The Company adopted the following revised accounting standards and business segments.

- Effective beginning fiscal 2005, the policy for revenue recognition of semiconductor and FPD production equipment was changed from the time of shipment of products to, in principle, the time of confirmation of set-up and testing of products. The effect of this change decreased net sales, operating income and income before income taxes and minority interests by ¥80,956 million, ¥20,541 million and ¥20,563 million, respectively, for fiscal 2005, compared with the corresponding amounts which would have been recorded if the previous method had been applied.
- Effective beginning fiscal 2005, the accounting treatment of after-sale repair expenses incurred during the warranty period for semiconductor and FPD production equipment was changed. In the past, the Company charged such expenses to income as incurred. Effective from the fiscal year ended March 31, 2005, the Company provides accrued warranty expenses for estimated expenses, calculated on the basis of after-sale repair expenses incurred in the past. The effect of this change decreased operating income and income before income taxes and minority interests 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.
- 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, are now included as part of the electronic components and computer networks segment (formerly the electronic components segment), effective from fiscal 2007.
- Effective beginning 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 2009, the global economy was shaken by a financial crisis, which emerged from a wave of defaults on subprime loans in the U.S., but soon spread worldwide and caused a sharp economic downturn. The slump affected not only the U.S., but also caused a sudden drop in economic growth in Europe, which had been growing steadily up to that point, and Asia, which had been registering buoyant growth. This sort of simultaneous downturn in all regions of the world is unprecedented.

The electronics industry, of which Tokyo Electron is a part, was forced to cut production levels as demand for PCs, mobile phones, digital home electronics and other electronic equipment stagnated due to the economic downturn. This reduced demand for the semiconductors used in electronic equipment, and pushed down unit prices. In response, semiconductor manufacturers postponed or cut back new capital investment plans.

These business conditions severely affected Tokyo Electron's earnings results. Sales in the Company's mainstay semiconductor production equipment division were particularly affected, and both sales and profits fell far below fiscal 2008's record high levels. However, the Company responded promptly to changing conditions in the business environment: since early 2008, Tokyo Electron has been taking steps to cut fixed costs and implement other measures to stabilize earnings. As a result, the Company was able to remain profitable for the full fiscal year.

	Millions of Yen				
	2005	2006	2007	2008	**2009**
Net sales	¥635,710	¥673,686	¥851,975	¥906,092	**¥508,082**
Gross profit	175,913	189,732	272,649	311,298	**137,408**
Gross profit margin	27.7%	28.2%	32.0%	34.4%	**27.0%**
Selling, general and administrative expenses	111,930	114,029	128,670	142,800	**122,697**
Operating income	63,983	75,703	143,979	168,498	**14,711**
Operating margin	10.1%	11.2%	16.9%	18.6%	**2.9%**
Income before income taxes	55,775	75,328	144,414	169,220	**9,637**
Net income	61,601	48,006	91,263	106,271	**7,543**

Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed in this financial review.

Sales

Net sales declined 43.9% year on year in fiscal 2009, to ¥508.1 billion, a slightly sharper drop than the 42.3% decline registered in fiscal 2002, when the IT bubble collapsed. Domestic sales were down 35.5% year on year, to ¥208.9 billion, and overseas sales dropped 48.6%, to ¥299.2 billion. Overseas sales declined as a share of total consolidated sales, from 64.2% of the total in fiscal 2008 to 58.9% in fiscal 2009. Orders received during the fiscal year declined by 50.9%, to ¥366.0 billion, and the orders backlog at the end of March fell 43.7% year on year, to ¥182.8 billion. This was the second consecutive year-on-year decline for both orders and the orders backlog.

Gross Profit, SG&A Expenses and Operating Income

Cost of sales for the period was down 37.7% year on year, to ¥370.7 billion, and the cost of sales ratio stood at 73.0%, 7.4 percentage points higher than in fiscal 2008. Tokyo Electron acted swiftly to cut fixed production costs, including outsourcing costs, but the ratio of fixed production costs to sales increased as plant capacity utilization ratios were reduced, particularly in the latter half of the fiscal year. Gross profit decreased by 55.9% year on year, to ¥137.5 billion, and the gross profit margin dropped to 27.0%, from 34.4% in fiscal 2008.

