



INNOVATIVE SPIRIT GEARED FOR GROWTH

TOKYO ELECTRON LIMITED

PROFILE



Established in 1963, Tokyo Electron (“the Company”) and Tokyo Electron group (“Tokyo Electron”) are world-leading suppliers of semiconductor production equipment (“SPE”) and related services for the semiconductor industry. Tokyo Electron develops, manufactures and markets a broad lineup of products, including coater/developers, plasma etch systems, thermal processing

systems, single wafer CVD systems, surface preparation systems and wafer probers.

Tokyo Electron also draws on its cumulative expertise in SPE to develop, manufacture and market coater/developers and etch/ash systems for the manufacture of flat panel displays (“FPD”). Most of Tokyo Electron’s semiconductor and FPD production systems command world-leading shares in their respective markets.

Tokyo Electron also maintains a strong presence as a distributor, providing a wide array of semiconductor production systems, storage area network and Internet-related products for broadband solutions, electronic components and other products in Japan from other leading suppliers.

With a network spanning 12 countries in the U.S., Europe and Asia, Tokyo Electron provides superior products and services to its customers, and works to maximize shareholder value.

ALWAYS LOOKING AHEAD TO NEW GROWTH

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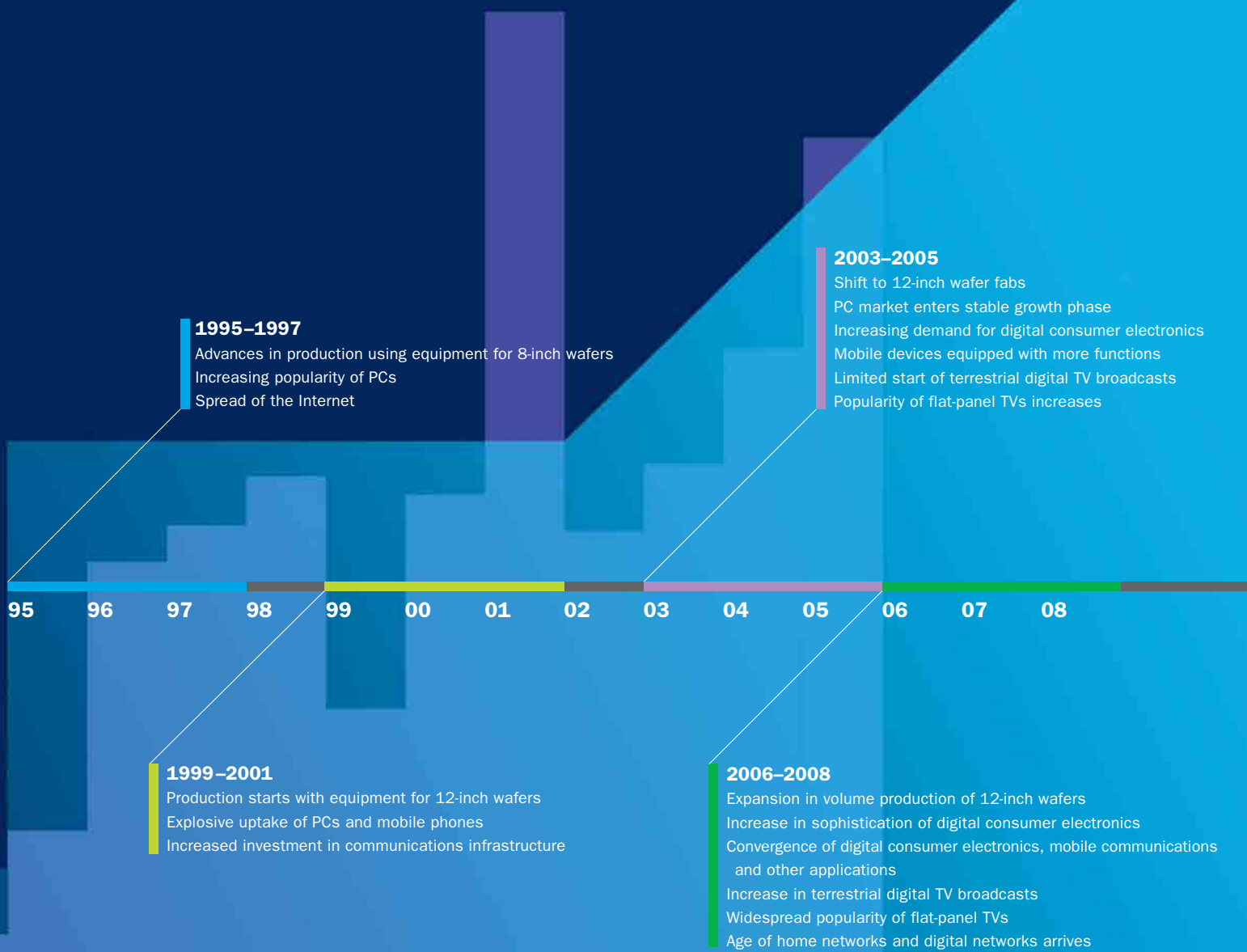
Disclaimer Regarding Forward-looking Statements

