

Consolidated Financial Review for the Second Quarter Ended September 30, 2008

Company name: **Tokyo Electron Limited**
URL: <http://www.tel.com>
Telephone number: (03) 5561-7000
Stock exchange listing: Tokyo Stock Exchange 1st Section (Code 8035)

- Notes: 1. The accompanying financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan.
2. Amounts are shown in million yen except per share data.
3. Amounts are rounded down to the nearest million yen.

1. Financial highlights for the six months ended September 30, 2008

(1) Operating results (Cumulative)

	Six months ended	
	September 30, 2008	September 30, 2007
Net sales	301,225	476,377
Operating income	26,282	95,005
Ordinary income	28,907	95,795
Net income	17,361	62,463
Net income per share (Yen)	97.03	349.19
Fully diluted net income per share (Yen)	96.82	348.24

(2) Financial position

	As of September 30, 2008	As of March 31, 2008
Total assets	728,536	792,817
Net assets	549,093	545,244
Equity ratio (%)	73.9	67.5
Net assets per share (Yen)	3,008.25	2,989.70
Equity:		
538,325 million yen (as of September 30, 2008)		
534,953 million yen (as of March 31, 2008)		

2. Dividends

	Year ending March 31, 2009	Year ended March 31, 2008
2Q-end dividend per share (Yen)	20.00	70.00
Year-end dividend per share (Yen)	(forecast) 4.00	55.00
Annual dividend per share (Yen)	(forecast) 24.00	125.00

Note: Revision of dividends forecast for during this period: Yes

3. Earnings forecasts for the year ending March 31, 2009

	Year ending March 31, 2009
Net sales	540,000
Operating income	12,000
Ordinary income	16,500
Net income	8,000
Net income per share (Yen)	44.71

Note: Revision of earnings forecast for during this period: Yes

4. Others

- (1) Important changes in subsidiaries: None
- (2) Use of simplified accounting method and special accounting policy for quarterly financial reporting: Yes
- (3) Changes in principles, procedures and display of accounting method concerning quarterly consolidated statement policies.
 - 1. Changes in accounting policies: Yes
 - 2. Other changes: None
- (4) Number of shares outstanding (common stock)
 - 1. Number of shares issued
 - As of September 30, 2008: 180,610,911 shares
 - As of March 31, 2008: 180,610,911 shares
 - 2. Number of shares of treasury stock
 - As of September 30, 2008: 1,661,218 shares
 - As of March 31, 2008: 1,678,927 shares
 - 3. Average number of shares outstanding
 - As of September 30, 2008: 178,938,092 shares
 - As of September 30, 2007: 178,881,840 shares

Explanations on the appropriate use of earnings forecast:

The performance forecasts and estimates stated in this Financial Review are based on certain assumptions judged to be reasonable at the present time in light of information currently available. Consequently, actual operating results may differ substantially from the projections in the Financial Review.

Qualitative Information, Financial Statements, etc.

1. Qualitative Information on Consolidated Operating Results

During the first half of the current fiscal year, there were rising concerns of a slowdown in the global economy as a result of high prices for oil and raw materials and the financial crisis that spread from the United States.

In addition, in terms of the business environment for semiconductor production equipment, which is the Company's main business segment, capital investment by semiconductor manufacturers is headed towards a contraction due to downturn of the semiconductor memory market accompanying the deterioration in the balance between supply and demand.

With this situation as the backdrop, in the first half of the current fiscal year (April to September 2008), net sales were 301,225 million yen (down 36.8% compared to the same period of the previous year), operating income was 26,282 million yen (down 72.3%), ordinary income was 28,907 million yen (down 69.8%), and net income was 17,361 million yen (down 72.2%).

In addition, during the second quarter (July to September 2008), net sales were 146,398 million yen (down 44.5% compared to the same period of the previous year), operating income was 4,852 million yen (down 90.7%), ordinary income was 6,644 million yen (down 87.8%), and net income was 4,508 million yen (down 87.6%).