Efforts to reduce SG&A expenses allowed Tokyo Electron to decrease this total cost by 14.1% year on year, to ¥122.7 billion. As a percentage of consolidated net sales, however, the SG&A ratio rose to 24.1%, from 15.8% in the previous year. Consequently, operating income fell 91.3% year on year, to ¥14.7 billion, and the operating margin declined from 18.6% in fiscal 2008 to 2.9% in fiscal 2009.

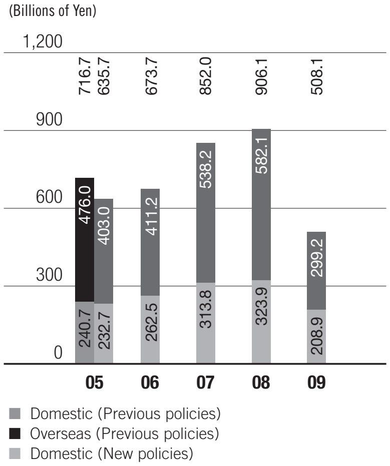
Research & Development

R&D expenses are included as a portion of SG&A expenses. The Company views these expenses as the source of future growth and therefore tries to maintain a high level of R&D investment even during periods of economic difficulty. Total R&D expenses amounted to ¥61.0 billion in fiscal 2009, down 7.7% year on year.

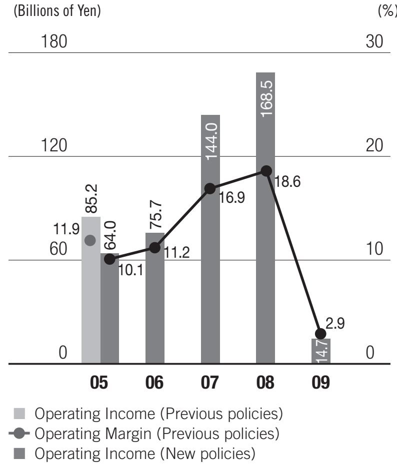
Breaking down these costs by division, R&D investment in the semiconductor production equipment business focused on the development of new technology and new production equipment that helps to promote further chip miniaturization, and also responses to new materials for realizing higher speeds and lower electricity consumption. Development of equipment that uses an RLSA*[1] plasma source is one example. Tokyo Electron's R&D investments focused not only on existing business segments, but also on the development of production equipment for OLED*[2], photovoltaic (solar power) cells and other new product segments.

*[1] RLSA: Radial Line Slot Antenna
*[2] OLED: Organic Light-Emitting Diode

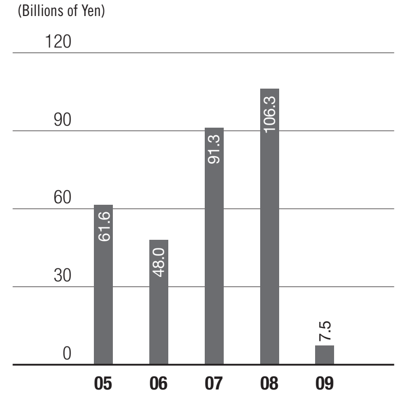
Domestic and Overseas Sales
(Billions of Yen)



Operating Income and Operating Margin
(Billions of Yen) (%)



Net Income
(Billions of Yen)



Other Income (Expenses) and Net Income

During fiscal 2009, Tokyo Electron posted ¥7.4 billion in losses on provision of allowance for doubtful accounts and ¥2.4 billion in losses on devaluation of investment securities. As a result, other income (expenses) was a net expense of ¥5.1 billion. This contributed to a 94.3% drop in income before income taxes and minority interests, to ¥9.6 billion. Net income for fiscal 2009 declined 92.9% year on year, to ¥7.5 billion, and net income per share fell from ¥594.01 in fiscal 2008 to ¥42.15 per share 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 2009, the Company paid an interim dividend of ¥20 per share and a year-end dividend of ¥4 per share, making the total dividend for the period ¥24 per share. If the Company had applied its basic dividend policy to results for the period, the year-end dividend would have been ¥0, since Tokyo Electron posted a loss in the second half. However, in the interest of ensuring continuity in shareholder returns, year-end dividends were set at ¥4 per share.

