron has introduced a new structure in R&D operations, consisting of three stages: product development (D), research (R), and the feasibility study (FS). Executives of each division can make a decision to implement FS projects speedily and a committee consisting of technology executives discusses whether each project can move on to the next stage as needed.

In the semiconductor production equipment sector, Tokyo Electron is accelerating development not only of equipment but also of processes by joining the Albany Nanotechnology Project, which is supported by the state government of New York. Moreover, the Company has formed collaborations with International SEMATECH and imec of Belgium, focusing on identifying potential demand at an early stage.

We are aiming to create new businesses through FS. The research area is not limited to Si (Silicon) integrated circuits, but is expanding to compound semiconductors such as SiC (Silicon Carbide) and also organic semiconductors for display. The research activity in this new area has already grown to be a major part of the corporate R&D division activities.

Nowadays, even cutting-edge technology easily diffuses across national borders, thereby making the competition become more intensive. Continuous R&D effort is of the essence to produce a “winning” product. Tokyo Electron is pursuing new technological advances incessantly and eyeing “the world of nanometer”.

Pushing the Boundaries of SPE Technology

The limitation of scaling has been the hottest topic in the semiconductor industry for years. Although the semiconductor industry has faced technological crises several times in its history, innovative technology has always overcome such difficulties. Tokyo Electron is leading the way with cutting-edge technology for the continuous growth of the semiconductor and equipment industries.

In finer pattern delineation, Tokyo Electron has developed new double patterning technology enabling half pitch 13nm line & space. This is the finest pattern which has been fabricated using a commercial exposure tool.

In addition to this double patterning process, Tokyo Electron is also developing a novel clean track system for EUV lithography for the coming 10 nm generation.

A critical issue with scaling is “fluctuation” of transistor performance such as the threshold voltage and drain current. Excess energy in thermal and plasma processes can cause damage, leading to “transistor performance fluctuation”. To minimize the energy applied to a wafer is essential to suppress the fluctuation in the manufacturing process. Based on this understanding, Tokyo Electron has commercialized a novel dry etch system using RLSA plasma which enables damage-free etching with low energy and high electron density.

In addition to finer pattern delineation, new functional materials are indispensable to increase packing density. Tokyo Electron supplies High-k / metal gates for logic devices, novel dielectric film and electrodes for DRAM capacitor. Furthermore, CVD of phase change material and resistive material have also been developed by the R&D division for the emerging memory devices.

3D (three dimensional) is a novel approach to accomplish higher packing density as well as a higher chip performance. Not only 3D memory cell stack but also 3D chip stack technology has been attracting much attention for many years. In the 3D memory cell stack area, Tokyo Electron is preparing deep hole etching at high rates together with its metal filling technology. In the 3D chip stack area, the Company is also a top tool supplier, and has commercialized high rate TSV (Through Silicon Via) etch system and developing a low temperature insulator deposition system.

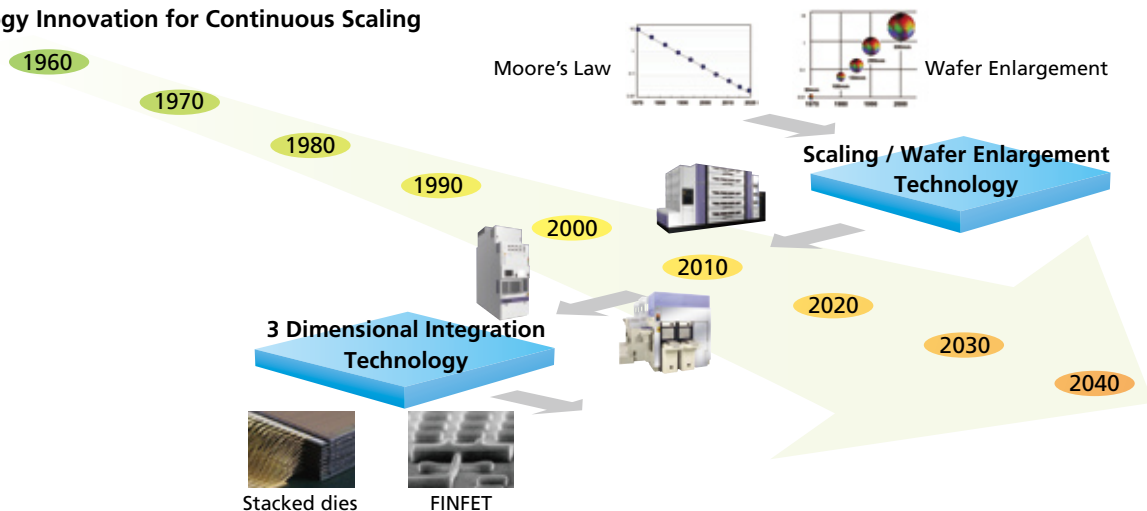
Working on Environment and Energy-related Issues

Tokyo Electron is also working on global environment and energy related issues.

The first of the Company’s initiatives is concerned with the photovoltaic (PV) cell. For the Si thin film PV cell, which has a high growth potential, we are developing equipment with high productivity for Si thin film by leveraging semiconductor and FPD production equipment technology. Moreover, we are conducting research and development activities on new PV cell equipment with high efficiency and low cost.

Our second contribution is energy saving through power electronics. The SiC device is expected to become a revolutionary technology, a once-in-decades innovation. A key technology in the

Technology Innovation for Continuous Scaling



SiC power device is epitaxial growth on SiC substrates. We have developed an SiC epi tool that forms epitaxial layers with superior quality as well as high productivity. This equipment will be launched in 2010.

Exploring New Fields

Tokyo Electron is meeting the challenge of moving into new fields by leveraging semiconductor and FPD manufacturing equipment technology. The Company has formed collaborations with universities and venture companies that possess complementary technology

to enhance new technology development. These collaborations are not limited to domestic universities but are spreading to universities and research institutes in foreign countries.

Furthermore, Tokyo Electron takes part in research programs organized by overseas consortia to identify new and promising technology for the future of semiconductors.

In 2006, the Company established TEL Venture Capital, Inc., headquartered in Silicon Valley, for investigating new technology. TEL Venture Capital has already made investments in several venture companies that possess promising technology.

Intellectual Property

Tokyo Electron understands that it is vital to protect the intellectual property rights of independently developed proprietary technologies and products to ensure the smooth growth of businesses. The integration of our intellectual property strategy with our technological and product strategies is thus important to realizing the maximum benefits expected.

The needs of device manufacturers, our customers, have been diversifying, and they are also increasingly emphasizing reliable process performance and higher productivity from production equipment. Consequently, the role of equipment manufacturers such as Tokyo Electron in developing semiconductor/FPD/ photovoltaic cell manufacturing technology is increasing. Within this context, Tokyo Electron strives to bolster the protection of its intellectual property by actively filing patent applications for equipment recipes, software technologies, process management technologies for various types of manufacturing equipment, and other technologies.

Contribution of License-related Activities

In building and implementing our intellectual property rights strategy, we do not view intellectual property rights obtained for proprietary products and developed technologies as a source of income from licensing to other companies. Rather, we view this as a method of differentiating our own products and bolstering our competitive advantages.

Technologies in Tokyo Electron's business fields are becoming increasingly advanced and complicated. To effectively develop new products incorporating leading-edge technologies, and bring them to market as quickly as possible, it is essential to utilize all available intellectual properties. From this viewpoint, Tokyo Electron not only respects the intellectual property rights of others, just as we do our own, but also makes effective use of them through obtaining licenses.

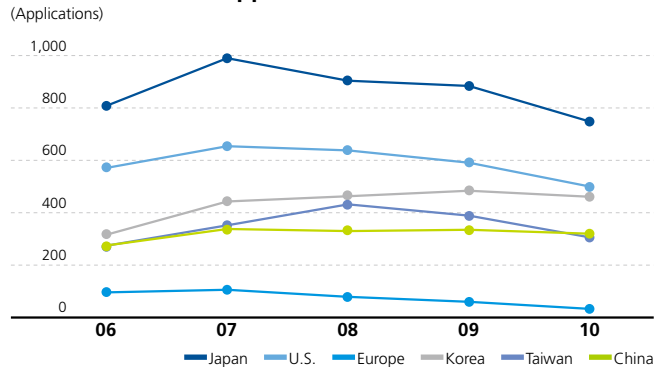
Status of Intellectual Property Application

The graph in this section shows the number of patent applications filed by Tokyo Electron as of March 31, 2010. In addition to filing applications for core technologies vital to our strategies in each business division, we vigorously promote the development of a patent portfolio that encompasses the technologies that support our core technologies. Tokyo Electron's patent portfolio has been highly acclaimed, including as shown by being ranked No. 1 in semiconductor production equipment operations in the Patent Power Scorecards published in IEEE Spectrum in January 2010.

We are also optimizing our number of patent filings in step with market and competitor trends in our business fields. In particular, our number of patent applications filed in Korea and China continues to rise. These filings reflect Korea and China's growing importance in our recent business strategies, as well as our patent strategies in response to the rapid increase in filings from Korean semiconductor and FPD production equipment manufacturers. Most notably in Korea, Tokyo Electron is ranked 4th among foreign companies in the number of patent applications filed (447 applications in the year 2009), according to results announced by the Korean Intellectual Property Office.

As of March 31, 2010, Tokyo Electron held 3,396 patents in Japan and 8,298 patents overseas. As part of proper asset management, we periodically assess Tokyo Electron's patent portfolio, ensuring we have an optimum inventory in line with the status of sales in each business and country, and with the filing trends of competitors.

Number of Patent Applications



Ranking of U.S. Patents in 2009

Semiconductor Production Equipment Manufacturing

Rank	Company, Country	Adjusted Pipeline Power
1	Tokyo Electron Ltd., Japan	792
2	KLA-Tencor Corporation, U.S.	536
3	Disco Corporation, Japan	322
4	FormFactor Inc., U.S.	312
5	Applied Materials Inc., U.S.	266

Source: IEEE Spectrum/January, 2010

Tokyo Electron's corporate missions include placing the highest priority on people's health and safety and taking the global environment into account when conducting business activities.

Fundamental Policy

Tokyo Electron positions environmental, health and safety activities as one of its most important management issues to achieve sustained corporate growth and continued development of society. With that in mind, Tokyo Electron is committed to reducing environmental loads across its activities, and to ensuring absolute safety in the Company's business premises and in those of its customers.

In order to accelerate our environmental response activities, in May 2008 we codified Tokyo Electron's environmental commitment, with "Technology for Eco Life" as the slogan guiding our environmental activities. One of the stipulated goals of this commitment is to develop production equipment that will enable customers to cut the total environmental load of their factories in half by 2015, and to cut the Company's own environmental load from business activities and logistics in half by the same date. In fiscal 2010, we formulated the criteria and roadmaps needed to fulfill this commitment, and reduced the amounts of energy used at our manufacturing plants as an environmental investment. In fiscal 2011, we will formulate and implement detailed measures to reach our goal. Moreover, to develop these environmental, health and safety initiatives, we believe that it is vital to promote communication with all stakeholders and to receive feedback. In line with this philosophy, we also actively engage in activities to contribute to society.

EHS Management

Since 1997, Tokyo Electron has developed and implemented environmental management systems based on ISO 14001 standards, mainly for manufacturing operations, and obtained certification. Also, Tokyo Electron has introduced an environmental accounting system that quantifies the cost of its activities in respect of environmental protection, and uses this as the basis for developing corporate action policies. For details of results for fiscal 2010, please refer to the Tokyo Electron website.

Product-related Environmental Initiatives

Proactive Environmentally Conscious Product Design

Tokyo Electron believes that promotion of product designs sensitive to the environment is vital. Tokyo Electron has positioned promotion of energy conservation in its products, as well as reduction and replacement of hazardous chemicals, as priority issues.

1. Reducing Environmental Loads During Equipment Usage

In fiscal 2010, we promoted our detailed roadmap for reducing environmental loads in all business departments. This roadmap designates reducing the energy requirements of our products, addressing chemical substance-related matters, reducing the number of parts and processes required, reducing the use of processing gases and liquid chemicals, and improving the environmental performance of existing equipment, as mandatory items. We also set reductions in the processes required to start up equipment as a voluntary category. In line with reducing both materials and processes, we are reviewing them as a part of our design and development efforts, and implementing the relevant improvements.

2. Hazardous Substances in Products

As an environmental measure, Tokyo Electron promotes efforts to reduce hazardous chemical substances in its products. Chemical substances found in the units and parts used in products are managed through a dedicated database. Tokyo Electron has positioned those products in which at least 98.5% of the constituent parts meet standards stipulated by the Europe RoHS directive* as "equipment with reduced chemical substances." Shipment of these products has been ongoing since October 1, 2008.

* Refers to the "Restriction of the use of certain Hazardous Substances in Electrical and Electronic Equipment" directive in Europe (2002/95/EC) and its amended version. With the exception of certain applications excluded from its scope, this directive prohibits the inclusion of lead, mercury, cadmium, hexavalent chromium, PBB, and PBDE over a maximum prescribed amount in products. (European Directive 2002/95/EC on the restriction of the use of certain hazardous substances in electrical and electronic equipment)

Health and Safety Activities

Tokyo Electron promotes health and safety in all of its operations. This includes giving top priority to the health and safety of our employees and customers and designing products with safety in mind. In fiscal 2010, we reduced the number of injuries excluding those requiring first-aid alone across the Tokyo Electron Group by over 15% year on year, and injuries requiring first-aid by more than 30%. Promoting activities aimed at curbing the number of accidents further will remain our policy going forward.

For further details, see "Environmental and Social Report 2010" (to be published in October 2010).