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 and FPD markets
- Changes in the demand for products and services manufactured or offered by Tokyo Electron’s customers, such as semiconductor manufacturers, FPD 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

HISTORY AND PROSPECTS



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.

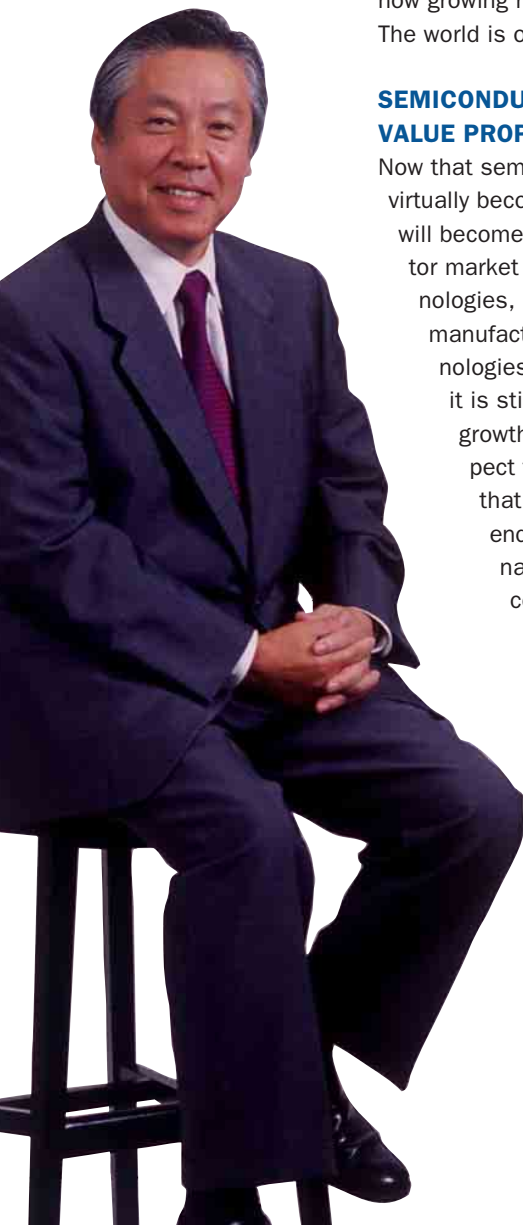
Furthermore, semiconductor demand, in the past largely confined to the U.S., Europe and Japan, is now growing rapidly around the world, from South Korea and Taiwan to the so-called BRICs countries. The world is on the verge of a full-blown age of digital networks.

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

MESSAGE FROM THE PRESIDENT

Demand for PCs and mobile phones was firm in fiscal 2005. It was also a banner year for digital consumer electronics. These factors boosted demand for semiconductors and FPD, and capital investment for their production. Amid this growth, Tokyo Electron made united efforts in the development, manufacturing, marketing and servicing of our products.

I am pleased to report that the strategy was successful and we completed the year with impressive financial results. Consolidated operating income rose ¥41.7 billion from the previous fiscal year to ¥64.0 billion, while net sales rose 20% year on year to ¥635.7 billion. Net income rose ¥53.3 billion from the previous fiscal year to ¥61.6 billion. As a result, net income per share increased sharply from ¥46.37 to ¥343.63. The annual dividend was ¥45.0 per share.

NEW ACCOUNTING POLICIES STRENGTHEN FINANCIAL POSITION AND REVENUE STRUCTURE

In fiscal 2005, Tokyo Electron made two important changes in its accounting policies: the revenue recognition policies were changed and we booked accrued warranty expenses. These changes are a response to the international harmonization of accounting standards. The changes are also intended to make our accounting information more appropriate, thereby further bolstering the financial and revenue structure of Tokyo Electron.