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

Performance by Segment

Industrial Electronic Equipment Segment

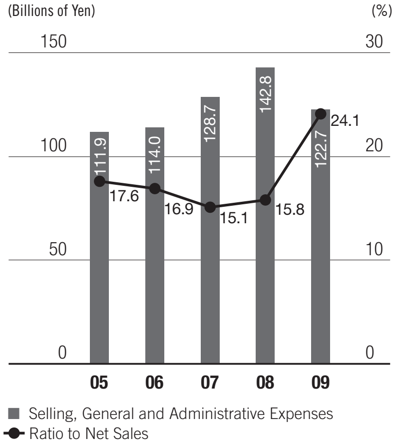
Sales in the industrial electronic equipment segment (including inter-segment sales) were down 47.9% year on year in fiscal 2009, to ¥414.8 billion. Operating income fell 92.2%, to ¥12.8 billion and the operating margin declined to 3.1%, compared with 20.7% in fiscal 2008. Sales to outside customers (excluding inter-segment sales) were down by 47.9% year on year, to ¥413.9 billion.

■ Semiconductor Production Equipment

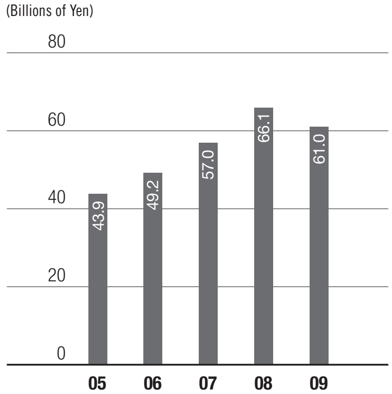
The market for memory ICs deteriorated in fiscal 2009, as global demand for semiconductor devices in general was reduced, causing manufacturers to cut back sharply on capital investment. As a result, the market for semiconductor production equipment registered a dramatic contraction, and Tokyo Electron's sales to outside customers fell 55.2% year on year, to ¥325.4 billion.

Sales declined year on year in every region, with a particularly sharp drop of 80.7% in sales to Taiwan.

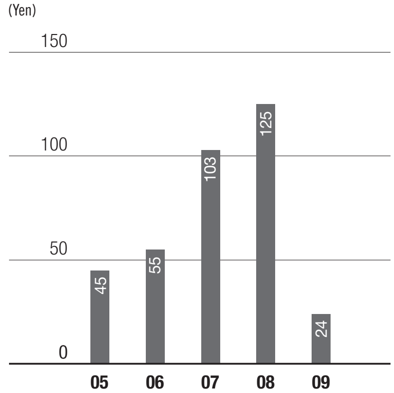
Selling, General and Administrative Expenses and Ratio to Net Sales



R&D Expenses



Cash Dividends per Share



New products introduced during fiscal 2009 included a new, more efficient model of the *CLEAN TRACK™ LITHIUS Pro™ V* coater/developer, and the *Trias™ SPAi* Single Wafer Plasma Process System, which enables higher productivity and reduces environmental impact. The Company also launched the *NS300+*, a new model of scrubber system, which offers higher performance. In addition, the Company established and demonstrated double-patterning technology by using a sequence of Tokyo Electron products, an adoption of which will be introduced from NAND flash memory production.

Orders in this division dropped off sharply in the second half, resulting in a 57.4% year on year decline for the full fiscal year, to ¥214.5 billion. The orders backlog fell 60.0%, to ¥73.8 billion.