<http://www.tel.com/eng/citizenship/ehsreport.htm>

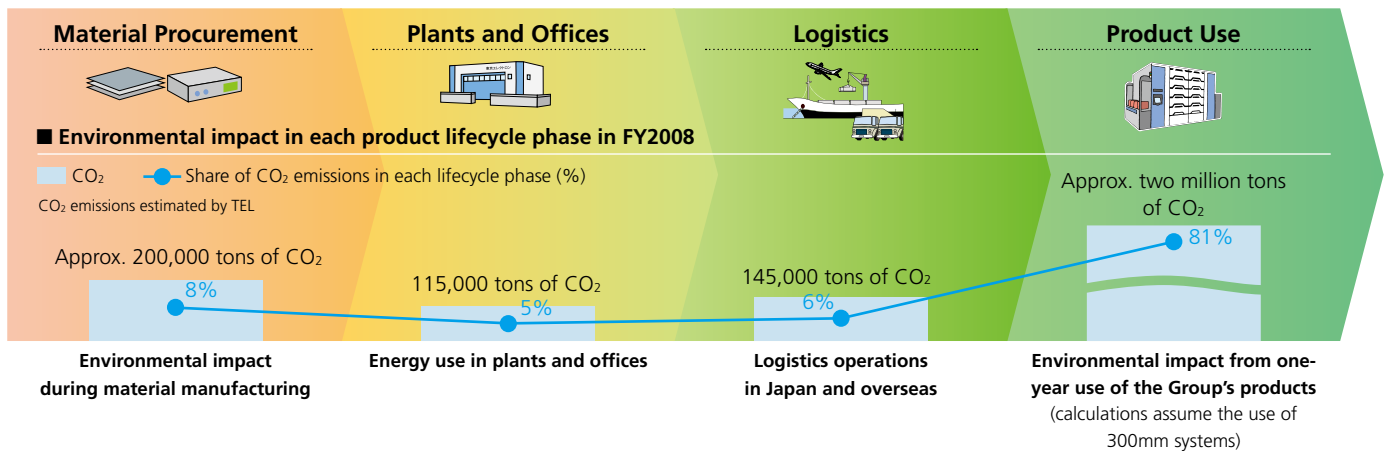


Tokyo Electron's Commitment

The Tokyo Electron Group has assessed the impact of its products on the environment throughout their entire lifecycle—from procurement of major components, manufacturing and logistics to product use. Based on this assessment, we established a goal for the year 2015 and are promoting measures to reduce environmental impact.



- We aim to develop equipment that enables a 50% reduction—compared to the 2007 levels—of the total environmental impact of new customer factories scheduled for completion in 2015 or later.
- We aim to reduce the impact of our business and transportation activities on the environment by 50%, by 2015, compared to the 2007 levels.
- We will strive to achieve these commitments in partnership with our stakeholders.

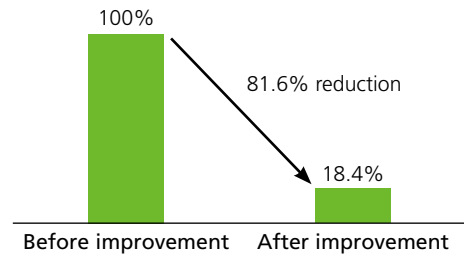


Improvements in Cleaning Systems

With regard to cleaning systems, TEL is implementing measures to reduce VOC* emissions, which are considered one of the most important issues in the semiconductor industry and are tightly regulated under Japan's Air Pollution Control Law. IPA (isopropyl alcohol), which is used in cleaning systems, is a volatile organic solvent. A large volume of IPA is used, and because of its high volatility, its concentration level in the exhaust discharged tends to be high. In order to deal with this issue, TEL installed an IPA scrubber that sprays pure water, refrigerated cooling water, or tower-cooled cooling water, thereby reducing the IPA concentration in the exhaust.

* VOC (Volatile Organic Compounds): A major cause of photochemical oxidants and suspended particulate matter, thought to cause pollution and damage health.

Reduction in IPA concentration in exhaust



Status of Tokyo Electron Group's Environmental Initiatives

Organization dedicated to the environment	Environment, Health & Safety Center
Highest responsibility for the environment	Board of Directors and Board of Executive Officers
Environmental audits	Internal and external audits each conducted yearly; other irregular inter-Group audits
Introduction of environmental management systems	Acquired ISO 14001 at 8 plants and offices
Zero emissions of waste	Achieved at all domestic manufacturing bases; recycled products used in-house
Setting of energy conservation targets	Implementing energy-saving products and energy-saving targets at plants and offices
Environmental training for employees	Conducted for all employees
Punished for violating environmental regulations?	Tokyo Electron has never been punished for this

■ Interview With the Chairman



Tetsuro Higashi, Chairman of the Board

Question: Tokyo Electron was one of the first companies in Japan to introduce stronger systems of corporate governance. Can you describe the background to these measures?

Answer: Since Tokyo Electron was established, the company has eagerly tried to learn the corporate cultures of Europe and the U.S., and has adopted their positive features in its management. When I took over as president, in 1996, the hubristic period of Japan's boom years, in the late 1980s, had passed and the weaknesses of Japanese corporations were being exposed, while U.S. corporations were again reviving, demonstrating their global leadership. I was extremely interested in determining what made American corporations strong. In particular, I realized that the use of ROE and ROA as key management benchmarks, and emphasis on free cash flow were central elements in maximizing corporate value among U.S. corporations. And I was also aware that they fundamentally had a philosophy of "emphasizing shareholder value," and in order to fulfill this philosophy they made efforts to strengthen corporate governance. I decided that the management of Tokyo Electron should try to capture this essential characteristic and use it to establish a globally admired company.

Question: What did you place importance on when you introduced corporate governance at Tokyo Electron?

Answer: One of the key issues was how to deal with the realities of Japanese corporate culture and the management environment, and ensure that management is emphasizing shareholder value. I talked with a top executive in a U.S. corporation, whom I knew well, about this issue. He explained that one factor that helps to ensure that shareholder value is emphasized is the fact that, in U.S. corporations, most members of the Board of Directors are outside directors. The "inside" directors are usually limited to just one or two individuals who have made their way through the ranks to become CEO or CFO. Then, on the Board, they have various committees—the Nomination Committee, the Compensation Committee, the Auditing Committee and so on. When I asked this U.S. executive whether he thought it would be possible to implement this sort of corporate governance structure in a Japanese company, he replied "Whether directors are taken from the company or brought in from outside is not an essential issue. The question is, either you want to make the Board's operations easier for you, or you want to place greater importance on the transparency of the Board's operations in order to introduce differing opinions, even though you might face difficulties dealing with them. Which course do you think will contribute to maximizing shareholder value? This is the point at which you should decide your course." This then was the answer I got from him. I concluded that there was no reason to blindly imitate the structure of a Western company. Rather, we needed to adopt a system that is truly practical.

Question: What are the distinguishing features of Tokyo Electron's system of corporate governance?

Answer: There are a number of features that stand out. First, we use a statutory auditor system; however, the Nomination Committee and Compensation Committee are incorporated into the Board of Directors. These committees make proposals to the full Board, which considers them and makes a final decision. The representative directors (the chairman and the President & CEO) do not take part in either of these committees, since there is a risk that their participation might result in an unbalanced power structure in the committee and detract from fair decision-making processes. We have also based the benchmarks for both shareholder dividends and management bonuses on net income for the period, and have linked employee bonuses to operating income. In this way, we help to ensure that the goals of management and the employees are closely aligned to the interests of shareholders. Thus, all three groups benefit to a similar degree from any increase in corporate value. These incentives also ensure that countries and the society in which we operate benefit from Tokyo Electron's success, via increased tax revenues.

Question: Since 1999, Tokyo Electron has been disclosing the individual compensation of representative directors. What was the basis for this move?

Answer: Corporate value is based on the value accumulated by the company over a period of many years, as well as the company's potential to create additional value in the medium and long term. Ultimately, the corporate value is evaluated and expressed as an appropriate share price in the stock market. In the short term there are a number of problems which interfere with share valuations, but I believe that in the long term, and on the whole, share prices provide an accurate indication of corporate value. The question is, how does one go about evaluating the performance of corporate top management, and who should be responsible for making this evaluation. Employees are evaluated by their immediate superiors, but in the case of top management, it is the shareholders who are directly responsible. The company operations are decided by top management, who are entrusted with this task by

shareholders. Therefore, it is the shareholders who should evaluate top executives' performance from the standpoint of how well they can increase corporate value. As the direct representative of shareholders, the Compensation Committee takes on this duty, and based on the proposals of the Compensation Committee, the Board of Directors finally decides the representatives' compensation. By disclosing these compensation amounts in a clear manner, I think that the Compensation Committee and the Board of Directors merely fulfill their representative roles to shareholders. Some people think that it is sufficient to simply disclose the total amount paid to the directors, but since the top executives are the ones who have the ultimate authority and responsibility, we believe that it is best to provide an individual breakdown of each one's remuneration. One of the most important issues in maintaining effective corporate governance, in my view, is to maintain a certain tension between those being evaluated and those making the evaluation.

Question: What sort of management style do you think Tokyo Electron should cultivate?

Answer: As the company management is entrusted to us by the shareholders, it is extremely important for us to strive to maximize corporate value. But, I also have another point of view. I believe a corporation is an organic living structure which is formed by the company's employees, and where each member should be motivated and energetic in their work. If the company fails to be an aggregation of employees who are full of aspirations and vitality, then over the medium and long term it will never be able to maximize its corporate value. It might sound a bit too idealistic, but I want employees and shareholders to share the same dream, and management should always endeavor to help everyone realize this. From this point of view, I will move back and forth between the employee's focused standpoint and shareholder's broader standpoint. In this manner, I will do my best to support the new management team by providing appropriate advice in a timely manner.



Corporate Governance

Against a backdrop of ongoing business globalization, Tokyo Electron maintains a management philosophy that puts emphasis on maximizing corporate value and enhancing shareholder satisfaction. To this end, the Company is striving to strengthen corporate governance through a variety of measures. The Company is building a highly effective corporate governance structure, and upgrading and strengthening its internal control systems and risk management system. Efforts in this regard are founded on the following three basic principles.

Tokyo Electron's Basic Principles of Corporate Governance

1. Ensure the transparency and soundness of business operations
2. Facilitate quick decision-making and the efficient execution of business operations
3. Disclose information in a timely and suitable manner

The Corporate Governance Framework

Tokyo Electron uses the statutory auditor system based on the Company Law, and furthermore has established its own Nomination Committee and Compensation Committee inside the Board of Directors to increase the transparency and objectivity of management.

Also, Tokyo Electron has adopted the executive officer system to separate the business execution function from the Board of Directors. Moreover, Tokyo Electron has been disclosing the individual remunerations of representative directors since 1999 in recognition of the importance of managerial transparency for shareholders.

The Board of Directors

The Board of Directors consists of 12 directors, two of whom are external directors.

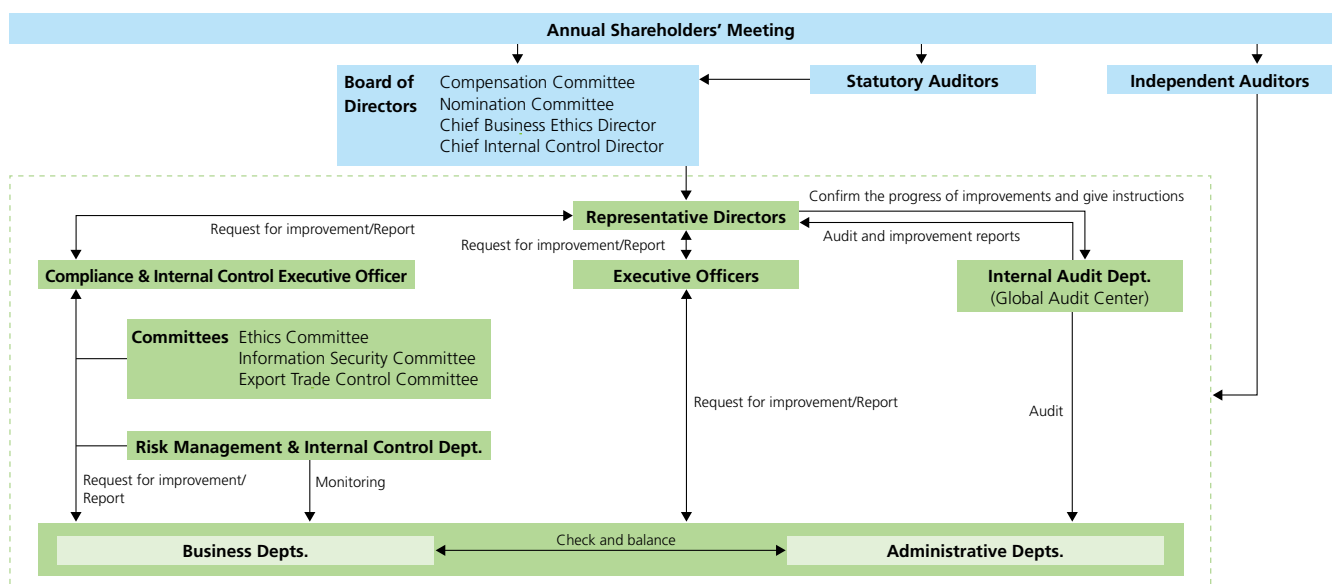
In principle, the Board of Directors meets once a month, with additional meetings if necessary. (During fiscal 2010, the Board of Directors met on 12 occasions.) In order to ensure that the Company can respond quickly to changing business conditions, and to more clearly define management accountability, the term of office for directors is set at one year.

The Board of Directors has two committees: the Compensation Committee and the Nomination Committee, whose activities are intended to improve corporate governance. The Compensation Committee proposes the remuneration to be paid to representative directors at the Board meeting for approval. The Nomination Committee nominates candidates for directors to be selected at the annual shareholders' meeting, and nominates a candidate for CEO to be selected by the Board, which it submits at the Board meeting for approval. Each of these committees is composed of members of the Board of Directors, excluding the representative directors (the Chairman and the President & CEO).

The Board of Statutory Auditors

The Company has four statutory auditors, two of whom are outside auditors. The statutory auditors not only attend meetings of the Board of Directors, the Management Meeting and other important business meetings, but also conduct operations audits and accounting audits, and evaluate risk management, in addition to auditing the performance of duties by directors. During fiscal 2010, the board of statutory auditors met seven times.

Diagram of the Corporate Governance Framework, Internal Control System and Risk Management System



The Executive Officer System

In order to further clarify the roles of the Board of Directors and executives in charge of business operations, Tokyo Electron has adopted the executive officer system. This system promotes fast decision-making and the quick establishment and execution of business strategies.

Remuneration for Directors, Executive Officers and Statutory Auditors

The Company and the Tokyo Electron Group (excluding listed companies) have introduced incentive systems, such as business results-based remuneration, and stock options linked to share prices. Effective from fiscal 2006, the Company revised its executive remuneration system to link remuneration more closely to financial performance and shareholder value and also improve management transparency and its competitive strength.