We now recognize revenue at the time of confirmation of set-up and testing of products instead of the time of shipment, a change intended to bring greater precision to revenue measurement. We also expect this move to help us benchmark the time to completion of set-up and testing of products. This in turn should help us to reduce expenses by shortening this period. The other change was to record accrued warranty expenses for estimated expenses for after-sales repair during the warranty period of equipment. This change is intended to make periodic profit and loss statements more appropriate by matching the after-sales repair expenses with revenue when products are sold. This has also raised awareness within Tokyo Electron of the importance of reducing the after-sales repair expenses.

STRUCTURAL REFORMS START BENEFITING CASH FLOW

In April 2003, Tokyo Electron launched a structural reforms program, a series of initiatives aimed at readying our operating base for further growth. Two years into the program, trade notes and accounts receivable and inventory turnovers have improved significantly, leading to a marked improvement in cash flow. We have also worked to reduce interest-bearing debt. As a result, cash and cash equivalents at ¥115.4 billion exceeded interest-bearing debt as of March 31, 2005, thereby strengthening our financial position.

We are committed to building a strong company immune to market fluctuations and capable of generating cash flow through ongoing structural reforms while investing for the future in R&D and other areas.

TAKING ON THE CHALLENGE OF FURTHER STRUCTURAL REFORMS

In April 2005, we launched structural reforms Phase 2 in order to build on the improvements made to our operations, finances and position as a manufacturer. In semiconductor and FPD production equipment, customers are becoming more demanding about quality, as technology becomes more sophisticated. The development of higher-quality products has resulted in shorter start-up times at customers' factories, higher capacity utilization rates, enhanced reliability and cost reductions. We have bolstered group-wide measures to raise awareness of and improve product quality.

I am convinced that the introduction of new products with even higher added value is the key to the sustained growth of Tokyo Electron. We are therefore making collective efforts to foster new technologies and to plan and develop new products. In existing businesses, we are working to improve the performance of products to achieve clear differentiation from competition, and seeking cost reductions through enhanced production efficiency. As a group, we are speeding up in-house operations to further strengthen our competitive advantage and to rapidly respond to changes in the business environment.



EMERGING TECHNOLOGY TRENDS

In SPE, the primary issue so far has been toward the technology for design-rule shrinkage. In addition, we now need to focus on improvement of mass production technology, as our customers are increasingly expecting advances in this area. Moreover, the range of materials used in semiconductor production processes is expanding along with the transition to devices that offer higher performance and lower power consumption.

Tokyo Electron offers a broad lineup of products and has the best product development infrastructure in the sector. We are demonstrating our leadership position in adopting semiconductor processing technology for design-rule shrinkage, mass production technology and new materials through cooperative efforts with leading semiconductor manufacturers, consortiums and universities.

STRENGTHENING MEASURES FOR CORPORATE SOCIAL RESPONSIBILITY

Enhancing corporate governance to assure even fairer management and strengthening strategies for environment protection and safety are important issues from the standpoint of corporate social responsibility.

Amid the globalization of business management, the fundamental policy and purpose of our corporate governance activities is to ensure adherence to corporate ethics and laws and regulations. At the same time, we have established Compensation and Nomination committees as an integral part of a program to ensure management transparency and objectivity. In addition, we will also strengthen our internal control and risk management systems and carry out activities to educate and raise employees' awareness of these issues.

In environmental protection activities, Tokyo Electron is working to bring down the environmental loads of SPE by reducing power consumption, making our products lead-free, reducing industrial waste and promoting recycling.

COLLECTIVE EFFORTS TO BECOME AN EXCELLENT COMPANY

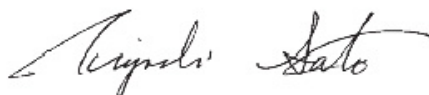
In 2005, in terms of capital investment, the semiconductor industry is likely to slow down slightly from a recent up turn because of declining capacity utilization rates at certain semiconductor manufacturers. However, expansion in markets for new applications, such as mobile devices, digital consumer electronics, automotive electronics and home servers, is expected. Fueled by a growing range of applications, semiconductors and SPE used in their manufacture are expected to experience high growth rates over the medium and long terms. The FPD production equipment market should continue to grow, driven by explosive growth of the flat panel television market.