■ FPD/PV Production Equipment*

During fiscal 2009, capital investment for large-screen LCDs, used in flat-screen TVs, remained strong throughout the period, and sales to outside customers rose 29.5% year on year, to ¥88.1 billion. However, the market for LCD panels began to weaken beginning in the summer of 2008, depressing orders.

A sales breakdown by region showed particularly strong increases in sales to Korea and Taiwan. In the latter half of the fiscal year, Tokyo Electron began shipping production equipment for large 10th-generation substrates.

The photovoltaic (PV) cell production equipment business encompasses the Company's joint venture with Sharp Corp., which is developing CVD systems for thin-film silicon PV. In addition, in February 2009 Tokyo Electron strengthened its business foundation by signing a contract with Oerlikon Solar—a Swiss-based manufacturer of photovoltaic cell production equipment—to be Oerlikon's exclusive sales representative in the Asia and Oceania regions.

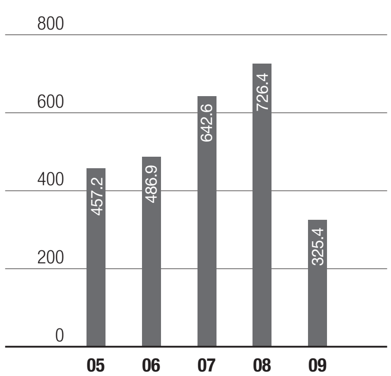
Orders in this division fell sharply in the latter half of the year, producing an overall orders decline of 53.4% year on year, to ¥60.6 billion. The orders backlog at the end of the fiscal year was down 21.7%, to ¥99.6 billion.

* In 2009, the name of the former FPD (flat-panel display) Production Equipment Segment was changed to the FPD/PV (flat-panel display and photovoltaic cell) Production Equipment Segment.

■ Others

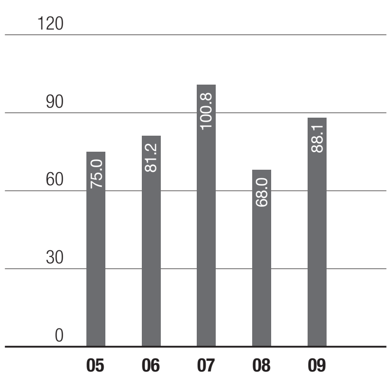
Sales in the "Others" segment mainly include non-life insurance operations, travel services and other in-house services. Net sales in the segment fell 15.4% year on year in fiscal 2009, to ¥0.4 billion.

Semiconductor Production Equipment Sales
(Billions of Yen)



Notes: 1. Since fiscal 2005, sales of FPD production equipment have been shown separately from SPE Division sales, in which they were previously included.
2. Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed on page 22.

FPD/PV Production Equipment Sales
(Billions of Yen)



Notes: 1. Since fiscal 2005, sales of FPD production equipment have been shown separately from SPE Division sales, in which they were previously included.
2. Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed on page 22.

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

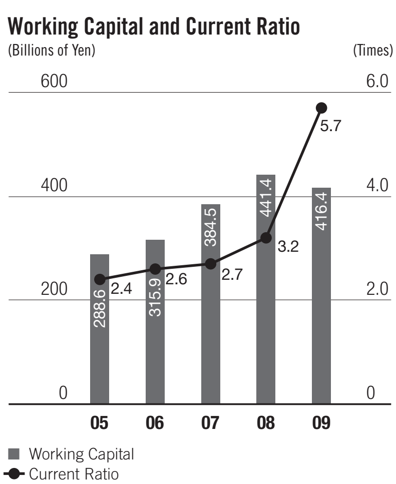
Net sales in this segment (including inter-segment sales) declined 15.5% year on year in fiscal 2009, to ¥94.7 billion. Operating income fell 49.7%, to ¥1.8 billion, and the operating margin contracted to 1.9%, compared with 3.3% in fiscal 2008. Sales to outside customers were down 15.3% year on year, to ¥94.2 billion.