1. The remuneration for Company directors and executive officers is composed of two elements: a fixed monthly salary, and an annual bonus which is linked to earnings performance.
2. The total amount of performance-linked remuneration (annual bonuses) for directors and executive officers of the Group is set at a maximum of 3% of consolidated net income. This remuneration is split between cash bonuses and stock-based remuneration (stock options), at a ratio of roughly two to one. The stock-based remuneration takes the form of new stock warrant contracts with an exercise price of one yen per share. This is because current securities and exchange regulations in Japan make it difficult to introduce and implement direct share issuance, or the sort of transfer of restricted shares that are used in countries such as the United States. The restricted period on exercising stock options is set at three years.
3. The earnings-linked remuneration (annual bonuses) of external directors does not include stock options.
4. In order to ensure that statutory auditors maintain full independence from management pressures, the compensation of statutory auditors consists of a fixed monthly salary only.
5. Retirement allowances for directors, statutory auditors and executive officers were abolished at the end of fiscal 2005, as part of the revisions to Tokyo Electron's remuneration system for executives.

Remuneration linked to corporate performance comprises a relatively large share of executives' total remuneration. The remuneration system gives executives a strong incentive to improve the Company's earnings performance and elevate the share price, since they share in both the benefits and the risks experienced by shareholders.

Internal Control and Risk Management System

In order to enhance corporate value and ensure that all business activities are carried out responsibly and in the interests of all stakeholders, Tokyo Electron is taking steps to strengthen its internal control systems and make them more effective.

The Company is implementing practical measures in line with the basic policy for internal control systems in the Tokyo Electron Group decided by the Board of Directors.

The Company is also implementing internal controls over financial reporting based on the Financial Instruments and Exchange Law.

Internal Control Systems

To strengthen the internal control and risk management systems of the entire Tokyo Electron Group more effectively, Tokyo Electron appointed a Chief Internal Control Director and a Compliance & Internal Control Executive Officer. Under them, the Company established the Risk Management & Internal Control Department, which evaluates and analyzes the risks which could affect the Group, and works to reduce risks by promoting the necessary measures. Tokyo Electron has also established the Information Security Committee and the Export Trade Control Committee to further strengthen the management of confidential information and the export compliance system.

Internal Audit Department (Global Audit Center)

The Global Audit Center oversees the internal auditing activities of the entire Tokyo Electron Group. The Center is responsible for auditing the business activities of the Group's domestic and overseas bases, as well as their compliance and systems, and evaluating the effectiveness of internal control systems. When necessary, the Global Audit Center also provides guidance to operating divisions.

Coordination Between Statutory Auditors and Internal Audit Department

The statutory auditors coordinate with the department responsible for internal auditing activities primarily by attending the Global Audit Center's report meetings, which were held 13 times during fiscal 2010.

Coordination Between Statutory Auditors and Independent Auditors

The statutory auditors receive audit plans for the fiscal year from the independent auditors, as well as explanations regarding auditing methods and particular areas of focus, among other matters. The independent auditors audit the year-end financial statements and review the quarterly financial statements, and report the results of their audits to the statutory auditors.

The Company provides KPMG AZSA & Co., its independent auditor, with all necessary information and data to ensure that it can conduct its audits during the fiscal year promptly and correctly.

Compliance

Trust is the cornerstone of Tokyo Electron's business foundation. The fundamental requirements for maintaining trust are rigorous conformity to ethical standards and compliance with the law, by individual employees and by each of our organizations. In line with

the basic policy for internal control systems in the Tokyo Electron Group, all Group employees are required to maintain high standards of ethics and to act with a clear awareness of compliance.

Ethical Standards, Chief Business Ethics Director and Ethics Committee



Tokyo Electron Code of Ethics

In 1998, the Company formulated the “Tokyo Electron Code of Ethics” (revised in June 2007) to establish uniform standards to govern all of its global business activities. In the same year, the Company appointed a Chief Business Ethics Director and established the Ethics Committee, which is responsible for promoting business ethics awareness throughout the Company. The Tokyo Electron Code of Ethics prescribes a common code of behavior for all employees

of Tokyo Electron and the Group, and the Company distributes it to all Group employees, including those overseas.

Compliance/Internal Control Executive Officer

Since April 2009, Tokyo Electron has appointed a Compliance/Internal Control Executive Officer from among the executive officers to raise awareness of compliance across the Group, and further improve its implementation.

Framework for Thorough Implementation of Compliance

Tokyo Electron has drawn up compliance regulations setting out basic compliance-related requirements in line with its code of ethics. The compliance regulations are intended to ensure that all individuals who take part in business activities for the Group clearly understand the pertinent laws, regulations, international standards and internal company rules, and continuously apply these rules in all of their activities. The Company also conducts web-based training programs for employees, makes information on compliance issues available to employees via the Company intranet, and takes other steps to promote broad awareness of compliance throughout the Company.

Internal Reporting System: Hotline

In the event that an employee becomes aware of any activity which may violate laws, regulations or principles of business ethics, the Company operates an internal reporting system (Hotline) that employees may use to report their concerns. Strict confidentiality is maintained to protect the whistleblower, and ensure that they are not subject to any disadvantage or repercussions.

Disclosure Policy

Tokyo Electron is committed to disclosing information about the Company in a fair, prompt and accurate manner, to ensure that all stakeholders, including shareholders and other investors, can obtain an accurate, in-depth understanding of the Company and its activities, and evaluate the Company’s corporate value appropriately. The Company also solicits feedback from its stakeholders as part of its information disclosure activities, and uses the feedback as a point of reference to guide corporate management.

Information Disclosure Standards

Tokyo Electron complies fully with the Financial Instruments and Exchange Law, and the Tokyo Stock Exchange’s listing regulations pertaining to marketable securities.

Furthermore, even when the information is not subject to the listing regulations pertaining to marketable securities, the Company discloses the information proactively, in a fair, prompt and accurate manner if the information is deemed useful in providing stakeholders with an accurate understanding of the Company.

Disclosure Practices

If it is subject to the marketable securities listing regulations (material information), Tokyo Electron will release information simultaneously in a press release and via the Tokyo Stock Exchange’s “Timely Disclosure Network” (TDnet), and will post the information on its website as soon as possible, following the official announcement. Even when it does not fall into the category of “material information,” the Company will voluntarily disclose information which may be of interest to stakeholders, in a fair, accurate, and easy-to-understand manner, either on its website or in printed form, through various means of communication.

Tokyo Electron conducts meetings to discuss its financial results with securities analysts and investors; these meetings are also open to members of the press. The Company makes audio recordings of its fiscal year-end and mid-term financial results meetings, and posts these recordings on the Company’s website. All of the documents distributed at its quarterly financial results meetings are also posted on the website.

To ensure that foreign investors have fair and equal access to the information, the Company strives to disclose all information simultaneously in Japanese and English. However, due to the time required for translation, there may be cases where the posting of English information to the website is delayed slightly.

Shareholder Measures

Tokyo Electron mails a Notice of Annual General Meeting of Shareholders to shareholders more than three weeks in advance of the meeting, as one of its measures to vitalize these meetings and to promote smooth and efficient voting. It also sets the date of the Company’s meeting to avoid days on which many such meetings are concentrated. In addition, shareholders

are free to cast their votes via the Internet. Moreover, Tokyo Electron participates in the web-based voting platform for institutional investors operated by Investor Communications Japan Inc. (ICJ). To supplement the above shareholder meeting-related initiatives, Tokyo Electron's website carries notices, resolutions and presentation materials of shareholders' meetings. An English version of the Notice of Annual General Meeting of Shareholders is also provided.



Tokyo Electron is a constituent of the FTSE4Good Global Index.

FTSE4Good

Since September 2003, Tokyo Electron has been chosen for the FTSE4Good Global Index, which is a CSR index provided by the FTSE Group. The FTSE Group is a world leading index firm, a joint venture between the Financial Times newspaper and the London Stock Exchange.

Does Tokyo Electron have these major components of corporate governance?

Nomination Committee	Yes	Composed of directors excluding representative directors (Chairman/CEO)
Compensation Committee	Yes	Composed of directors excluding representative directors (Chairman/CEO)
External directors	Yes	Two of the directors are external directors
Outside auditors	Yes	Two of the statutory auditors are outside auditors
Executive officer system	Yes	
Disclosure of individual remunerations of representative directors	Yes	Disclosed since 1999
Performance-linked compensation system	Yes	
Stock options system	Yes	Does not apply to external directors and auditors
Directors' retirement benefits system	No	
Anti-takeover measures	No	

Message From External Directors



External Director
Hiroshi Inoue

Chairman of the Board,
Tokyo Broadcasting System Holdings, Inc.

External Director since 2006

I was appointed as an external director of Tokyo Electron in 2006. Since my background is in broadcasting, the culture of Tokyo Electron is completely new for me. I have developed a very strong respect for the management style of Tokyo Electron, its strong corporate governance and its dedication to constantly enhancing the value provided to all of its stakeholders. One of the things that I find most attractive about Tokyo Electron's corporate culture is its dynamism. Though the company is almost 50 years old, it retains a youthfulness and openness that I really admire. The intense and wide-ranging deliberations that take place at Board of Directors meetings are a far cry from the restrained and opaque style that is sometimes found in other companies. So long as it maintains this character, I believe that management decisions will continue to lead the company to a brighter future. I believe that I can also contribute to further enhancing the corporate value of Tokyo Electron.



External Director
Masahiro Sakane

Chairman of the Board, Komatsu Ltd.

External Director since 2008

I have always believed that the objective of corporate governance should be "to constantly seek ways to perpetuate growth in corporate value." I think that "corporate value" can be defined as the sum of all the trust earned from stakeholders and from society, and the trust is earned not only by a company fulfilling its promises, but also by it providing full disclosure of information. And I also think that the source of corporate value is derived from customers. I have been an external director of Tokyo Electron for two years now, and the impression I receive from the Board meetings I attend suggests that at Tokyo Electron fair and transparent management, which should be the basis for "earning trust", has been fully established. Indeed, I have learned a lot from the example set by Tokyo Electron, but I also think that I can contribute to the company in many respects. I take pride in the measures that have been taken to promote good corporate governance at Komatsu. While Tokyo Electron has given me opportunities to expand my horizons, I believe that I have experiences that can be instructive to the company, particularly in terms of overseeing a global corporate operation and "creating value through global competitiveness."

BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVE OFFICERS

(As of July 1, 2010)

Board of Directors



Tetsuro Higashi
Chairman of the Board



Tetsuo Tsuneishi¹
Vice Chairman of the Board



Kiyoshi Sato¹
Vice Chairman of the Board



Hiroshi Takenaka
President & CEO



Masao Kubodera
Corporate Director



Haruo Iwatsu
Corporate Director



Hirofumi Kitayama²
Corporate Director



Kenji Washino²
Corporate Director



Hikaru Ito¹
Corporate Director



Takashi Nakamura^{2,3,4}
Corporate Director



Hiroshi Inoue^{*}
Corporate Director/
Chairman of the Board,
Tokyo Broadcasting System
Holdings, Inc.



Masahiro Sakane^{1 *}
Corporate Director/
Chairman of the Board,
Komatsu Ltd.

Statutory Auditors



Mitsutaka Yoshida
Statutory Auditor



Mamoru Hara
Statutory Auditor



Togo Tajika^{*}
Statutory Auditor



Hiroshi Maeda^{*}
Statutory Auditor/
Attorney-at-Law,
Nishimura & Asahi

Notes:

1. Member of Compensation Committee
 2. Member of Nomination Committee
 3. Chief Business Ethics Director
 4. Chief Internal Control Director
- ^{*} External Director, External Statutory Auditor

Executive Officers

Chairman of the Board

Tetsuro Higashi

President & CEO

Hiroshi Takenaka

Executive Vice Presidents

Hirofumi Kitayama
General Manager,
Manufacturing Division (Quality)

Kenji Washino
General Manager,
Corporate Business Strategy

Hikaru Ito
General Manager, SPE

Mitsuru Onozato
General Manager,
FPD Division

Senior Vice Presidents

Takashi Nakamura
General Manager,
Corporate Administration Division,
Compliance/Internal Control

Masami Akimoto
General Manager,
System Development Division

Takashi Ito
General Manager, PVE

Chiaki Yamaguchi
General Manager,
SPE Sales Division

Vice Presidents

Yutaka Nanasawa
General Manager,
HR/Human Resources Development
Center/Finance/Export and
Logistics Control

Yoshiteru Harada
General Manager,
General Affairs/Accounting

Tetsuro Hori
General Manager,
Legal/Intellectual Property

Toshihiko Nishigaki
General Manager, Clean Track BU

Seisu Ikeda (Yoh)
General Manager,
Surface Preparation Systems BU

Hideyuki Tsutsumi
General Manager, Etch Systems BU

Takeshi Okubo
General Manager,
Thermal Processing Systems BU,
Single Wafer Deposition BU

Kiyoshi Sunohara
General Manager, Field Solutions BU

Masaaki Hata
General Manager,
Taiwan Sales, SPE Sales Division

Tsuguhiko Matsuura
General Manager,
FPD BU, FPD Division

Gishi Chung
General Manager,
SPE Process Development Division

Shigetoshi Hosaka
General Manager,
Corporate Development Division

*BU stands for "business unit"

FINANCIAL SECTION

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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.

