

TO OUR SHAREHOLDERS

MESSAGE FROM THE CHAIRMAN

I am pleased to report a strong performance in fiscal 2005, the year ended March 31, 2005.

SEMICONDUCTOR MARKET – POISED FOR LONG-TERM GROWTH

The semiconductor industry continued to grow strongly in line with growth in the computer, personal computer (PC), mobile phone and other high-tech product markets. As a leading supplier of semiconductor production equipment (SPE), Tokyo Electron has been an integral part of this industry and has maintained a consistent history of growth for more than 40 years.

In addition to PCs and mobile phones, semiconductors are finding an expanding application base. Alongside DVD recorders, digital televisions and other digital consumer electronics, there is a booming market for next-generation digital mobile devices that integrate the functions of mobile phones, PDAs, digital cameras, digital portable audio players and other devices. Semiconductors are also finding wider applications in automotive electronics such as sensors, engines and power control systems, and navigation systems. Semiconductor demand will also be boosted as analog broadcasting gradually gives way to digital television broadcasting around the world.

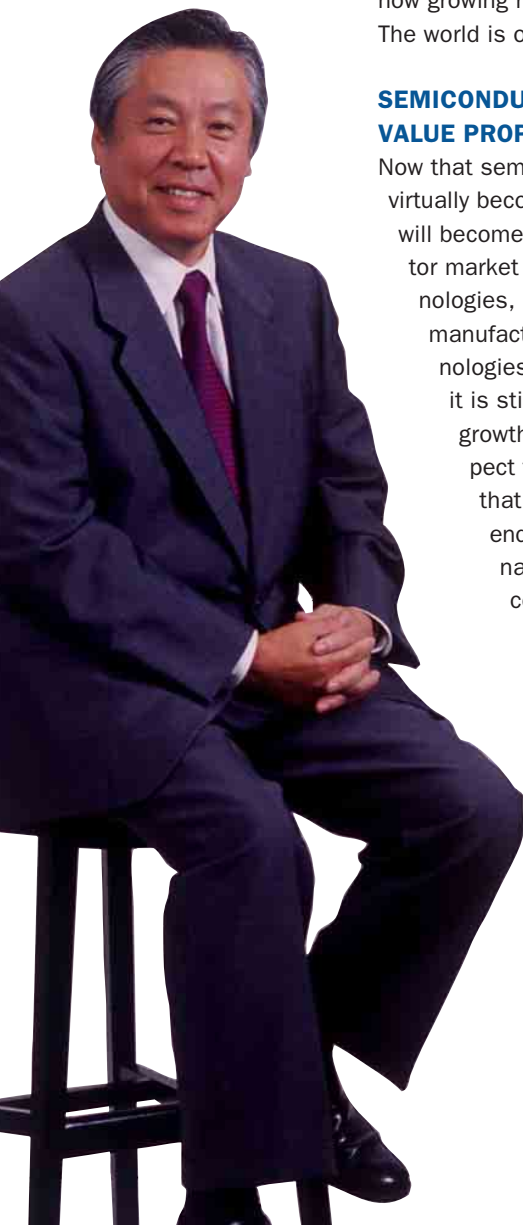
Furthermore, semiconductor demand, in the past largely confined to the U.S., Europe and Japan, is now growing rapidly around the world, from South Korea and Taiwan to the so-called BRICs countries. The world is on the verge of a full-blown age of digital networks.

SEMICONDUCTORS AND SEMICONDUCTOR PRODUCTION EQUIPMENT SUPPORT NEW VALUE PROPOSALS

Now that semiconductors are used en masse in digital consumer electronics products that have virtually become commodities, there is a view in some quarters that the semiconductor industry itself will become commoditized, thus resulting in slower growth. However, I believe that the semiconductor market will continue to expand as the semiconductor, a product of the most sophisticated technologies, adds greater value to a range of electronic products. Furthermore, semiconductor manufacturing technology should also continue to advance due to the fusion of various new technologies. While the semiconductor market is expected to experience a mild correction this year, it is still one of the few \$200 billion-plus industries with the potential of an average annual growth rate of around 10% over the medium to long term. As the “crude oil” of industry, I expect the semiconductor to drive the global industry. One of the most important technologies that supports the value of semiconductors is the SPE that Tokyo Electron supplies. Through endless technological innovations, we have been supporting the evolution of semiconductors, namely, growing multifunctionality and high-performance, a quantitative increase by low-cost production and expansion to a wide range of applications.

CUSTOMER TRUST AND TOKYO ELECTRON'S TECHNOLOGY

Our rock solid position as the market leader rests on the hybrid technologies that we have accumulated over the years and, equally as important, close relations with our customers rooted in mutual trust and respect. Since our foundation, we have consistently pursued customer satisfaction as a core value. Our marketing, service, product development and other teams work closely with customers, making possible the exchange of information on a broad range of issues. The development of SPE draws on a whole spectrum of technologies, from electronics, mechatronics and optics to thermodynamics and chemicals. Advanced know-how in the integration of all these technologies is essential for manufacturing SPE. Few other industries, if any, require this advanced level of technology synthesis. This is



a blessing, too, since it provides a high barrier to entry to the SPE industry. Furthermore, our customers are also working on differentiating semiconductor manufacturing processes in various ways to enable them to distinguish their end products from the competition. In an industry like this, only a relationship of deep trust allows us to fully access and understand the true needs of customers. Quickly developing new technologies to respond to customer needs improves our position in the industry. By continuing to bolster our capabilities across the technologies used in the development of SPE as well as the know-how required to synthesize these technologies, we have been able to enhance our position as a manufacturer and to deepen our relationship with customers as the market leader.

CORPORATE DNA SENSITIVE TO CHANGE

Tokyo Electron has the character of both a manufacturer and a distributor. Supplying technology required by the world is common to both these functions. As a distributor, we market other manufacturers' products with the same commitment that we bring to our own products. We do not reject superior technology and products developed outside Tokyo Electron. Rather, we try to actively use such technologies, because it is in our "genes" to respond sensitively to technologies and changes in the world. At the same time, as a manufacturer we have a strong mission to develop our own products. We continue to take on the challenge of developing new technologies and products to meet the changing needs of our customers. We have also built up a powerful technology base to provide advanced technical support to our customers.

Breakneck technological change in the semiconductor industry means that it is a rare case indeed for any one manufacturer to hold on to the leadership position for a long time. However, Tokyo Electron has maintained its position as a top-class SPE firm for years. This is because our distributor "genes" enable us to sense customer needs ahead of others. And our instinctive ability to respond to changing customer needs meshes seamlessly with our strengths as a manufacturer that continues to cultivate a wide technology base. These two aspects have been the foundation of our growth.

EXPANDING DREAMS IN AN INNOVATIVE CORPORATE CULTURE

At Tokyo Electron, a corporate culture characterized by the pursuit of innovation has been passed down the years as part of our heritage. By innovation I do not only mean technology development. I also mean manufacturing, marketing and business processes. In other words, innovation at Tokyo Electron means transforming our businesses to superior ones through non-traditional approaches. We feel that superior human resources are the key to achieving this goal. We therefore make every effort to attract the best people from around the world and let them develop in an innovative culture. We are also promoting a business leader program and strengthening cross-divisional activities in our company to foster the development of up-and-coming younger employees.

As in the past, Tokyo Electron will continue to be innovative in both technology and business as we continually strive to raise our corporate value. Tokyo Electron is committed to living up to the expectations of our shareholders and other stakeholders throughout the world, as a company that can support making ideas and dreams a reality.

July 2005



Tetsuro Higashi
Chairman & CEO