The overview of each business segment is as described below.

(1) Industrial Electronic Equipment Business

Net sales from external customers in this segment in the first half of the current fiscal year were 249,100 million yen (down 41.1% compared to the same period of the previous year). Net sales from external customers in this segment in the second quarter were 119,196 million yen (down 49.4%).

(a) Semiconductor Production Equipment

As a result of falling price due to the deterioration in the balance between supply and demand for DRAM and flash memory, semiconductor manufacturers adjusted proper backlog/production and restrained capital investment. Because of this, net sales from external customers in this segment during the first half were 208,702 million yen (down 45.0% compared to the same period of the previous year). Also, net sales from external customers in this segment during the second quarter were 96,156 million yen (down 55.0%).

(b) FPD Production Equipment

As a result of expansion of large liquid crystal display (LCD) production lines by LCD panel manufacturers, net sales from external customers in this segment during the first half of the current fiscal year were 40,179 million yen (down 7.8% compared to the same period of the previous year). Net sales from external customers in this segment during the second quarter were 22,915 million yen (up 3.2%).

(c) Others

Net sales from external customers in this segment during the first half of the current fiscal year were 218 million yen (down 14.4% compared to the same period of the previous year). Also, net sales from external customers in this segment during the second quarter were 124 million yen (up 2.1%).

(2) Electronic Components and Computer Networks Business

In the semiconductor and electronic devices field, demand for memory ICs for use with mobile phone handsets was sluggish, but sales of products for PCs were strong. In addition, sales of custom ICs for mobile phone base stations continued to recover. In the field related to computer systems, sales were affected by restraints on capital investment in anticipation of a deterioration of corporate performance. Given these circumstances, net sales from external customers in this segment during the first half of the current fiscal year were 52,125 million yen (down 2.2% compared to the same period of the previous year). Also, net sales from external customers in this segment during the second quarter were 27,202 million yen (down 3.2%).

(For reference)**Consolidated**

(Millions of yen)

	FY2009			(Ref.) FY2008	
	1Q	2Q	Total	1H	2H
Net Sales	154,827	146,398	301,225	476,377	429,714
Industrial Electronic Equipment	129,904	119,196	249,100	423,106	371,804
Semiconductor Production Equipment	112,546	96,156	208,702	379,251	347,188
Japan	32,896	33,369	66,265	94,629	97,304
U.S.	18,909	16,010	34,920	52,479	56,228
Europe	7,900	6,942	14,842	14,447	22,482
Korea	14,842	11,791	26,633	41,122	32,089
Taiwan	25,724	13,160	38,884	141,934	113,037
China	3,788	3,236	7,025	20,525	9,338
S.E.Asia & others	8,484	11,645	20,129	14,112	16,707
F P D Production Equipment	17,264	22,915	40,179	43,600	24,415
Others	93	124	218	254	199
Electronic Components & Computer Networks	24,923	27,202	52,125	53,271	57,909
Operating Income	21,430	4,852	26,282	95,005	73,492
Ordinary Income	22,263	6,644	28,907	95,795	76,917
Net Income	12,853	4,508	17,361	62,463	43,807

2. Qualitative Information on Consolidated Financial Conditions

(1) Financial Conditions

Current assets at the end of the second quarter of the current fiscal year were 574,941 million yen, down 65,291 million yen from the end of the previous fiscal year. The decline was primarily the result of an increase in cash and deposit and certificate of deposit in securities of 27,842 million yen, a decrease in trade notes and accounts receivable of 77,020 million yen, and a decrease of 10,105 million yen due to refund of accrued consumption and other taxes.

Tangible fixed assets increased by 467 million yen from the end of the previous fiscal year, to 104,573 million yen.

Intangible fixed assets fell by 1,177 million yen from the end of the previous fiscal year, to 12,075 million yen.

Investments and other assets increased by 1,720 million yen from the end of the previous fiscal year, to 36,945 million yen.