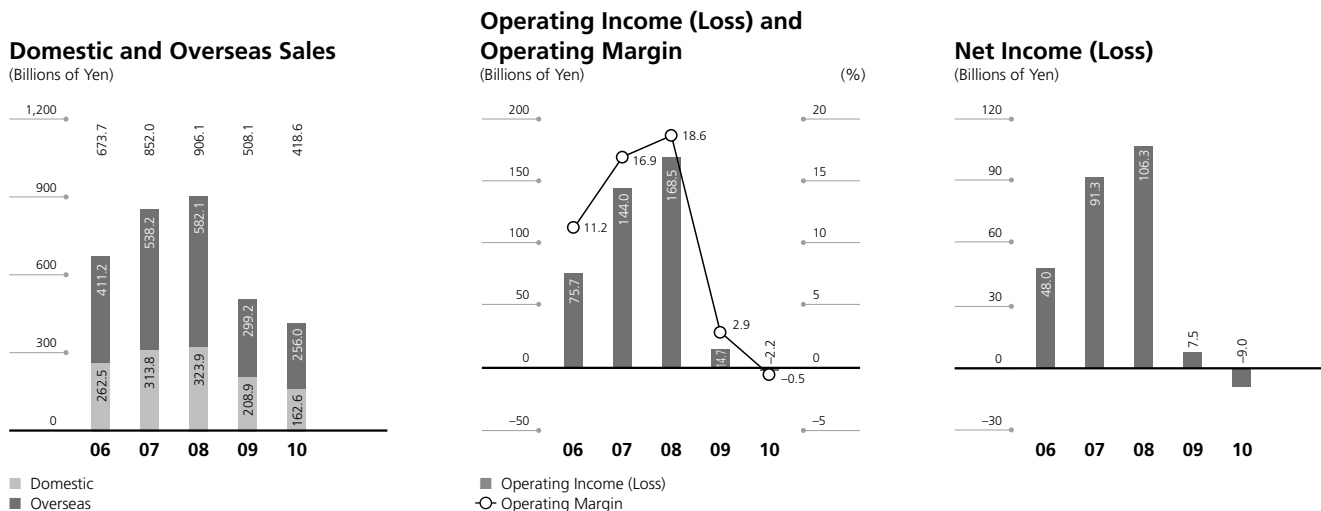
Efforts to reduce SG&A expenses allowed Tokyo Electron to decrease this total cost by 9.9% year on year, to ¥110.5 billion. As a percentage of consolidated net sales, however, the SG&A ratio rose to 26.4%, from 24.1% in the previous year. Consequently, an operating loss of ¥2.2 billion was incurred,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



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 facility 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.

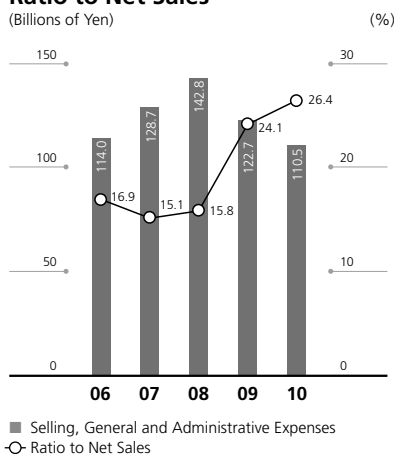
■ Semiconductor Production Equipment

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.

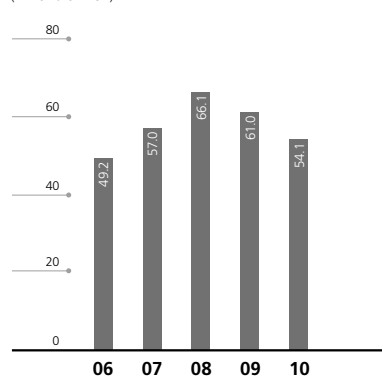
However, semiconductor manufacturers have been increasing capital investment since the second half of fiscal 2010. Consequently, orders in this division increased 68.2%, to ¥360.9 billion. The order backlog rose 133.5%, to ¥172.3 billion.

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

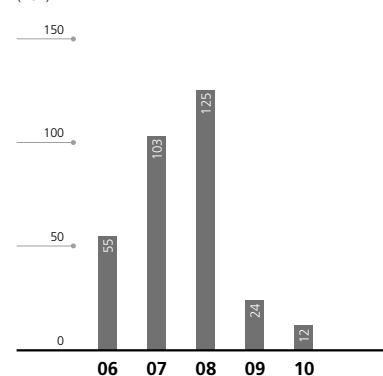
Selling, General and Administrative Expenses and Ratio to Net Sales



R&D Expenses



Cash Dividends per Share



■ 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.

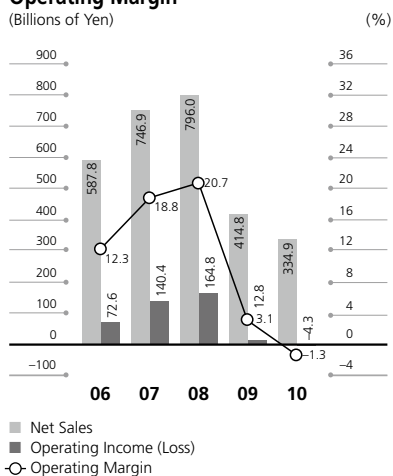
For a business overview of this segment, please see pages 12 and 13.

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

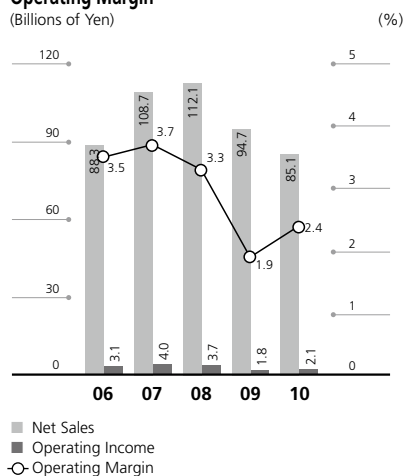
Segment Information

	Millions of yen				
	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
2010:					
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

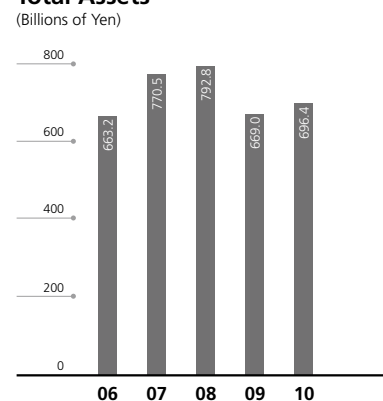
Industrial Electronic Equipment Segment Net Sales, Operating Income (Loss) and Operating Margin



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



Total Assets



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.

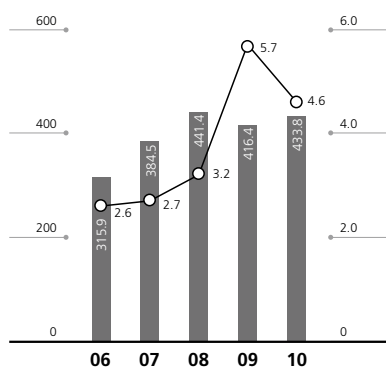
Net assets declined by ¥5.9 billion year on year, to ¥523.4 billion. This reflected a decrease in retained earnings of ¥10.5 billion resulting from the net loss of ¥9.0 billion and the payment of ¥1.4 billion in dividends, and also an increase in unrealized gains on investment securities of ¥3.3 billion.

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

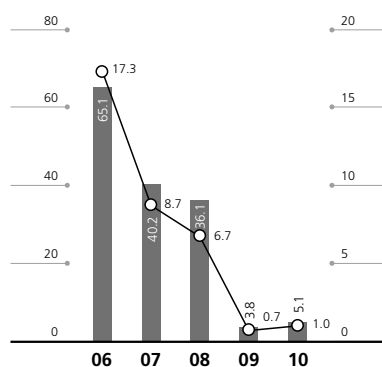
(Billions of Yen) (Times)



■ Working Capital
○ Current Ratio

Interest-Bearing Debt, D/E Ratio

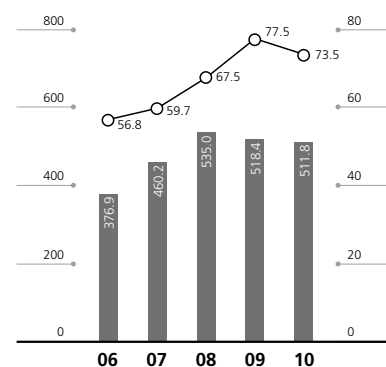
(Billions of Yen) (%)



■ Interest-Bearing Debt
○ D/E Ratio

Equity and Equity Ratio

(Billions of Yen) (%)



■ Equity
○ 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.

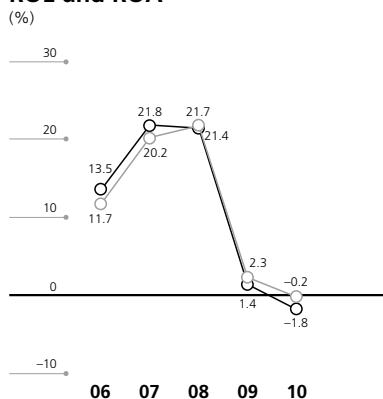
Financing activities used net cash of ¥288 million, compared with ¥46.0 billion in fiscal 2009. The main outflow was a ¥1.4 billion dividend paid.

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.

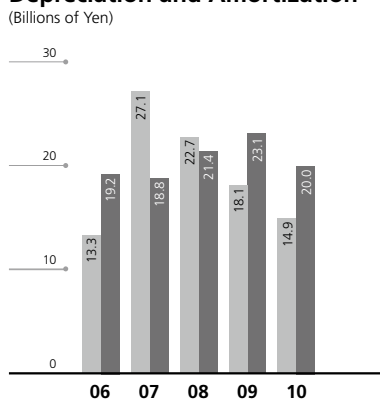
	Millions of Yen				
	2006	2007	2008	2009	2010
Cash flows from operating activities	¥ 78,854	¥ 54,297	¥116,939	¥ 81,030	¥ 48,285
Cash flows from investing activities	(10,537)	(25,293)	(30,186)	(160,622)	9,613
Cash flows from financing activities.....	(43,420)	(34,719)	(27,033)	(46,016)	(288)
Cash and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

ROE and ROA



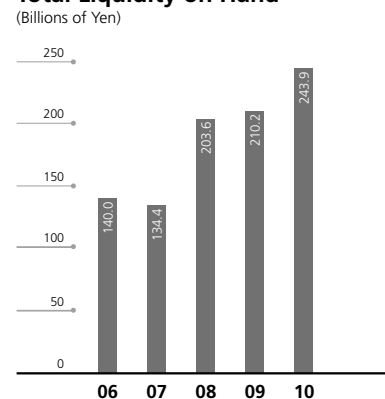
○ Return on Equity Ratio (ROE)
 □ Return on Assets Ratio (ROA)
 ROA=(Operating income+Interest and dividend income)/Average total assets x100

Capital Expenditures and Depreciation and Amortization



■ Capital Expenditures
 ■ Depreciation and Amortization

Total Liquidity on Hand



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.

CONSOLIDATED ELEVEN-YEAR SUMMARY

Tokyo Electron Limited and Subsidiaries
As of and for the years ended March 31

	Thousands of U.S. dollars			
	2010	2010	2009	2008
Net sales ¹	\$4,499,538	¥ 418,637	¥ 508,082	¥ 906,092
Semiconductor production equipment	2,820,206	262,392	325,383	726,440
FPD/PV production equipment ²	766,993	71,361	88,107	68,016
Computer networks	—	—	—	—
Electronic components and computer networks	907,921	84,473	94,207	111,181
Other	4,418	411	385	455
Operating income (loss)	(23,442)	(2,181)	14,711	168,498
Income (loss) before income taxes	(83,491)	(7,768)	9,637	169,220
Net income (loss)	(97,087)	(9,033)	7,543	106,271
Domestic sales	1,747,732	162,609	208,871	323,946
Overseas sales	2,751,806	256,028	299,211	582,146
Depreciation and amortization ³	214,983	20,002	23,068	21,413
Capital expenditures ⁴	160,350	14,919	18,108	22,703
R&D expenses	581,191	54,074	60,988	66,073
Total assets	7,484,437	696,352	668,998	792,818
Total net assets (Total shareholders' equity)	5,625,215	523,370	529,265	545,245
Number of employees		10,068	10,391	10,429
	U.S. dollars			
Net income (loss) per share of common stock: ⁵				
Basic	\$ (0.54)	¥ (50.47)	¥ 42.15	¥ 594.01
Diluted ⁶	—	—	42.07	592.71
Net assets per share of common stock	30.73	2,859.37	2,896.55	2,989.70
Cash dividends per share of common stock	0.13	12.00	24.00	125.00
Number of shares outstanding (thousands)		180,611	180,611	180,611
Number of shareholders		39,285	42,509	43,324
ROE		(1.8)	1.4	21.4
Operating margin		(0.5)	2.9	18.6
Equity ratio		73.5	77.5	67.5
Asset turnover (times)		0.61	0.70	1.16
	U.S. dollars			
Net sales per employee	\$ 446,915	¥ 41,581	¥ 48,896	¥ 86,882

1 Until fiscal 2004, the FPD (Flat Panel Display) division was included in Semiconductor production equipment. From fiscal 2008, Computer networks is included in Electronic components and computer networks.

2 From fiscal 2009, the FPD division was changed to the FPD/PV production equipment division. The Photovoltaic Cell (PV) production equipment is included in FPD/PV production equipment.

3 Depreciation and amortization does not include amortization and loss on impairment of goodwill.

4 Capital expenditures after fiscal 2000 only represent the gross increase in property, plant and equipment.

5 From fiscal 2003, the Company applied "Accounting Standards Regarding Net Income per Share (Business Accounting Standards No. 2)" and "Practical Guidelines for Applying Accounting Standards Regarding Net Income per Share (Practical Guidelines for Applying Accounting Standards No. 4)" released by the Accounting Standards Board of Japan (ASBJ).

6 Dilution is not assumed for the years ended March 31, 2010, 2003 and 2002.

7 Effective from fiscal 2005, Tokyo Electron changed its method of revenue recognition upon receiving customer confirmation of product set-up and testing of products for Semiconductor and FPD production equipment. The effect of this change decreased net sales, operating income and income before income taxes by ¥80,956 million, ¥20,541 million and ¥20,563 million, respectively, for the year ended March 31, 2005, compared with the corresponding amounts which would have been recorded if the previous method had been applied.

8 Effective from fiscal 2005, Tokyo Electron changed its method to account for after-sale repair expenses by recording accrued warranty expenses for Semiconductor and FPD production equipment. The effect of this change decreased operating income and income before income taxes by ¥635 million and ¥13,106 million, respectively, for the year ended March 31, 2005, compared with the corresponding amounts which would have been recorded if the previous method had been applied.