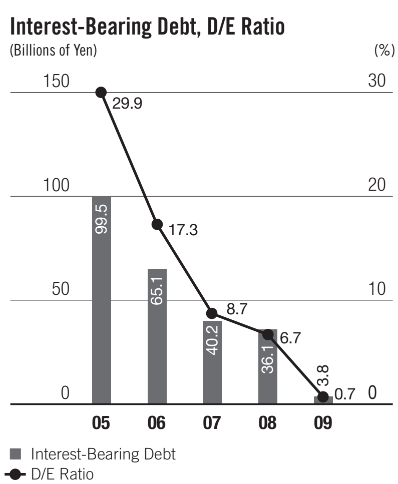
During the first half of the fiscal year, the semiconductor and electronic device business benefited from relatively strong demand for custom ICs used in mobile phone base stations and memory chips used in PCs. However, market conditions deteriorated rapidly in the second half, pushing down sales. Earnings in the computer networks business were threatened by weak corporate earnings and the sluggish economy, which caused clients to restrain capital spending and postpone new IT-related investments.

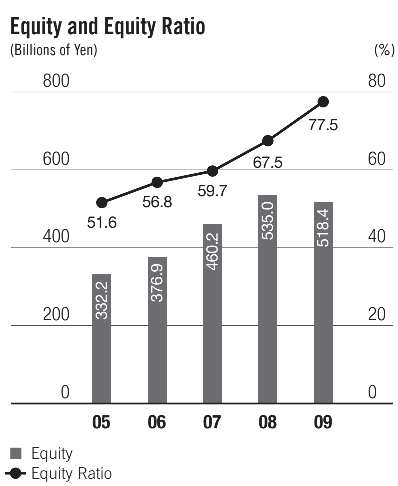
* Tokyo Electron Device Ltd. is listed on the Second Section of the Tokyo Stock Exchange.

Business Segment Information

	Millions of yen				
2009:	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
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







Financial Position and Cash Flows

Assets, Liabilities and Net Assets

■ Assets

As of March 31, 2009, total assets stood at ¥669.0 billion, a decline of ¥123.8 billion year on year.

Current assets decreased by ¥134.5 billion from the end of the previous year, to ¥505.7 billion, but liquidity on hand (cash and cash equivalents + short-term investments) was almost unchanged from the previous year, at ¥210.2 billion. On the other hand, lower sales resulted in a ¥104.5 billion year-on-year drop in trade notes and accounts receivable, and inventories were down by ¥26.9 billion. The turnover period for trade notes and accounts receivable was reduced from 90 days in fiscal 2008 to 86 days in fiscal 2009, but the inventory turnover period increased to 96 days, from 65 days in fiscal 2008, largely because many delivery dates were postponed at the client's request.

Net property, plant and equipment declined by ¥4.2 billion year on year, to ¥99.9 billion, as ¥18.1 billion in fixed asset acquisitions were offset by ¥23.1 billion in depreciation. Investments and other assets increased by ¥14.9 billion year on year, to ¥63.4 billion, which mainly reflected a ¥17.1 billion increase in deferred tax assets.

■ Liabilities and Net Assets

As of the end of March 2009, total liabilities stood at ¥139.7 billion, a decline of ¥107.8 billion year on year.

Current liabilities were reduced by ¥109.5 billion, from the end of fiscal 2008, to ¥89.3 billion. This reflected a ¥35.6 billion decline in trade notes and accounts payable, as well as the redemption of unsecured straight bond, amounting to ¥30.0 billion, and a ¥26.5 billion decrease in income taxes payable. The balance of interest-bearing debt, which consists only of short-term borrowings, stood at ¥3.8 billion as of March 31, 2009. As a result, Tokyo Electron reduced its debt/equity ratio to just 0.7%, compared with 6.7% at the end of March 2008.

Non-current liabilities increased by ¥1.7 billion, to ¥50.5 billion.

Net assets declined by ¥16.0 billion year on year, to ¥529.3 billion. This reflected a ¥7.5 billion increase from fiscal 2009 net income, a ¥13.4 billion outflow in dividends paid, and a valuation and translation adjustment loss of ¥10.1 billion. As a result, the equity ratio rose from 67.5% at the end of March 2008 to 77.5% as of in March 31, 2009, and return on equity was reduced to 1.4%, from 21.4% in fiscal 2008.