As a result, total assets were down 64,280 million yen from the end of the previous fiscal year, to 728,536 million yen.

Current liabilities declined by 69,838 million yen from the end of the previous fiscal year to 128,981 million yen. The decline was the result primarily of redemption of the 11th issue of unsecured corporate bonds worth 30,000 million yen, a decrease of 18,430 million yen in income taxes payable, and a decrease of 5,384 million yen in trade notes and accounts payable.

Long-term liabilities were up 1,709 million yen from the end of the previous fiscal year, to 50,461 million yen.

As a result of the above, total liabilities decreased by 68,129 million yen from the end of the previous fiscal year, to 179,443 million yen.

Net assets increased to 549,093 million yen as a result of an increase from reporting net income for the current quarter of 17,361 million yen and a decrease due to the payment of dividends of 9,841 million yen from surplus earning at the end of the previous fiscal year. The equity ratio was 73.9%.

(2) Cash Flow

Cash and cash equivalents at the end of the second quarter of the current fiscal year were down 61,438 million yen from the end of the previous fiscal year, to 132,054 million yen. In addition, cash and deposit at the end of the second quarter of the current fiscal year including time deposits and certificate of deposit whose deposit term is over three months of 99,351 million yen increased by 27,842 million yen from the end of the previous fiscal year, to 231,405 million yen. The overall situation affecting cash flow in the first half of the current fiscal year was as follows.

Cash flow from operating activities was a positive 84,605 million yen, up 64,050 million yen from the same period of the previous fiscal year. Major positive factors included income before income taxes of 28,693 million yen, depreciation and amortization of 10,740 million yen, and a decrease in trade notes and accounts receivable of 76,460 million yen. The main negative factor was payment of income taxes of 28,288 million yen.

Cash flow from investing activities was a negative 103,915 million yen, compared to negative 8,532 million yen in the same period of the previous fiscal year, primarily as a result of expenditures of 10,772 million yen for acquisition of tangible fixed assets for production and R&D and expenditures of 89,453 million yen for net increases in time deposits and certificate of deposit whose deposit term is over three months.

Cash flow from financing activities was a negative 41,324 million yen compared to a negative 16,390 million yen in the same period of the previous fiscal year, mainly as a result of redemption of the 11th issue of unsecured corporate bonds worth 30,000 million yen and payment of 9,841 million yen in dividends.

In addition, the overall situation affecting cash flow in the second quarter of the current fiscal year was as follows.

Cash flow from operating activities was a positive 49,944 million yen, down 129 million yen from the same period of the previous fiscal year. Major positive factors included net income before income taxes for the current quarter of 6,439 million yen, depreciation and amortization of 5,630 million yen, and a decrease in trade notes and accounts receivable of 30,795 million yen.

Cash flow from investing activities was a negative 103,279 million yen, compared to negative 3,902 million yen in the same period of the previous fiscal year, primarily as a result of expenditures of 4,472 million yen for acquisition of tangible fixed assets for production and R&D and expenditures of 98,422 million yen for net increases in time deposits.

Cash flow from financing activities was a negative 31,277 million yen compared to negative 2,112 million yen in the same period of the previous fiscal year, primarily as a result of redemption of the 11th issue of unsecured corporate bonds worth 30,000 million yen.

The figures above indicating year-on-year changes and the explanation of those changes, for the categories of 1. Qualitative Information on Consolidated Operating Results, 2. Qualitative Information on Consolidated Financial Conditions, and (2) Cash Flow are for the sake of reference.

3. Qualitative Information on Forecasts for Consolidated Financial Results

With regard to the future business climate, there are rising concerns about a worsening of the global financial crisis and a further economic downturn. In semiconductor related markets, accompanying the deterioration of supply-demand balance for DRAM and flash memory, the restraints on capital investment by semiconductor manufacturers has exceeded expectations. Given these circumstances, we have revised downward the forecast of consolidated financial results for the fiscal year announced on August 8, 2008, as follows, due to the fact that sales in the main semiconductor production equipment segment are expected to be lower than the previous projection.