Millions of yen							
2007	2006	2005	2004	2003	2002	2001	2000
¥ 851,975	¥ 673,686	¥ 635,710	¥ 529,654	¥ 460,580	¥ 417,825	¥ 723,880	¥ 440,729
642,625	486,883	457,191	425,747	364,689	325,715	619,001	355,103
100,766	81,176	75,038	—	—	—	—	—
19,169	17,497	15,966	18,448	17,193	17,031	14,054	12,357
88,294	86,881	86,249	84,229	77,380	73,658	89,211	72,051
1,121	1,249	1,266	1,230	1,318	1,421	1,614	1,218
143,979	75,703	63,983	22,280	1,119	(18,310)	121,086	35,816
144,414	75,328	55,775	14,936	(23,010)	(22,919)	99,132	29,689
91,263	48,006	61,601	8,297	(41,554)	(19,938)	62,012	19,848
313,816	262,532	232,678	242,318	190,513	186,516	299,272	183,987
538,159	411,154	403,032	287,336	270,067	231,309	424,608	256,742
18,820	19,170	21,463	24,963	27,374	26,294	21,679	19,446
27,129	13,335	9,876	11,007	12,359	30,946	49,403	18,999
56,962	49,182	43,889	44,150	50,123	53,827	52,911	37,135
770,514	663,243	644,320	561,632	524,901	556,915	729,511	499,499
469,811	376,900	332,165	275,800	252,904	307,579	333,281	273,603
9,528	8,901	8,864	8,870	10,053	10,171	10,236	8,946
Yen							
¥ 511.27	¥ 267.61	¥ 343.63	¥ 46.37	¥ (238.57)	¥ (113.85)	¥ 353.76	¥ 113.53
509.84	267.32	343.54	45.78	—	—	344.75	110.64
2,573.72	2,112.30	1,863.28	1,543.73	1,456.23	1,756.73	1,901.38	1,560.27
103.00	55.00	45.00	10.00	8.00	8.00	38.00	14.00
180,611	180,611	180,611	180,611	175,698	175,691	175,691	175,660
41,289	46,272	60,857	60,873	49,259	37,116	42,781	7,147
Percent							
21.8	13.5	20.3	3.1	(14.8)	(6.2)	20.4	7.5
16.9	11.2	10.1	4.2	0.2	(4.4)	16.7	8.1
59.7	56.8	51.6	49.1	48.2	55.2	45.7	54.8
1.19	1.03	1.05	0.97	0.85	0.65	1.18	0.96
Thousands of yen							
¥ 89,418	¥ 75,687	¥ 71,718	¥ 59,713	¥ 45,815	¥ 41,080	¥ 70,719	¥ 49,265

CONSOLIDATED BALANCE SHEETS

Tokyo Electron Limited and Subsidiaries
As of March 31, 2010 and 2009

ASSETS	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current assets:			
Cash and cash equivalents.....	¥123,940	¥ 65,883	\$1,332,115
Short-term investments	120,000	144,275	1,289,768
Trade notes and accounts receivable.....	124,462	119,687	1,337,726
Allowance for doubtful accounts.....	(176)	(21)	(1,892)
Inventories	138,450	134,242	1,488,070
Deferred income taxes.....	26,625	11,481	286,167
Prepaid expenses and other current assets.....	19,638	30,140	211,071
Total current assets	552,939	505,687	5,943,025
Property, plant and equipment:			
Land.....	26,356	20,678	283,276
Buildings.....	120,430	121,569	1,294,390
Machinery and equipment.....	98,943	104,473	1,063,446
Construction in progress	3,739	4,708	40,187
Total property, plant and equipment	249,468	251,428	2,681,299
Less: Accumulated depreciation.....	157,340	151,522	1,691,101
Net property, plant and equipment	92,128	99,906	990,198
Investments and other assets:			
Investment securities	14,721	9,131	158,222
Deferred income taxes.....	20,506	31,940	220,400
Intangible assets.....	5,586	10,761	60,039
Other assets	17,925	19,119	192,658
Allowance for doubtful accounts.....	(7,453)	(7,546)	(80,105)
Total investments and other assets.....	51,285	63,405	551,214
Total assets	¥696,352	¥668,998	\$7,484,437

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current liabilities:			
Short-term borrowings	¥ 5,106	¥ 3,807	\$ 54,880
Trade notes and accounts payable	61,585	31,227	661,920
Customer advances	22,077	28,562	237,285
Income taxes payable	4,356	1,751	46,818
Accrued employees' bonuses	6,044	4,965	64,961
Accrued warranty expenses	5,268	6,116	56,621
Accrued expenses and other current liabilities	14,726	12,844	158,276
Total current liabilities	119,162	89,272	1,280,761
Accrued pension and severance costs	50,528	47,687	543,078
Other liabilities	3,292	2,774	35,383
Total liabilities	172,982	139,733	1,859,222
Contingent liabilities			
Net assets:			
Shareholders' equity	54,961	54,961	590,724
Common stock			
Authorized: 300,000,000 shares			
Issued: 180,610,911 shares as of March 31, 2010 and 2009			
Capital surplus	78,034	78,114	838,715
Retained earnings	393,970	404,435	4,234,415
Treasury stock, at cost	(10,900)	(11,112)	(117,153)
1,614,225 and 1,643,398 shares			
as of March 31, 2010 and 2009, respectively			
Valuation and translation adjustments			
Unrealized gains (losses) on investment securities	2,504	(842)	26,913
Deferred gains (losses) on hedges	(68)	67	(731)
Foreign currency translation adjustments	(6,683)	(7,236)	(71,829)
Share subscription rights	1,578	1,149	16,960
Minority interests	9,974	9,729	107,201
Total net assets	523,370	529,265	5,625,215
Total liabilities and net assets	¥696,352	¥668,998	\$7,484,437

CONSOLIDATED STATEMENTS OF OPERATIONS

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Net sales	¥418,637	¥508,082	\$4,499,538
Cost of sales	310,321	370,674	3,335,351
Gross profit	108,316	137,408	1,164,187
Selling, general and administrative expenses	110,497	122,697	1,187,629
Operating income (loss)	(2,181)	14,711	(23,442)
Other income (expenses):			
Interest and dividend income	1,055	1,806	11,339
Interest expenses	(47)	(175)	(505)
Revenue from development grants	1,842	2,701	19,798
Gain on sale of property, plant and equipment	283	67	3,042
Provision of allowance for doubtful accounts	(100)	(7,361)	(1,075)
Loss on devaluation of investment securities	(72)	(2,432)	(774)
Loss on disposal of property, plant and equipment	(978)	(352)	(10,511)
Loss on impairment of property, plant and equipment and intangible assets ...	(7,553)	–	(81,180)
Expenses for integration of domestic facilities.....	(1,909)	–	(20,518)
Other, net	1,892	672	20,335
Income (loss) before income taxes and minority interests	(7,768)	9,637	(83,491)
Income taxes:			
Current	5,747	4,553	61,769
Deferred	(5,021)	(2,762)	(53,966)
Minority interests	539	303	5,793
Net income (loss)	¥ (9,033)	¥ 7,543	\$ (97,087)
Per share of common stock:			
Net income (loss) — basic	¥ (50.47)	¥ 42.15	\$ (0.54)
Net income — diluted	–	42.07	–
Net assets	2,859.37	2,896.55	30.73
Cash dividends	12.00	24.00	0.13

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen									
	Shareholders' equity				Valuation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains (losses) on investment securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Share subscription rights	Minority interests	Total net assets
Balance as of March 31, 2008..	¥54,961	¥78,393	¥410,867	¥(11,370)	¥2,172	¥ 460	¥ (530)	¥ 484	¥9,808	¥545,245
Effect of change in accounting policies for foreign subsidiaries..	-	-	(552)	-	-	-	-	-	-	(552)
Cash dividends.....	-	-	(13,420)	-	-	-	-	-	-	(13,420)
Net income.....	-	-	7,543	-	-	-	-	-	-	7,543
Repurchase of treasury stocks...	-	-	-	(38)	-	-	-	-	-	(38)
Disposal of treasury stocks.....	-	(279)	-	296	-	-	-	-	-	17
Effect of newly consolidated subsidiaries.....	-	-	(3)	-	-	-	-	-	-	(3)
Other, net.....	-	-	-	-	(3,014)	(393)	(6,706)	665	(79)	(9,527)
Balance as of March 31, 2009..	¥54,961	¥78,114	¥404,435	¥(11,112)	¥ (842)	¥ 67	¥(7,236)	¥1,149	¥9,729	¥529,265
Cash dividends.....	-	-	(1,432)	-	-	-	-	-	-	(1,432)
Net loss.....	-	-	(9,033)	-	-	-	-	-	-	(9,033)
Repurchase of treasury stocks..	-	-	-	(58)	-	-	-	-	-	(58)
Disposal of treasury stocks.....	-	(80)	-	270	-	-	-	-	-	190
Other, net.....	-	-	-	-	3,346	(135)	553	429	245	4,438
Balance as of March 31, 2010..	¥54,961	¥78,034	¥393,970	¥(10,900)	¥2,504	¥ (68)	¥(6,683)	¥1,578	¥9,974	¥523,370

	Thousands of U.S. dollars									
	Shareholders' equity				Valuation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains (losses) on investment securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Share subscription rights	Minority interests	Total net assets
Balance as of March 31, 2009..	\$590,724	\$839,575	\$4,346,894	\$(119,433)	\$ (9,050)	\$ 720	\$(77,773)	\$12,350	\$104,568	\$5,688,575
Cash dividends.....	-	-	(15,392)	-	-	-	-	-	-	(15,392)
Net loss.....	-	-	(97,087)	-	-	-	-	-	-	(97,087)
Repurchase of treasury stocks...	-	-	-	(622)	-	-	-	-	-	(622)
Disposal of treasury stocks.....	-	(860)	-	2,902	-	-	-	-	-	2,042
Other, net.....	-	-	-	-	35,963	(1,451)	5,944	4,610	2,633	47,699
Balance as of March 31, 2010..	\$590,724	\$838,715	\$4,234,415	\$(117,153)	\$26,913	\$ (731)	\$(71,829)	\$16,960	\$107,201	\$5,625,215

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ (7,768)	¥ 9,637	\$ (83,491)
Depreciation and amortization	20,002	23,068	214,983
Amortization of goodwill.....	242	242	2,601
Loss on impairment of property, plant and equipment and intangible assets ..	7,553	–	81,180
Increase in accrued pension and severance costs	2,810	3,401	30,202
Decrease in prepaid pension expenses	570	52	6,126
Increase in allowance for doubtful accounts	121	7,333	1,301
Increase (decrease) in accrued employees' bonuses.....	1,079	(7,762)	11,597
Decrease in accrued warranty expenses	(837)	(3,346)	(8,996)
Interest and dividend income.....	(1,055)	(1,806)	(11,339)
Interest expenses.....	47	175	505
Gain on sale of property, plant and equipment.....	(283)	(67)	(3,042)
Loss on disposal of property, plant and equipment	978	352	10,511
Loss on devaluation of investment securities.....	72	2,432	774
(Increase) decrease in trade notes and accounts receivable.....	(4,890)	102,413	(52,558)
(Increase) decrease in inventories.....	(4,869)	21,282	(52,332)
Decrease in prepaid consumption tax	568	4,509	6,105
Increase (decrease) in trade notes and accounts payable.....	27,975	(29,942)	300,677
Increase (decrease) in customer advances	(6,380)	5,322	(68,573)
Increase in specific doubtful receivables.....	(140)	(7,355)	(1,505)
Other, net	5,686	(9,620)	61,114
Subtotal.....	41,481	120,320	445,840
Receipts from interest and dividends.....	1,171	1,749	12,586
Interest paid.....	(46)	(202)	(494)
Income taxes (paid) refunded	5,679	(40,837)	61,038
Net cash provided by operating activities.....	48,285	81,030	518,970
Cash flows from investing activities:			
Purchases of short-term investments	(449,000)	(353,804)	(4,825,881)
Proceeds from short-term investments.....	473,347	219,429	5,087,564
Payment for purchase of property, plant and equipment.....	(14,195)	(17,228)	(152,569)
Proceeds from sale of property, plant and equipment	488	656	5,245
Payment for acquisition of intangible assets.....	(786)	(1,182)	(8,448)
Payment for purchase of investment securities.....	(18)	(7,815)	(193)
Other, net	(223)	(678)	(2,397)
Net cash provided by (used in) investing activities.....	9,613	(160,622)	103,321
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings.....	1,299	(2,263)	13,962
Redemption of unsecured bonds.....	–	(30,000)	–
(Increase) decrease in treasury stock, net	132	(21)	1,419
Dividends paid.....	(1,432)	(13,420)	(15,392)
Other, net	(286)	(312)	(3,074)
Net cash used in financing activities.....	(287)	(46,016)	(3,085)
Effect of exchange rate changes on cash and cash equivalents.....	446	(2,069)	4,794
Net increase (decrease) in cash and cash equivalents.....	58,057	(127,677)	624,000
Cash and cash equivalents at beginning of year	65,883	193,493	708,115
Effect of newly consolidated subsidiaries.....	–	67	–
Cash and cash equivalents at end of year	¥ 123,940	¥ 65,883	\$ 1,332,115

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tokyo Electron Limited and Subsidiaries

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Tokyo Electron Limited (hereinafter "the Company") and its subsidiaries (hereinafter collectively referred to as "Tokyo Electron") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Prior to the year ended March 31, 2009, the accounts of foreign subsidiaries used in the preparation of the consolidated financial statements were based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

As mentioned in note 3 (a), the Company adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18 issued by the Accounting Standards Board of Japan) effective from April 1, 2008. As a result of this adoption, the Company uses financial statements prepared by foreign subsidiaries in accordance with International Financial Reporting Standards or U.S. generally accepted accounting principles for the preparation of the consolidated financial statements, together with adjustment for certain items which are required to be adjusted in the consolidation process.

The accompanying consolidated financial statements have been restructured and translated into English from the statutory Japanese language consolidated financial statements. Some supplementary information included in the statutory Japanese language consolidated financial statements, which is not required for fair presentation, is not presented in the accompanying consolidated financial statements.

U.S. dollar amounts included herein are solely for the convenience of readers and are presented at the rate of ¥93.04 to \$1.00, the approximate rate as of March 31, 2010. The translation should not be construed as a representation that the Japanese yen amounts shown could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 30 and 32 subsidiaries for the years ended March 31, 2010 and 2009, respectively.

Investments in affiliates in which the Company's ownership is 20% to 50% are accounted for by the equity method.

All significant inter-company accounts, transactions and unrealized profits or losses have been eliminated in consolidation.

The fiscal year-end of all entities is March 31, except for two consolidated foreign subsidiaries, which use a December 31 year-end, and adjustment is made for any significant transactions between the different fiscal year-ends.