I have defined fiscal 2006 as a period for concentrating on new product development and further enhancing operating efficiency to ready Tokyo Electron for another leap forward. Our goal is to achieve a growth rate exceeding that of the market in the next industry upturn.

Dynamic expansion of the semiconductor and FPD production equipment markets will intensify competitive realignments as weaker players are driven out. Since its foundation, Tokyo Electron has been guided by the customer-first principle. By combining this with the technological prowess that allows us to supply equipment that accurately meets user needs and our commitment to provide extensive support services, Tokyo Electron has maintained its leadership position in the industry.

Tokyo Electron is committed to continuing to improve its technology development, production and service capabilities in order to achieve customer satisfaction and in doing so raise our corporate value and meet the expectations of all our stakeholders. In meeting these challenges, we look forward to the continued support of our shareholders.

July 2005



Kiyoshi Sato
President & COO

AN UNCOMPROMISING DEDICATION TO COMPLETE CUSTOMER SATISFACTION

The greatest strength of Tokyo Electron is a firm commitment to customer satisfaction that has defined the company since its foundation. Our sales and marketing team identifies the true needs of each customer. Support service teams make sure that our equipment is operating reliably and according to specifications at customers' factories. Our R&D engineers take the lead in developing products and technologies that closely meet the requirements of each customer. Backed by the "customer-first" stance of every element of our organization, Tokyo Electron equipment is performing key functions at semiconductor fabs throughout the world.

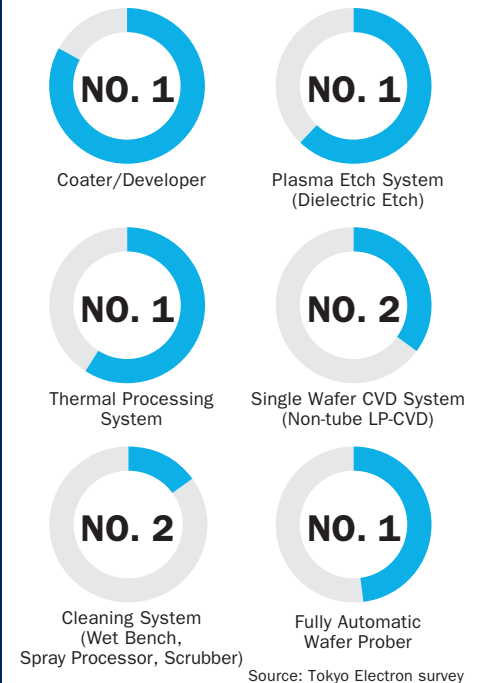
RETAINING A PROMINENT MARKET POSITION THROUGH OUR "NUMBER ONE" STRATEGY

Tokyo Electron is constantly differentiating itself by creating innovative technologies. We concentrate resources on targeted product categories with the aim of becoming number one. This policy has made us the leader in developing next-generation technologies for various types of equipment. By acquiring exclusive know-how needed to take technologies to the next stage, we can preserve a clear competitive edge.

MARKET SHARE BY PRODUCT CATEGORY

Tokyo Electron ranks among the leaders in terms of market share in every category of semiconductor production equipment it produces, based on Tokyo Electron data.

Tokyo Electron Products World Market Share (2005)



POWERFUL STRENGTH FOR FIRM POSITION



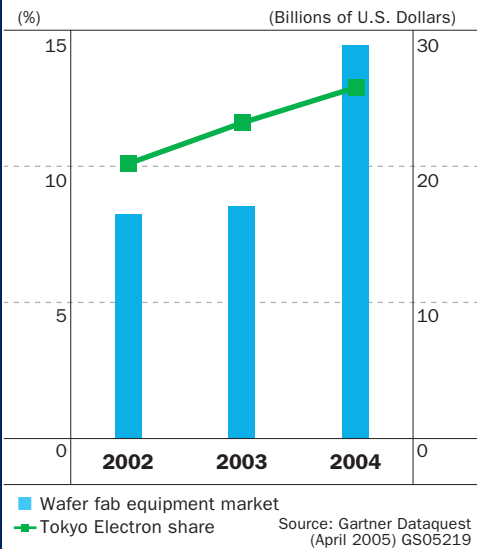
THE WORLD'S MOST ADVANCED SERVICE SUPPORT FRAMEWORK

Semiconductor and FPD production equipment depends heavily on many state-of-the-art technologies. An equally sophisticated service support framework is essential to ensuring the stable operation of this equipment in customers' factories. To provide this capability, Tokyo Electron has service bases in 12 countries that help raise productivity by supplying support closely meeting the requirements of each customer.