Consolidated forecast

(Billions of yen)

	FY2009 (E)	
Net Sales	540.0	-40.4%
Industrial Electronic Equipment	437.0	-45.0%
Semiconductor Production Equipment	344.0	-52.6%
FPD Production Equipment	92.5	36.0%
Others	0.5	10.0%
Electronic Components & Computer Networks	103.0	-7.4%
Operating Income	12.0	-92.9%
Ordinary Income	16.5	-90.4%
Net Income	8.0	-92.5%

Note: The financial forecasts and estimates stated in this financial review are based on certain assumptions judged to be reasonable at the present time in light of information currently available concerning economic conditions in Japan and overseas, fluctuations in foreign exchange rates, and other factors that may have an impact on performance.

They are therefore susceptible to the impact of many uncertainties, including market conditions, competition, the launching of new products (and their success or failure), and global conditions in the semiconductor production equipment business. Consequently, actual sales and profits may differ substantially from the projections stated in this financial review.

Consolidated Balance Sheet

(Millions of yen)

ASSETS	As of September 30, 2008	As of March 31, 2008
Current assets		
Cash and deposit	57,277	67,540
Trade notes and accounts receivable	147,150	224,170
Securities	174,129	136,022
Merchandise and finished goods	98,049	101,053
Work in process	41,543	42,123
Raw materials and supplies	17,439	17,974
Others	39,396	51,411
Allowance for doubtful accounts	(45)	(62)
Total current assets	574,941	640,233
Long-term assets		
Tangible fixed assets	104,573	104,105
Intangible fixed assets		
Others	12,075	13,253
Total intangible fixed assets	12,075	13,253
Investments and other assets		
Others	37,261	35,526
Allowance for doubtful accounts	(316)	(301)
Total investments and other assets	36,945	35,224
Total long-term assets	153,595	152,584
Total assets	728,536	792,817

(Millions of yen)

LIABILITIES	As of September 30, 2008	As of March 31, 2008
Current liabilities		
Trade notes and accounts payable	49,947	55,332
Short-term debt	4,747	6,069
Income taxes payable	9,808	28,239
Accrued warranty expenses	7,956	9,815
Other allowance	5,438	13,701
Others	51,083	85,662
Total current liabilities	128,981	198,820
Long-term liabilities		
Accrued pension and severance costs	45,329	43,704
Other allowance	645	665
Others	4,485	4,382
Total long-term liabilities	50,461	48,752
Total liabilities	179,443	247,572
NET ASSETS		
Shareholders' equity		
Common stock	54,961	54,961
Capital surplus	78,268	78,392
Retained earnings	417,833	410,866
Treasury stock	(11,251)	(11,369)
Total shareholders' equity	539,811	532,850
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	525	2,172
Deferred gains or losses on hedges	384	460
Translation adjustments	(2,395)	(529)
Total valuation and translation adjustments	(1,486)	2,102
Subscription rights to shares	772	483
Minority interests	9,995	9,807
Total net assets	549,093	545,244
Total liabilities and net assets	728,536	792,817

Consolidated Statement of Income

(Millions of yen)

	Six months ended September 30, 2008
Net sales	301,225
Cost of sales	210,170
Gross profit	91,055
Selling, general & administrative expenses	
Research and development expenses	31,577
Others	33,194
Total selling, general & administrative expenses	64,772
Operating income	26,282
Non-operating income	
Interest expenses	908
Revenue from development grants	1,475
Others	948
Total non-operating income	3,332
Non-operating expenses	
Foreign currency transaction loss	317
Others	389
Total non-operating expenses	707
Ordinary income	28,907
Unusual or infrequent profit	
Gain on sale of fixed assets	93
Others	6
Total unusual or infrequent profit	99
Unusual or infrequent loss	
Loss on proceeds or disposal of fixed assets	122
Office relocation expenses	117
Others	74
Total unusual or infrequent loss	314
Income before income taxes	28,693
Provision for income taxes and enterprise taxes	10,994
Minority interests	336
Net income	17,361

