

TO OUR SHAREHOLDERS



For Tokyo Electron, the fiscal year ended March 31, 2000 was a year bearing a lot of bright news worthy of the dawn of the new millennium. The rapidly accelerating revolution in information and communications moved into high gear due to the spread of the Internet and mobile phones. In addition, the economies of Asia, which now play a large role in the stability of the global economy, recovered from a prolonged slump. As a result, the semiconductor and liquid crystal display (LCD) industries in which we participate broke out of their adjustment phases and turned upward, marking this year as a turning point.

Tokyo Electron's results also staged a powerful recovery. Consolidated net sales increased 40.4 percent year-on-year to ¥440.7 billion. Operating income increased from ¥6.4 billion to ¥35.8 billion and net income jumped from ¥1.9 billion to ¥19.8 billion, or ¥113.5 per share. Cash dividends per share for the full year were revised up ¥2 from our original forecast to ¥14.

Net sales for the mainstay Semiconductor Production Equipment (SPE) division, supported by a remarkable recovery in the second half, increased 46.6 percent to ¥355.1 billion. In addition, with orders received by the division setting consecutive records in the third and fourth quarters, we were able to carry over consolidated backlogs of ¥265.3 billion into the current fiscal year. We believe that Tokyo Electron's excellent products, highly reliable service offerings, global operations and a manufacturing organization capable of promptly meeting the rapid recovery in demand allowed us to fully benefit from the upturn in the business environment.

Consistently strong investment in R&D has strengthened our market position, and we continue to focus on core competencies.

We are entering an age where globalization is advancing with incredible speed, and competition among companies is intensifying. In the midst of these changes, the level of development in semiconductor and LCD production equipment is rising every year, and shortening development cycles is becoming crucial, so only companies that can respond will survive. Tokyo Electron realizes that the development of products and processes for the next generation and beyond is the key to winning in megacompetition, and we are continuously striving to enhance our development strategies to further improve our market position.

In addition, customers are now demanding that their suppliers provide integrated technologies that offer optimum solutions for their process modules as well as total support spanning development, manufacturing, sales and service. Our Process Technology Center constructed in 1998 for 300mm equipment is a base to relentlessly pursue these horizontally and vertically integrated technologies with our customers. The Center has attracted attention worldwide as one of the foremost facilities of its kind. Our new-concept fast thermal pro-

cessing system that enables in-situ sequential processing and our wafer-level burn-in & test system also grew out of this philosophy of integration.

Tokyo Electron's product strategy revolves around focusing on markets with high barriers to entry and high potential for growth where we can offer our own original, high-value-added technologies. This approach enables us to maintain a leading position in the market segments in which we choose to compete. We are working to offer integrated technologies with our own competitive core products, while also evaluating alliances with other companies in our industry.

In the past fiscal year, Tokyo Electron invested ¥37.1 billion in research and development, representing approximately 10 percent of SPE division sales. This investment was efficiently put toward the development of new versions of seven existing products, 300mm equipment and new business opportunities. We expect that new products brought about by this investment will account for at least 40 percent of our product portfolio in the next few years. With our solid financial base, we will continue to win in the global race to develop new technology.

Tokyo Electron's low-k toolset is a superior solution for the new era of interconnect processes.

Today, in order to further advance the performance of semiconductor chips, solutions to three technical challenges are being demanded: shrinking feature sizes, increasing speed, and reducing power consumption. In the area of shrinkage, evaluations of 0.13 μ m design rules have already begun in 2000. In addition, new materials in the interconnect process — namely copper and low-k dielectric materials — have been adopted as methods of increasing speed and lowering power consumption, especially in logic applications. These new materials will become mainstream in the future.

Tokyo Electron has introduced a breakthrough toolset that will have a major impact on the interconnect process in the next generation and beyond. It is an integrated solution realized by the *CLEAN TRACK ACT[®] 8 SOD* system that spins low-k films on intermetal layers, in conjunction with several other core products. Today, the superiority of low-k spin coating for 0.13 μ m and beyond continues to be demonstrated by leading semiconductor makers, which has opened up new horizons for our business. By establishing leadership in the processes surrounding the interconnects, we have created an outstanding opportunity in the next generation of interconnect processes.