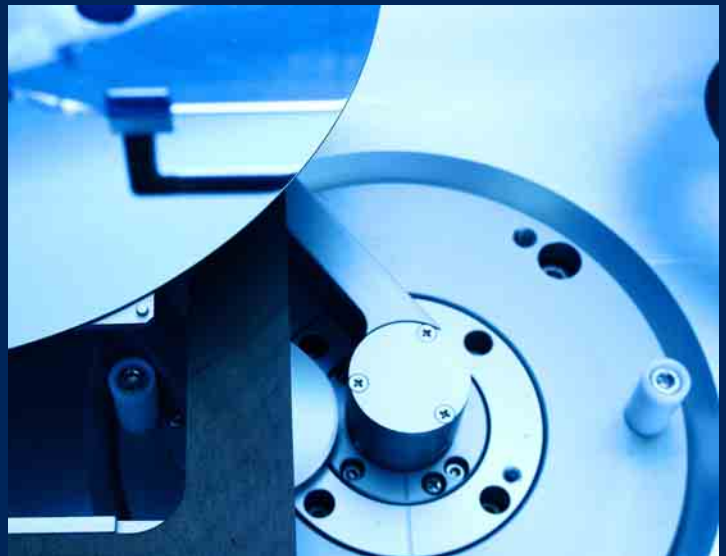
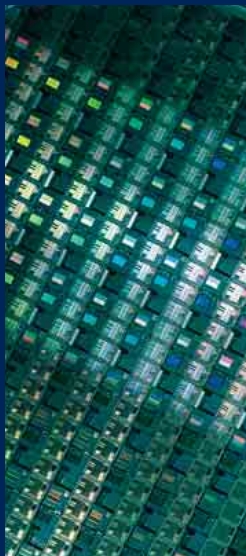
INCREASED MARKET SHARE IN SPE MARKET

One measure of customer satisfaction is a supplier's market share. In the semiconductor wafer fab equipment market, our share increased from 11.6% in 2003 to 12.9% in 2004. This demonstrates the excellent reputation of our high-throughput equipment and reliable support system for 300mm wafers, which have become the industry standard.

Worldwide Wafer Fab Equipment Market and Tokyo Electron's Market Share
(Calendar Year)



Worldwide Operations (As of July 1, 2005)



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MAKING AN EVEN ST FINANCIAL POSITION

GREATER FINANCIAL SOUNDNESS

During the surge in IT-related demand and investments a few years ago, Tokyo Electron added assets and costs that are no longer suitable for today's operating environment. To improve operating efficiency, we have constantly worked on achieving the proper level of employees, inventories and capital expenditure. Due to these initiatives, the days required to turn over trade-notes and accounts receivable and inventories have decreased over the past two years even as sales climbed, producing a significant increase in operating cash flows.

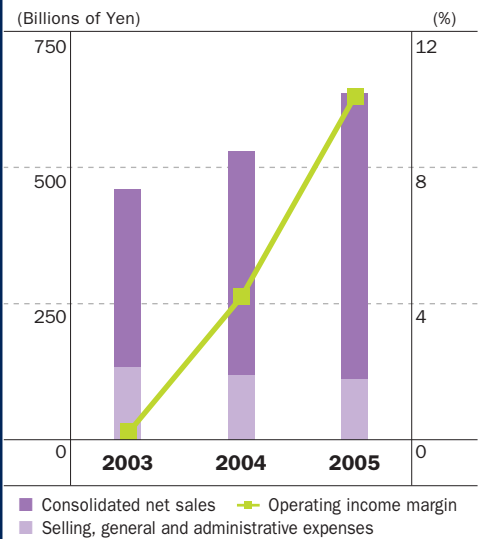
MORE STRUCTURAL REFORMS

For some time, we have been enacting structural reforms aimed at reducing manufacturing lead times, cutting costs and other goals. Now, along with work involving existing themes, we are focusing on the additional priority of further improving quality. The objective is to use these reforms to raise profitability and build a powerful financial position that can generate consistent cash flows.