(b) Foreign currency translation

All assets and liabilities denominated in foreign currencies are translated into Japanese yen at the year-end rates, except for those hedged by forward exchange contracts, which are translated at the contracted rates. Resulting exchange gains and losses are included in earnings for the year.

Revenue and expense items are translated at the rates that approximate those prevailing at the time of the transactions.

The balance sheet accounts of foreign subsidiaries are translated into Japanese yen at the rates of exchange in effect at the balance sheet date, except for shareholders' equity accounts, which are translated at the historical rates. Revenue and expense accounts of foreign subsidiaries are translated at average rates of exchange in effect during the year. Resulting translation adjustments are presented in net assets as a component of valuation and translation adjustments and minority interests in the consolidated financial statements.

(c) Investment securities

Tokyo Electron examines the intent of holding each security and classifies those securities as trading securities, held-to-maturity debt securities or other securities. Tokyo Electron has no trading or held-to-maturity debt securities. Other securities with market prices are valued at fair market value prevailing at the balance sheet date. The differences between the book and market prices of other securities, net of applicable income taxes, are presented in net assets as a component of valuation and translation adjustments. Other securities without market value are valued at cost using the weighted-average method.

The cost of sold securities is calculated using the weighted-average method.

(d) Inventories

As mentioned in note 3 (b), effective from April 1, 2008, the Company and its domestic subsidiaries adopted "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Boards of Japan). Inventories other than raw materials are stated at the lower of cost, determined by the specific identification method, or net realizable value, which is defined as selling price less estimated additional manufacturing costs and estimated direct selling expenses. Raw materials are stated at the lower of cost, determined principally by the moving-average method, or net realizable value, which is defined as selling price less estimated additional manufacturing costs and estimated direct selling expenses.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of buildings, machinery and equipment of the Company and its domestic subsidiaries is computed using the declining balance method, except for buildings acquired subsequent to March 31, 1998 which are depreciated using the straight-line method, based on the estimated useful lives of assets. Foreign subsidiaries mainly apply the straight-line method over the estimated useful lives of assets.

Estimated useful lives of property, plant and equipment are as follows:

Buildings	2 to 60 years
Machinery and equipment	2 to 17 years

(f) Intangible assets

Intangible assets, which primarily comprise of capitalized costs for computer software and goodwill, are amortized by the straight-line method over their estimated useful lives. Capitalized costs for computer software for internal use are amortized over a period of 2 to 5 years. Goodwill is evaluated on an individual basis and amortized over a period not exceeding 20 years.

(g) Impairment of fixed assets

Tokyo Electron evaluates the carrying value of fixed assets held for use in the business.

If the carrying value of a fixed asset is impaired, a loss is recognized based on the amount by which the carrying value exceeds its recoverable amount, being the higher of the net selling price or the value in use of the assets. Net selling price is determined using the fair value less disposal costs and value in use is based on the total amount of discounted cash flows estimated to be generated from the continuing use of the individual assets or the asset group and the disposal of the assets.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debts with respect to ordinary receivables, and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(i) Accrued pension and severance costs

The Company and its domestic subsidiaries provide an accrual for defined benefit employees' pension and severance costs based on the projected benefit obligation and fair value of pension assets on the account settlement date. Prior service costs are charged to earnings on a straight-line basis, beginning from the fiscal year in which they are incurred, over a fixed number of years (four years) within the average remaining years of service of employees when the changes occur. Actuarial differences are charged to earnings on a straight-line basis, beginning from the fiscal year after they are recognized, over a fixed number of years (four years) within the average remaining years of service of employees when the differences occur.

The provision for accrued pension and severance costs for directors and statutory auditors of the Company and its domestic subsidiaries is calculated in accordance with internal regulations.

The Company and certain domestic subsidiaries decided to discontinue the payment of severance pay for directors and statutory auditors after April 1, 2005, and at the general shareholders' meeting in June 2005, it was resolved that the severance pay for directors and statutory auditors until March 31, 2005 would be paid at the termination of their service and the decision regarding the payment amount for each director and statutory auditor was delegated to the board of directors and statutory auditors. As discussed in note 9, the accruals for severance costs for directors and statutory auditors are included in accrued pension and severance costs in the consolidated balance sheets.

(j) Accrued warranty expenses

Tokyo Electron's products are generally subject to warranty, and Tokyo Electron accrues such estimated costs when product revenue is recognized. To prepare for future repairs during warranty periods, estimated after-sale repair expenses over warranty periods are accrued based on the historical ratio of actual repair expenses to corresponding sales.

(k) Leases

Until the year ended March 31, 2008, non-cancelable leases of the Company and its domestic subsidiaries had been primarily accounted for as operating leases (whether such leases were classified as operating or finance leases), except for leases that transfer ownership to the lessee at the end of the lease, which had been accounted for as finance leases.

As mentioned in note 3 (c), effective from the year ended March 31, 2009, the Company and its domestic subsidiaries adopted "Accounting Standard for Lease Transactions" (Statement No. 13 issued by the Accounting Standards Board of Japan) and "Guidance on Accounting Standard for

Lease Transactions" (Guidance No. 16 issued by the Accounting Standards Board of Japan). As a result, the Company and its domestic subsidiaries capitalized leased assets under finance leases commencing after March 31, 2008, and such leased assets are depreciated using the straight-line method over the period of the lease contract with zero residual value.

(l) Derivatives and hedge accounting

The Company and a domestic subsidiary make use of derivatives in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates. The amount of derivatives is limited to the extent of foreign currency assets, liabilities and actual orders, and the Company and the domestic subsidiary do not trade in derivatives for speculative purposes.

Derivatives are carried at fair value in the consolidated balance sheet with changes in unrealized gain or loss charged or credited to earnings, except for those which meet the criteria for hedge accounting. Unrealized gains or losses on hedging derivatives, net of taxes, are reported in net assets as a component of valuation and translation adjustments. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(m) Income taxes

Tokyo Electron records deferred tax assets and liabilities on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, which are measured using the enacted tax rates and laws which are expected to be in effect when the differences are expected to reverse.

(n) Revenue recognition

Revenue from Semiconductor and FPD (Flat Panel Display)/PV (Photovoltaic cell) production equipment is principally recognized at the time of the customer confirmation of set-up and testing of products. Revenue from such equipment not requiring substantial installation is recognized at the time of shipment. Revenue from other products, such as electronic components, is recognized at the time of shipment. Service revenue from maintenance is recognized ratably over the term of the maintenance contract.

(o) Per share information

Net income (loss) per share and net assets per share are computed based on the weighted-average number of shares of common stock outstanding during each year.

Dividends per share has been presented on an accruals basis and include, in each fiscal year ended March 31, dividends approved or to be approved after March 31 but applicable to the year then ended.

(p) Research and development expenses

Research and development expenses are charged to earnings as incurred and amounted to ¥54,074 million (\$581,191 thousand) and ¥60,988 million for the years ended March 31, 2010 and 2009, respectively.

(q) Cash equivalents

For purposes of the consolidated statements of cash flows, Tokyo Electron considers all highly-liquid instruments purchased with original maturities of three months or less to be cash equivalents.

(r) Short-term investments

Short-term investments consist of time deposits and certificates of deposit with original maturities of more than three months.

(s) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements to conform with the presentation used for the year ended March 31, 2010.

3. Changes in Accounting Policies

(a) Accounting policies applied to foreign subsidiaries

Effective from April 1, 2008, the Company adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18 issued by the Accounting Standards Board of Japan). The change had no significant impact on the consolidated financial statements.

(b) Accounting standard for measurement of inventories

Effective from April 1, 2008, the Company and its domestic subsidiaries adopted "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan). The change had no significant impact on the consolidated financial statements.

(c) Accounting standard for lease transactions

Effective from the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Lease Transactions" (Statement No. 13 issued by the Accounting Standards Board of Japan) and "Guidance on Accounting Standard for Lease Transactions" (Guidance No. 16 issued by the Accounting Standards Board of Japan). The change had no significant impact on the consolidated financial statements.

4. Investment securities

Investment securities, which solely comprise of other securities, as of March 31, 2010 and 2009 are as follows:

2010:	Millions of yen	
	Cost	Carrying value
Securities with market prices		
Equity securities.....	¥ 9,277	¥ 13,615
Securities without market prices		
Unlisted stock.....	194	194
Other.....	912	912
Total.....	¥ 10,383	¥ 14,721

2009:	Millions of yen	
	Cost	Carrying value
Securities with market prices		
Equity securities.....	¥ 8,790	¥ 7,363
Other.....	100	100
Securities without market prices		
Unlisted stock.....	764	754
Other.....	914	914
Total.....	¥ 10,568	¥ 9,131

2010:	Thousands of U.S. dollars	
	Cost	Carrying value
Securities with market prices		
Equity securities.....	\$ 99,710	\$146,335
Securities without market prices		
Unlisted stock.....	2,085	2,085
Other.....	9,802	9,802
Total.....	\$111,597	\$158,222

Losses on devaluation of investment securities were ¥72 million (\$774 thousand) and ¥2,432 million for the years ended March 31, 2010 and 2009, respectively.

No gain on sale of investment securities was recognized for the years ended March 31, 2010 and 2009.

5. Inventories

Inventories as of March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Finished products.....	¥ 87,202	¥ 88,417	\$ 937,253
Work in process, raw materials and supplies.....	51,248	45,825	550,817
Total.....	¥138,450	¥134,242	\$1,488,070

The amounts of change in inventory provision included in cost of sales in consolidated statements of operations for the years ended March 31, 2010 and 2009 were a decrease of ¥3,581 million (\$38,489 thousand) and an increase of ¥6,398 million, respectively.

6. Impairment of Property, Plant and Equipment and Intangible Assets

For assessing fixed asset impairment, the Company generally groups fixed assets used for normal operations at a business unit level for which profits are reasonably controllable. Also, the Company assesses the recoverability of individual assets not used in normal operations or that are idle.

The Company and its domestic subsidiaries recognized loss on impairment of property, plant and equipment of ¥4,786 million (\$51,440 thousand), which is included in the consolidated statement of operations for the year ended March 31, 2010. The loss on impairment of property, plant and equipment was attributed to land, buildings and equipment in Japan primarily of the Sagami Plant in Kanagawa, the Saga Plant in Saga and the Kansai Technology Center in Hyogo, all of which are not expected to be used after integration of domestic production and development centers. These charges were presented in other income (expenses) in the consolidated statement of operations for the year ended March 31, 2010.

Since TEL Epion Inc. ("Epion") determined to adversely change its future business plan made upon acquisition of Epion due to change of the industry business environment in the year ended March 31, 2010, Epion recognized loss on impairment of intangible assets of ¥2,767 million (\$29,740 thousand).

No impairment of property, plant and equipment and intangible assets was recognized for the year ended March 31, 2009.

7. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2010 and 2009.

8. Short-term Borrowings

Short-term borrowings represent 365-day notes issued by Tokyo Electron to banks and bore interest at an average annual rate of 0.49% and 0.80% as of March 31, 2010 and 2009, respectively.

As of March 31, 2010, Tokyo Electron has unused lines of credit amounting to ¥133,445 million (\$1,434,276 thousand).

9. Accrued Pension and Severance Costs

The Company and its domestic subsidiaries have defined benefit plans (cash balance plan and noncontributory retirement and severance benefit plans) covering substantially all their employees who meet eligibility requirements. The benefits under the plans are based on length of service and certain other factors.

The cash balance plan provides for pension or lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause. Under the cash balance plan, each participant has an account which is credited yearly based on the current rate of pay and market-related interest rate. The noncontributory plans provide for lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause. Certain foreign subsidiaries have noncontributory retirement and severance benefit plans that provide for pension or lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause.

The funded status of the defined benefit plans, a substantial portion of which consists of domestic benefit plans, as of March 31, 2010 and 2009 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Benefit obligation	¥(84,097)	¥(79,141)	\$(903,880)
Fair value of plan assets	38,732	33,791	416,294
Funded status	(45,365)	(45,350)	(487,586)
Unrecognized actuarial difference ...	(288)	3,027	(3,095)
Unrecognized prior service cost.....	125	226	1,343
Net amount recognized	(45,528)	(42,097)	(489,338)

Amounts recognized in the consolidated balance sheets consist of:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Prepaid pension and severance costs (Note 1)	4,379	4,950	47,066
Accrued pension and severance costs (Note 2)	(49,907)	(47,047)	(536,404)
Net amount recognized	¥(45,528)	¥(42,097)	\$(489,338)

Notes: 1. The prepaid pension and severance costs as of March 31, 2010 and 2009 is included in other assets in the consolidated balance sheets.

2. The provision for accrued pension and severance costs for directors and statutory auditors (¥621 million (\$6,674 thousand) as of March 31, 2010 and ¥640 million as of March 31, 2009) is not included.

Net pension cost of the plans is as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥5,358	¥5,217	\$57,588
Interest cost	1,572	1,483	16,896
Expected return on plan assets.....	(676)	(686)	(7,266)
Amortization of actuarial difference	697	(628)	7,491
Amortization of prior service cost...	101	888	1,086
Net pension cost	¥7,052	¥6,274	\$75,795

Significant assumptions of domestic pension plans used to determine the above amounts are as follows:

	2010 and 2009
Allocation method of benefit obligation	Straight-line method
Discount rate	2.00%
Expected rate of return on plan assets.....	2.00%
Amortization period of actuarial difference	4 years
Amortization period of prior service cost	4 years

10. Income Taxes

Significant components of the deferred tax assets and liabilities of Tokyo Electron as of March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets			
Accrued pension and severance costs	¥ 20,099	¥ 18,831	\$ 216,025
Net operating loss carryforwards....	14,717	14,515	158,179
Tax credit for research and development.....	5,499	6,619	59,104
Devaluation of inventories.....	4,282	5,707	46,023
Accrued employees' bonuses	2,425	2,004	26,064
Loss on impairment of property, plant and equipment and intangible assets.....	2,114	–	22,721
Accrued warranty expenses.....	1,907	1,922	20,497
Elimination of unrealized profit in inventories	1,836	1,980	19,733
Allowance for doubtful accounts ...	1,470	1,461	15,800
Other.....	7,630	6,751	82,008
Total gross deferred tax assets.....	61,979	59,790	666,154
Less valuation allowance	(10,458)	(10,472)	(112,403)
Total deferred tax assets.....	51,521	49,318	553,751
Deferred tax liabilities			
Undistributed earnings of foreign subsidiaries	(2,957)	(2,624)	(31,782)
Prepaid pension and severance costs	(1,773)	(1,972)	(19,056)
Net unrealized gain on investment securities	(1,705)	–	(18,325)
Reserves under Special Taxation Measures Law	(73)	(358)	(785)
Receivables for business taxes	–	(2,025)	–
Other.....	(1,088)	(1,161)	(11,694)
Total gross deferred tax liabilities....	(7,596)	(8,140)	(81,642)
Net deferred tax assets.....	¥ 43,925	¥ 41,178	\$ 472,109

Net deferred tax assets included in the consolidated balance sheets as of March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current assets	¥26,625	¥11,481	\$286,167
Investments and other assets	20,506	31,940	220,400
Other current liabilities.....	(1,062)	(605)	(11,414)
Other liabilities.....	(2,144)	(1,638)	(23,044)

The Company and its wholly-owned domestic subsidiaries apply a consolidated tax filing system for corporate tax purposes.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. For assessment of the realizability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, future estimated taxable income, tax planning strategies and level of net operating loss carryforwards, if any, in accordance with accounting principles generally accepted in Japan.