We are committed to playing a key role in helping customers successfully execute their own particular device strategies. From that standpoint, by forming alliances with various materials makers, we are making preparations for whatever low-k materials our customers may choose.

Challenge toward change – reforming our operating structure through information technology

In addition to enhancing our product strategy for the future, Tokyo Electron continues to build a lean business structure that can adapt flexibly to the changes in the market. As demand for our products is growing, expanding production capacity is currently a top priority. But even while we find ourselves in this expansion phase, we have taken up the challenge of streamlining our operations to raise asset efficiency and maximize earnings.

One such initiative is the Total Cost Down Project, which is designed to drastically shorten lead times from order to delivery. During the past fiscal year, we thoroughly reevaluated our manufacturing structure, resulting in a comprehensive plan for creating an ideal manufacturing model for Tokyo Electron. Looking forward, we will work to improve the manufacturing flow itself by combining it with integrated IT tools, with the lofty objective of reducing lead times by half within two to three years, and thus make a significant contribution to customer satisfaction.

Tokyo Electron is also moving to generate optimum value from its most valuable assets — people — by implementing a project to improve efficiency at the administration level. People are the source of knowledge, so we aim to build a structure over the mid term that enables them to make the most of their talents to create value. In achieving this goal as well, the promotion of an IT strategy is key. We will continue to implement measures to streamline our organization, including making the best use of outside resources.

Further promoting management from the perspective of shareholders

Tokyo Electron was one of the first publicly listed companies in Japan to recognize and embrace modern corporate governance issues. Since 1997, we have swiftly implemented a wide range of reforms to maximize returns for our shareholders, including reorganizing the Board of Directors, implementing stock option and performance-based incentive plans and disclosing compensation of corporate officers.

As a new development, in the current fiscal year, we will expand our stock option plan on a groupwide basis around the world. The existing Japanese Commercial Code limits the scope of stock options. However, Tokyo Electron can widen the scope by introducing quasi stock options with warrants, and by taking advantage of the Law on Special Measures for Industrial Revitalization. We expect this system to have a large and positive effect on our ability to hire and retain superior personnel on a global basis.

In order to raise ROE at the tactical level, we have set ROA as a metric using net utilized assets on a business unit basis for evaluating management

and its business performance. We firmly believe that this will be an effective method of instilling awareness of shareholder value through the efficient utilization and control of assets. In doing so, we aim to raise ROE to 20 percent or more as a short-term goal.

Furthermore, we will begin disclosing quarterly results to increase the trust that we have gained from the global capital markets.

The IT revolution drives progress at Tokyo Electron.

Today, we are in the midst of an information and communications renaissance — an age where the Internet and mobile phones are soon to become as commonplace in everyday life as automobiles, an age where the twentieth century paradigm of industry classifications will completely change due to the spread of e-commerce. Furthermore, new and advanced digital consumer electronics are rapidly emerging, meaning both the number of applications for and quantity of semiconductor chips and LCDs will explode in the future. When thinking about just how much semiconductor and LCD production equipment will be necessary to make these key devices, you can imagine the great opportunities Tokyo Electron will enjoy.

Tokyo Electron also participates in the IT revolution as a distributor of the world's superior electronic components and computer/networking systems. Our product lineup is focused on high-value-added and high-potential fields, so we expect to achieve high growth in these segments as well. By delivering superior products and services, we will both benefit from and support the IT revolution from the ground up.

In April 2000, the list of companies comprising the Nikkei average of 225 companies was revised, and Tokyo Electron's stock was added to this select corporate group. While changes in the industrial structure are spurred on by the IT revolution, our stock was included because it mirrors the trends of the new era. Beginning August 1, we will reduce the minimum round lot of shares from 1,000 to 100 so that more people can have the opportunity to become Tokyo Electron shareholders.

Tokyo Electron is not only being driven by the dynamism of the new era, but is also contributing to it. We are dedicated to creating corporate value and to sharing the benefits of this dynamism with all of our shareholders and other stakeholders.



Tetsuro Higashi
C.E.O., President
June 2000