Consolidated Cash Flow

(Millions of yen)

Six months ended
September 30, 2008

Cash flow from operating activities

Income before income taxes	28,693
Depreciation and amortization	10,740
Increase in accrued pension and severance costs (decrease)	1,678
Increase in accrued employees' bonuses (decrease)	(7,435)
Increase in accrued warranty expenses (decrease)	(1,782)
Interest and dividend revenue	(957)
Decrease in trade notes and accounts receivable (increase)	76,460
Decrease in inventories (increase)	2,190
Increase in accounts payable (decrease)	(4,870)
Decrease in prepaid consumption tax (increase)	10,003
Increase in accrued consumption tax (decrease)	(4,814)
Increase in customer advances (decrease)	6,521
Others	(4,300)
Subtotal	112,128
Receipts from interest and dividends	916
Interest paid	(151)
Income taxes paid	(28,288)
Net cash generated by operating activities	84,605

Cash flow from investing activities

Decrease in time deposits (increase)	(89,453)
Payment for purchase of tangible fixed assets	(10,772)
Payment for acquisition of intangible fixed assets	(612)
Payment for purchase of investment securities	(2,786)
Others	(291)
Net cash used in investing activities	(103,915)

Cash flow from financing activities

Net increase in short-term borrowings (decrease)	(1,322)
Redemption of straight bonds	(30,000)
Dividends paid	(9,841)
Others	(161)
Net cash generated by financing activities	(41,324)

Effect of exchange rate changes on cash and cash equivalents	(870)
Net increase in cash and cash equivalents (decrease)	(61,505)
Cash and cash equivalents at beginning of period	193,492
Cash and cash equivalents from newly consolidated subsidiaries	67
Cash and cash equivalents at end of period	132,054

Segment Information

1. Information by business segment

(Millions of yen)

	Six months ended September 30, 2008				
	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
Net sales	249,611	52,432	302,043	(817)	301,225
Operating income	24,676	1,593	26,270	12	26,282

- Note: 1. Method of classifying businesses: Businesses are classified after considering similarities in type of product, function, or method of sale.
2. Major products in each business segment:
- (1) Industrial electronic equipment: Semiconductor production equipment, FPD production equipment, other
- (2) Electronic components and computer networks: Semiconductor products, computer systems and networks, middleware and software, other electronic component

2. Information by geographic segment

(Millions of yen)

	Six months ended September 30, 2008				
	Japan	Other regions	Total	Eliminations and corporate	Consolidated
Net sales	287,437	65,036	352,473	(51,247)	301,225
Operating income	22,787	2,766	25,554	728	26,282

- Note: 1. National and regional categories are determined on the basis of geographic proximity.
2. Main countries and territories in other regions: U.S., Europe, Taiwan

3. Foreign sales

(Millions of yen)

	Six months ended September 30, 2008				
	Taiwan	Korea	U.S.	Others	Total
Foreign sales	52,473	43,689	34,947	51,288	182,398
Consolidated net sales					301,225
Proportion of foreign sales in consolidated net sales (%)	17.4	14.5	11.6	17.1	60.6

- Note: 1. National and regional categories are determined on the basis of geographic proximity.
2. Main countries in others: Singapore, China, Israel
3. Foreign sales indicates net sales in countries and territories except Japan.

(Reference)

TOKYO ELECTRON

**Consolidated Statement of Income of the same period of the
previous fiscal year**

(Millions of yen)

	Six months ended September 30, 2007
Net sales	476,377
Cost of sales	311,018
Gross profit	165,359
Selling, general & administrative expenses	70,354
Operating income	95,005
Non-operating income	2,238
Non-operating expenses	1,447
Ordinary income	95,795
Unusual or infrequent profit	2,776
Unusual or infrequent loss	370
Income before income taxes	98,201
Provision for income taxes and enterprise taxes	35,256
Minority interests	482
Net income	62,463