Based on the level of historical taxable income and future estimated taxable income over the periods which the deferred tax assets are deductible, management believes Tokyo Electron will realize the benefits of these deferred tax assets, net of valuation allowance, as of March 31, 2010 and 2009.

The Company is subject to corporate tax, inhabitants' tax and a deductible enterprise tax, which in the aggregate resulted in a statutory income tax rate of approximately 40.69% for the years ended March 31, 2010 and 2009.

Significant components of the difference between the statutory and effective tax rates for the years ended March 31, 2010 and 2009 are as follows:

	2010	2009
Statutory tax rate in Japan	40.69 %	40.69 %
Adjustments:		
Effect of elimination of unrealized profit in inventories	(27.86)	34.77
Change in valuation allowance	(18.14)	24.07
Difference in statutory tax rates of subsidiaries	6.54	(10.04)
Expenses not deductible for tax purposes	(5.28)	4.30
Change in deferred tax liabilities on undistributed earnings of foreign subsidiaries	(4.28)	(14.54)
Amortization of goodwill	(1.27)	1.02
Loss on investment in a subsidiary deductible for tax purposes	-	(67.56)
Dividends from foreign subsidiaries	-	6.56
Others, net	0.25	(0.69)
Effective tax rate	(9.35)%	18.58 %

12. Share Subscription Rights

Stock option plan

The Company's shareholders have approved annual stock option plans for directors and selected employees since the year ended March 31, 1999.

Options to purchase 177,900 shares of the Company were authorized and granted at an exercise price of ¥1 for the year ended March 31, 2009. The options under the plans vest immediately with restriction on exercise up to 3 years after the date of grant, and have an exercise period of 20

11. Net Assets

Net assets comprises four subsections, which are shareholders' equity, valuation and translation adjustments, share subscription rights and minority interests.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the board of directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital which is included in capital surplus.

In cases where dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal reserve must be set aside as additional paid-in capital or legal reserve. Legal reserve is included in retained earnings in the accompanying consolidated balance sheets.

Both appropriations of legal reserve and additional paid-in capital used to eliminate or reduce a deficit generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal reserve may not be distributed as dividends. All additional paid-in capital and legal reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the general shareholders' meeting on June 23, 2006, in accordance with Japanese laws and regulations, the Company altered its articles to allow for the distribution of earnings to shareholders on dates, other than the mid-term and year-end, by a resolution of the board of directors.

At the board of directors' meeting held on May 12, 2010, the distribution of cash dividends amounting to ¥1,431 million (\$15,380 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2010 since they are recognized in the period in which they are resolved at the board of directors' meeting.

years from the date of grant. No options to purchase shares of the Company were authorized and granted for the year ended March 31, 2010.

Shareholders of Tokyo Electron Device Limited, a domestic listed subsidiary, have approved annual stock option plans for directors and selected employees since the year ended March 31, 2005.

A summary of stock options outstanding and exercisable as of March 31, 2010 and 2009 is as follows:

Tokyo Electron Limited

	2010			2009	
	Number of shares	Weighted-average exercise price		Number of shares	Weighted- average exercise price
		Yen	U.S. dollars		Yen
Outstanding at the beginning of year	2,052,300	¥5,927	\$63.70	2,056,500	¥ 6,889
Granted	-	-	-	177,900	1
Exercised	40,000	1	0.01	44,500	398
Expired (forfeited)	233,200	8,520	91.57	137,600	14,414
Outstanding at the end of year	1,779,100	5,720	61.48	2,052,300	5,927
Exercisable at the end of year	1,504,200	6,765	72.71	1,710,700	7,110

Tokyo Electron Device Limited

	2010			2009	
	Number of shares	Weighted-average exercise price		Number of shares	Weighted-average exercise price
		Yen	U.S. dollars		
Outstanding at the beginning of year.....	650	¥308,698	\$3,317.91	650	¥308,698
Granted.....	-	-	-	-	-
Exercised.....	-	-	-	-	-
Expired (forfeited).....	-	-	-	-	-
Outstanding at the end of year.....	650	308,698	3,317.91	650	308,698
Exercisable at the end of year.....	650	308,698	3,317.91	650	308,698

13. Leases

As mentioned in note 2 (k), effective from the year ended March 31, 2009, the Company and its domestic subsidiaries adopted "Accounting Standard for Lease Transactions" and "Guidance on Accounting Standard for Lease Transactions". As permitted under the new standards, finance leases which commenced on or before March 31, 2008 continue to be accounted for as operating leases. Pro forma information of leased property acquired on or before March 31, 2008 including acquisition cost, accumulated depreciation, obligation under finance leases, and depreciation expense of finance leases that do not transfer ownership of leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2010 and 2009, are as follows:

Leased assets not recorded in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Acquisition cost.....	¥955	¥1,040	\$10,264
Accumulated depreciation.....	540	457	5,804
Net leased property.....	¥415	¥ 583	\$ 4,460

Future minimum lease payments:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year.....	¥159	¥168	\$1,708
Due over one year.....	256	415	2,752
Total.....	¥415	¥583	\$4,460

Lease payments relating to finance leases accounted for as operating leases amounted to ¥167 million (\$1,795 thousand) and ¥175 million, which approximated the corresponding depreciation on the respective leased property computed by the straight-line method over the lease terms, for the years ended March 31, 2010 and 2009, respectively.

Future minimum lease payments on non-cancelable operating leases:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year.....	¥1,744	¥1,673	\$18,745
Due over one year.....	1,052	841	11,307
Total.....	¥2,796	¥2,514	\$30,052

14. Fair Value of Financial Instruments

Policy for Financial Instruments

The Company limits its fund management to short-term bank deposits and certificates of deposit, and obtains funds by utilizing bank-loans or liquidating trade-receivables.

Trade receivables, which consist of notes and accounts receivable, are exposed to credit risk in the event of non-performance by the counterparties. Execution and management of credit risk, maturity and receivable

balance are conducted pursuant to the internal management rules for credit control. Credit risk of major customers is assessed on a regular basis.

Short-term investments consist of time deposits and certificates of deposit and the Company and its listed subsidiary trade with highly-rated financial institutions to mitigate credit risks.

Investment securities consist of mainly equity interests in listed companies exposed to equity market risks. Conditions, including market prices, for these investment securities are monitored on a regular basis.

Trade payables, which consist of notes and accounts payable, mainly mature within one year. Trade payables are exposed to liquidity risks which are managed through activities such as implementing cash management plans.

See note 15 for detailed discussion on derivative financial instruments.

Fair Value of Financial Instruments

Carrying amount and estimated fair value of financial instruments as of March 31, 2010 are set out below. Fair value of financial instruments which is practically difficult to estimate are excluded (see note 4).

	Millions of yen	
	Carrying amount	Estimated fair value ¹
Assets		
Cash and cash equivalents.....	¥123,940	¥123,940
Trade notes and accounts receivable, net of allowance for doubtful accounts (¥176 million).....	124,286	124,286
Short-term investments.....	120,000	120,000
Investment securities.....	13,615	13,615
Liabilities		
Trade notes and accounts payable.....	52,359	52,359
Derivatives (see note 15)		
Hedge accounts not applied.....	124	124
Hedge accounts applied.....	(165)	(165)
Thousands of U.S. dollars		
Assets		
Cash and cash equivalents.....	\$1,332,115	\$1,332,115
Trade notes and account receivable, net of allowance for doubtful accounts (\$1,892 thousand).....	1,335,834	1,335,834
Short-term investments.....	1,289,768	1,289,768
Investment securities.....	146,335	146,335
Liabilities		
Trade notes and accounts payable.....	562,758	562,758
Derivatives (see note 15)		
Hedge accounts not applied.....	1,333	1,333
Hedge accounts applied.....	(1,773)	(1,773)

Note: 1. Fair value calculation of financial instruments
Cash and cash equivalents, trade notes and accounts receivable, short-term investments and trade notes and accounts payable
The carrying amounts approximate fair value because of the short maturity of these instruments.
Investment securities
The fair values of marketable securities are based on quoted market prices.
See note 4 for further information by classification of investment securities.
Derivatives
See note 15 for detailed discussion on derivative financial instruments.

2. Maturities of financial assets and securities are as follows:

	Millions of yen	
	Within 1 year	After 1 through 5 years
Cash and cash equivalents	¥123,940	¥ -
Trade notes and accounts receivable	124,462	-
Short-term investments	120,000	-

	Thousands of U.S. dollars	
	Within 1 year	After 1 through 5 years
Cash and cash equivalents	\$1,332,115	\$ -
Trade notes and accounts receivable	1,337,726	-
Short-term investments	1,289,768	-

3. Repayment schedule of short-term borrowings and capital lease obligations is as follows:

	Millions of yen		
	Within 1 year	After 1 through 2 years	After 2 through 5 years
Short-term borrowings	¥5,105	¥ -	¥ -
Capital lease obligations	26	24	1

	Thousands of U.S. dollars		
	Within 1 year	After 1 through 2 years	After 2 through 5 years
Short-term borrowings	\$54,869	\$ -	\$ -
Capital lease obligations	279	257	11

(Supplementary information)

Effective from the year ended March 31, 2010, the Company and its domestic subsidiaries adopted "Accounting Standard for Financial Instruments" (Statement No.10 (revised 2008) issued by the Accounting Standards Board of Japan) and "Guidance on Disclosures about Fair Value of Financial Instruments" (Guidance No.19 issued by the Accounting Standards Board of Japan).

15. Derivative Financial Instruments

Tokyo Electron is subject to risk from adverse fluctuations in foreign currency exchange rates in its operating and financing activities. The Company and its listed domestic subsidiary enter into forward foreign exchange contracts in order to hedge such risks, but do not enter into such transactions for speculative purposes. The Company and its domestic subsidiary implement a ratio analysis of the total cumulative cash flow fluctuations to assess effectiveness of hedging. Execution and management of all derivative transactions are conducted pursuant to the internal management rule for derivatives and the assessment of effectiveness of hedging activities is reported on a semiannual basis to the Corporate Director in charge of Finance.

The estimated fair values of the derivative financial instruments as of March 31, 2010 are as follows:

1. Derivative financial instruments not designated as hedging instruments

	Millions of yen		
	Contract amount	Fair value	Unrealized gains (losses)
2010:			
Sell U.S. dollars	¥ 7,268	¥(240)	¥(240)
Sell Korean won	1,235	290	290
Buy U.S. dollars	5,211	74	74
Total	¥13,714	¥ 124	¥ 124

	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gains (losses)
2010:			
Sell U.S. dollars	\$ 78,117	\$(2,579)	\$(2,579)
Sell Korean won	13,274	3,117	3,117
Buy U.S. dollars	56,008	795	795
Total	\$147,399	\$ 1,333	\$ 1,333

Note: The fair values are based on the quoted forward foreign exchange rates.

2. Designated derivative financial instruments

	Millions of yen		Thousands of U.S. dollars	
	Contract amount	Fair value	Contract amount	Fair value
2010: Hedge accounting				
Sell U.S. dollars	¥ 9,003	¥(193)	\$ 96,765	\$(2,074)
Sell Korean won	96	23	1,032	247
Buy U.S. dollars	3,859	5	41,477	54
Total	¥12,958	¥(165)	\$139,274	\$(1,773)

The contract amounts and fair values of forward foreign exchange contracts, entered into to hedge receivables and payables denominated in foreign currencies that have been translated by the corresponding contracted rates, are as follows.

	Millions of yen	Thousands of U.S. dollars
	Contract amount	Contract amount
2010:		
Sell U.S. dollars	¥614	\$6,599
Buy U.S. dollars	206	2,214
Total	¥820	\$8,813

Note: The fair value of these derivative financial instruments, which is based on the quoted forward foreign exchange rates, is included in the carrying value of hedged assets (Trade notes and accounts receivable) and liabilities (Trade notes and accounts payable).

The disclosure of the fair value of derivatives, which were accounted for as hedges, as of March 31, 2009 is omitted in accordance with the previous "Accounting Standard for Financial Instruments" (Statement No. 10 (revised 2007) issued by the Accounting Standards Board of Japan). In addition, the disclosure of the fair value of derivatives, which did not meet the criteria for hedge accounting and were required to be disclosed under the above accounting standard, as of March 31, 2009 is omitted since the estimated fair value is not significant.

16. Other Income (Expenses)

As discussed in note 6, losses on impairment of property, plant and equipment and intangible assets for the year ended March 31, 2010 consists of impairment of mainly buildings due to integration and closure of domestic facilities of ¥4,786 million (\$51,440 thousand) and intangible assets of Epion of ¥2,767 million (\$29,740 thousand).

Expenses for integration of domestic facilities of ¥1,909 million (\$20,518 thousand), including expenses for transportation of machineries is recog-

nized for the year ended March 31, 2010.

Provision of allowance for doubtful accounts of ¥7,361 million for the year ended March 31, 2009 consists of estimated uncollectible amounts for specific doubtful receivables.

Loss on devaluation of investment securities of ¥2,432 million for the year ended March 31, 2009 mainly consists of devaluation of securities of listed companies due to decline of the stock market price.