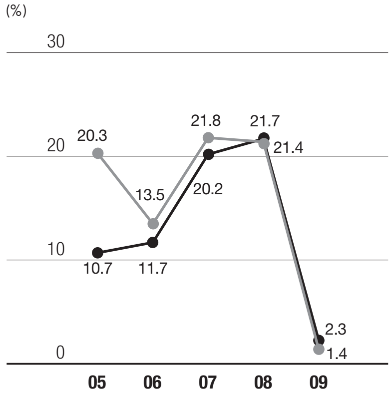
Capital Expenditures*[1] and Depreciation and Amortization*[2]

Total capital expenditures declined by 20.2% year on year in fiscal 2009, to ¥18.1 billion. Spending focused on evaluation and measuring equipment used for research and development of semiconductor and FPD/PV production equipment, as well as the construction of buildings. Depreciation rose by 7.7% year on year, to ¥23.1 billion.

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

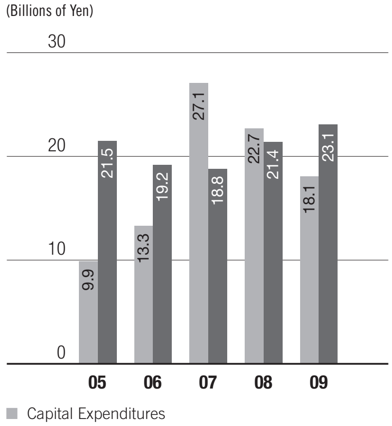
*[2] Depreciation and amortization does not include amortization and losses on impairment of goodwill.

ROE and ROA

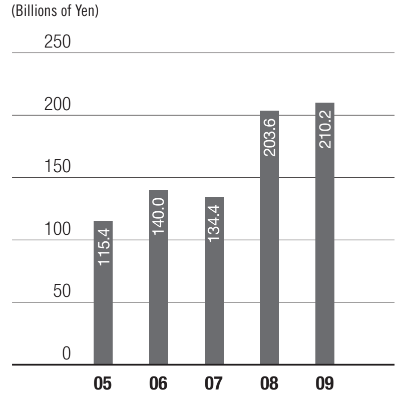


ROA=(Operating income+Interest and dividend income)/Average total assets x100

Capital Expenditures and Depreciation and Amortization



Total liquidity on hand



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

Cash Flows

Cash flows from operating activities showed a net inflow of ¥81.0 billion, ¥36.0 billion less than in fiscal 2008. The main cash inflows included a ¥9.6 billion inflow from income before income taxes and minority interests, ¥23.1 billion in depreciation and amortization, a ¥102.4 billion inflow from reductions in trade notes and accounts receivable, and a ¥21.3 billion reduction in inventories. Major outflows included a ¥29.9 billion reduction in trade notes and accounts payable and ¥40.8 billion expenditure on income taxes.

Cash flows from investing activities showed a ¥134.4 billion outflow from an increase in short-term investments, and a ¥17.2 billion outflow to purchase tangible fixed assets. As a result, there was a net outflow of ¥160.6 billion, compared with a ¥30.2 billion outflow in fiscal 2008.

Cash flows from financing activities included a ¥30.0 billion outflow to redeem the unsecured straight bond, and a ¥13.4 billion outflow for dividends paid. The net outflow for fiscal 2009 was ¥46.0 billion, compared with a ¥27.0 billion outflow in fiscal 2008.

As a result, the balance of cash and cash equivalents at the end of March 2009 stood at ¥65.9 billion, a decline of ¥127.7 billion from the ¥193.5 billion balance at the end of fiscal 2008. However, total liquidity on hand, which includes short-term investments as well as cash and cash equivalents, increased by ¥6.6 billion year on year, from ¥203.6 billion at the end of March 2008 to ¥210.2 billion at the end of March 2009.

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 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.