17. Segment Information

Business segment information as of and for the years ended March 31, 2010 and 2009 is as follows:

	Millions of yen				
	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
2010:					
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

	Millions of yen				
	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
2009:					
1. Net sales and operating income					
Net sales					
(1) Sales to external customers.....	¥413,875	¥94,207	¥508,082	¥ -	¥508,082
(2) Intersegment sales or transfers.....	942	495	1,437	(1,437)	-
Total	414,817	94,702	509,519	(1,437)	508,082
Operating expenses	401,974	92,861	494,835	(1,464)	493,371
Operating income.....	¥ 12,843	¥ 1,841	¥ 14,684	¥ 27	¥ 14,711
2. Assets, depreciation and amortization expenses, impairment losses and capital expenditures					
Assets.....	¥631,062	¥40,680	¥671,742	¥(2,744)	¥668,998
Depreciation and amortization expenses	22,860	473	23,333	-	23,333
Capital expenditures, including intangible and other assets	19,468	698	20,166	-	20,166

	Thousands of U.S. dollars				
	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
2010:					
1. Net sales and operating income (loss)					
Net sales					
(1) Sales to external customers.....	\$3,591,617	\$907,921	\$4,499,538	\$ -	\$4,499,538
(2) Intersegment sales or transfers.....	8,437	7,234	15,671	(15,671)	-
Total	3,600,054	915,155	4,515,209	(15,671)	4,499,538
Operating expenses	3,645,937	892,799	4,538,736	(15,756)	4,522,980
Operating income (loss)	\$ (45,883)	\$ 22,356	\$ (23,527)	\$ 85	\$ (23,442)
2. Assets, depreciation and amortization expenses, impairment losses and capital expenditures					
Assets.....	\$7,029,514	\$490,638	\$7,520,152	\$(35,715)	\$7,484,437
Depreciation and amortization expenses	212,726	5,213	217,939	-	217,939
Loss on impairment of property, plant and equipment and intangible assets.....	81,180	-	81,180	-	81,180
Capital expenditures, including intangible and other assets	172,721	1,311	174,032	-	174,032

Notes: 1. Method of classifying business segments: Business segments are classified after considering similarities in types of products and service, as well as sales methods.

2. Major products in each business segment:

Business segment	Major products
Industrial electronic equipment	Semiconductor production equipment, FPD production equipment, PV production equipment and others
Electronic components and computer networks	Semiconductor products, boards, electronic components, computer networks and software

3. Depreciation expenses and capital expenditures include those for long-term prepaid expenses.

4. Changes in accounting policies

(1) Accounting policies applied to foreign subsidiaries

Effective from April 1, 2008, the Company adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18 issued by the Accounting Standards Board of Japan). The change had no significant impact on the consolidated financial statements and segment information.

(2) Accounting standard for measurement of inventories

Effective from April 1, 2008, the Company and its domestic subsidiaries adopted "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan). The change had no significant impact on the consolidated financial statements and segment information.

(3) Accounting standard for lease transactions

Effective from the year ended March 31, 2009, the Company and its domestic subsidiaries adopted "Accounting Standard for Lease Transactions" (Statement No. 13 issued by the Accounting Standards Board of Japan) and "Guidance on Accounting Standard for Lease Transactions" (Guidance No. 16 issued by the Accounting Standards Board of Japan). The change had no significant impact on the consolidated financial statements and segment information.

Geographical segment information as of and for the years ended March 31, 2010 and 2009 are as follows:

	Millions of yen				
	Japan	Other regions	Total	Eliminations and corporate	Consolidated
2010:					
1. Net sales and operating income (loss)					
Net sales					
(1) Sales to external customers.....	¥369,382	¥49,255	¥418,637	¥ -	¥418,637
(2) Intersegment sales or transfers.....	31,856	26,089	57,945	(57,945)	-
Total	401,238	75,344	476,582	(57,945)	418,637
Operating expenses	402,436	74,027	476,463	(55,645)	420,818
Operating income (loss)	¥ (1,198)	¥ 1,317	¥ 119	¥ (2,300)	¥ (2,181)
2. Total assets	¥665,518	¥67,453	¥732,971	¥(36,619)	¥696,352

	Millions of yen				
	Japan	Other regions	Total	Eliminations and corporate	Consolidated
2009:					
1. Net sales and operating income					
Net sales					
(1) Sales to external customers.....	¥435,434	¥72,648	¥508,082	¥ -	¥508,082
(2) Intersegment sales or transfers.....	47,183	41,403	88,586	(88,586)	-
Total	482,617	114,051	596,668	(88,586)	508,082
Operating expenses	475,295	108,975	584,270	(90,899)	493,371
Operating income.....	¥ 7,322	¥ 5,076	¥ 12,398	¥ 2,313	¥ 14,711
2. Total assets	¥638,047	¥67,154	¥705,201	¥(36,203)	¥668,998

	Thousands of U.S. dollars				Consolidated
	Japan	Other regions	Total	Eliminations and corporate	
2010:					
1. Net sales and operating income (loss)					
Net sales					
(1) Sales to external customers.....	\$3,970,142	\$529,396	\$4,499,538	\$ -	\$4,499,538
(2) Intersegment sales or transfers.....	342,390	280,406	622,796	(622,796)	-
Total	4,312,532	809,802	5,122,334	(622,796)	4,499,538
Operating expenses	4,325,408	795,647	5,121,055	(598,075)	4,522,980
Operating income (loss)	\$ (12,876)	\$ 14,155	\$ 1,279	\$ (24,721)	\$ (23,442)
2. Total assets	\$7,153,031	\$724,989	\$7,878,020	\$(393,583)	\$7,484,437

Notes: 1. For the reporting of geographical segment information, net sales and operating income are separated based on the location of the Company and its subsidiaries. Assets are separated by geographic location.

2. Other regions comprises primarily Taiwan, the United States of America and Korea.

3. Changes in accounting policies

(1) Accounting policies applied to foreign subsidiaries

Effective from April 1, 2008, the Company adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18 issued by the Accounting Standards Board of Japan). The change had no significant impact on the consolidated financial statements and segment information.

(2) Accounting standard for measurement of inventories

Effective from April 1, 2008, the Company and its domestic subsidiaries adopted "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan). The change had no significant impact on the consolidated financial statements and segment information.

(3) Accounting standard for lease transactions

Effective from the year ended March 31, 2009, the Company and its domestic subsidiaries adopted "Accounting Standard for Lease Transactions" (Statement No. 13 issued by the Accounting Standards Board of Japan) and "Guidance on Accounting Standard for Lease Transactions" (Guidance No. 16 issued by the Accounting Standards Board of Japan). The change had no significant impact on the consolidated financial statements and segment information.

Domestic and overseas net sales by destination for the years ended March 31, 2010 and 2009 are as follows:

Net sales	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Japan.....	¥162,609	¥208,871	\$1,747,732
Taiwan.....	91,474	80,327	983,169
United States of America	55,641	65,537	598,033
Korea.....	52,948	72,507	569,089
Others	55,965	80,840	601,515
Total	¥418,637	¥508,082	\$4,499,538

Notes: 1. For the reporting of domestic and overseas net sales, overseas net sales (other than Japan) include export sales of the Company and its domestic subsidiaries and sales of foreign subsidiaries, except for export sales to Japan.

2. Other comprises primarily Singapore, China and Israel.



To the Board of Directors of
Tokyo Electron Limited:

We have audited the accompanying consolidated balance sheets of Tokyo Electron Limited and subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tokyo Electron Limited and subsidiaries as of March 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in note 1 to the consolidated financial statements.

KPMG AZSA & CO.

Tokyo, Japan
June 18, 2010

GROUP COMPANIES

As of March 31, 2010, the Tokyo Electron Group was made up of the parent company and its 30 consolidated subsidiaries.

Company	Main business
JAPAN	
Consolidated subsidiaries	
Tokyo Electron AT Limited	Manufacture and development
Tokyo Electron Kyushu Limited	Manufacture and development
Tokyo Electron Tohoku Limited	Manufacture and development
Tokyo Electron TS Limited	Manufacture and development
Tokyo Electron Technology Development Institute, Inc.	Manufacture and development
Tokyo Electron Software Technologies Limited	Development
Tokyo Electron PV Limited	Development
Tokyo Electron FE Limited	Field support
Tokyo Electron PS Limited	Field solutions
Tokyo Electron Device Limited	Sales
Tokyo Electron BP Limited	Logistics, leasing, facility management, etc.
Tokyo Electron Agency Limited	Nonlife insurance
Pan Electron Limited	Sales
AMERICA	
Consolidated subsidiaries	
Tokyo Electron U.S. Holdings, Inc.	Holding company
Tokyo Electron America, Inc.	Sales and field support
Tokyo Electron Massachusetts, LLC	Manufacture and development
Timbre Technologies, Inc.	Development
TEL Technology Center, America, LLC	Development
TEL Epion Inc.	Development
TEL Venture Capital, Inc.	Identification and evaluation of new technologies
EUROPE	
Consolidated subsidiaries	
Tokyo Electron Europe Limited	Sales and field support
Tokyo Electron Israel Limited	Field support
ASIA	
Consolidated subsidiaries	
Tokyo Electron Korea Limited	Sales and field support
Tokyo Electron Korea Solution Limited	Field solutions
Tokyo Electron Taiwan Limited	Sales and field support
Tokyo Electron (Shanghai) Limited	Sales and field support
Tokyo Electron (Shanghai) Logistic Center Limited	Logistics
Tokyo Electron Device Hong Kong Limited	Sales
Tokyo Electron Device Singapore Pte. Ltd.	Sales
Tokyo Electron India Private Limited	Sales and field support

INVESTOR INFORMATION

(As of March 31, 2010)

Corporate Name and Head Office:

Tokyo Electron Limited
Akasaka Biz Tower
3-1 Akasaka 5-chome, Minato-ku,
Tokyo 107-6325, Japan

Established:

November 11, 1963

Annual General Meeting of Shareholders:

June

Common Stock:

Stock trading unit	100 shares
Authorized	300,000,000 shares
Issued and outstanding	180,610,911 shares
Number of shareholders	39,285

Common Stock Listed on:

The Tokyo Stock Exchange 1st Section (#8035)

Independent Auditors:

KPMG AZSA & Co.

Administrator of Shareholders' Register:

The Chuo Mitsui Trust and Banking Co., Ltd.
33-1 Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

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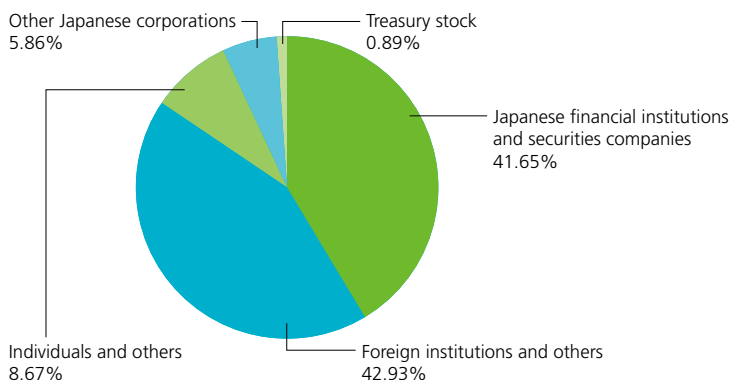
<http://www.tel.com>

Principal Shareholders:

	Number of shares held (thousands)	Voting share ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	20,938	11.59
Japan Trustee Services Bank, Ltd. (trust account)	14,132	7.82
Tokyo Broadcasting System Holdings, Inc.	8,727	4.83
The Chase Manhattan Bank 385036	4,994	2.76
JPMorgan Securities Japan Co., Ltd.	3,287	1.82
Trust & Custody Services Bank, Ltd. (Investment trust account)	3,003	1.66
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,000	1.66
Japan Trustee Services Bank, Ltd. (trust account 9)	2,973	1.64
JPMorgan Chase Bank 380055	2,515	1.39
State Street Bank and Trust Company	2,371	1.31

Shares of less than one thousand have been rounded down in the "Number of shares held"

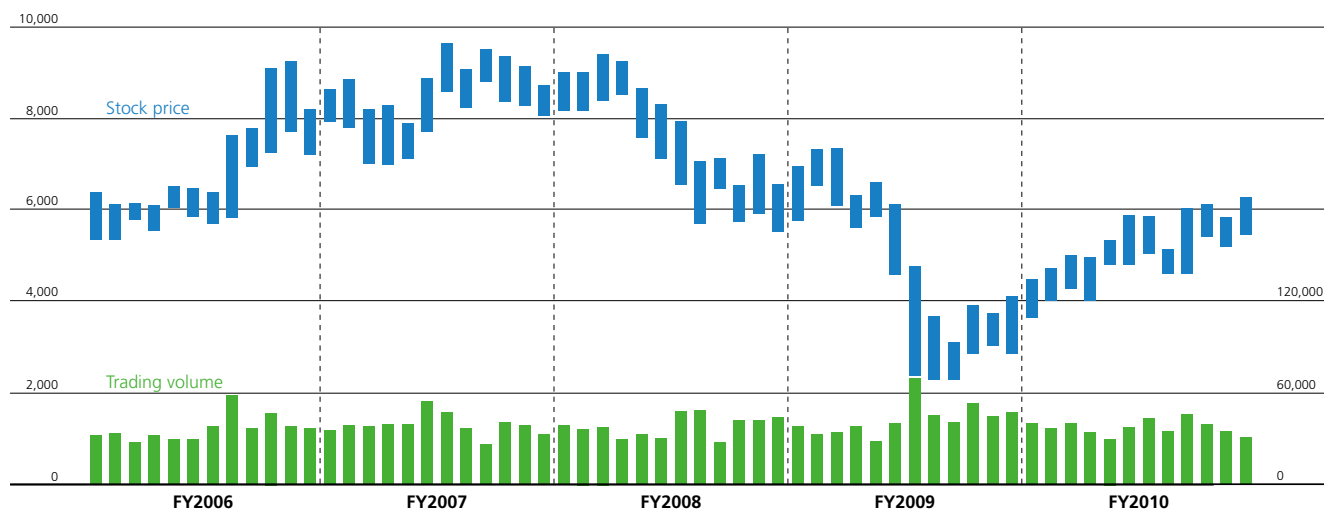
Distribution of Ownership Among Shareholders:



Stock Price and Trading Volume

(Yen)

(Thousands of shares)





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Printed in Japan on recycled paper
PR48-107