IMPROVEMENT IN THE OPERATING INCOME MARGIN

Structural reforms have produced a substantial increase in the operating income margin. While the cost of sales rose along with sales, selling, general and administrative expenses were down 5.0% due to measures to control headcount, lower depreciation expenses by carefully managing capital expenditures, and other factors. The result was a noteworthy jump of 9.9 percentage points in the operating income margin compared with fiscal 2003.

Operating Income Margin, Consolidated Net Sales and Selling, General and Administrative Expenses



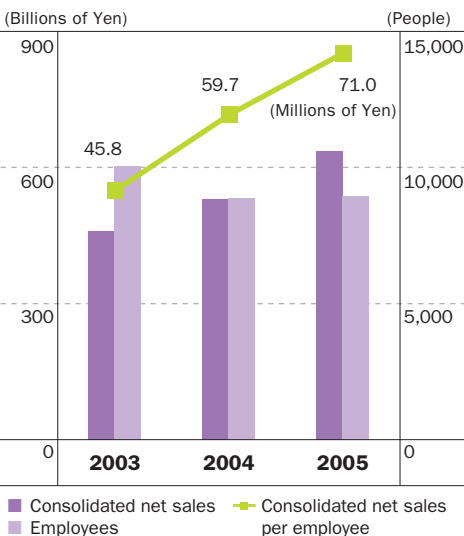
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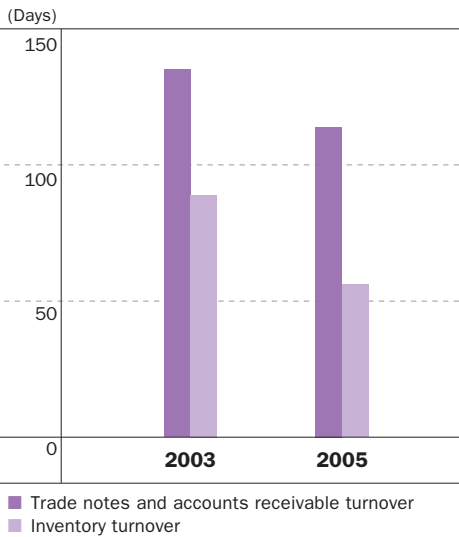
HIGHER PRODUCTIVITY AND EFFICIENCY

Tokyo Electron achieved a significant improvement in operating efficiency even while meeting a large increase in demand for its products during the past fiscal year. Shorter manufacturing lead times, a review of the product design process and other improvements made this possible. The result was increases in productivity and efficiency. In particular, consolidated net sales per employee was up a remarkable 55.0% compared with fiscal 2003.

Consolidated Net Sales per Employee, Consolidated Net Sales and Employees



Trade Notes and Accounts Receivable and Inventory Turnovers



IMPROVE TRADE NOTES AND ACCOUNTS RECEIVABLE AND INVENTORY TURNOVERS

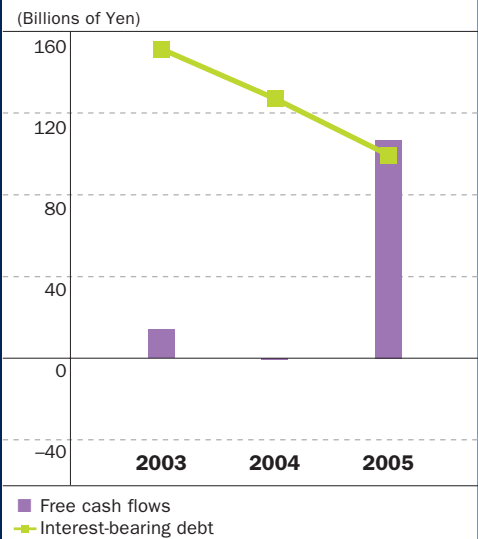
Inventories tend to rise in tandem with sales. However, through extensive measures to maintain sound inventories, in terms of volume and composition, we have worked to hold inventories at a suitable level. Benefits have been dramatic. Inventory turnover, based on shipments, improved from 89 days as of March 31, 2003 to 72 days one year later and 56 days as of March 31, 2005.

To collect receivables associated with product sales faster, we had to devise ways to reduce time needed for final adjustments following the installation of a product. We are making progress by standardizing our equipment and raising quality. At the same time, we are negotiating with customers to shorten payment terms. Trade notes and accounts receivable turnover, on a shipment basis, improved sharply to 114 days as of March 31, 2005 compared with 159 days as of March 31, 2003.

FREE CASH FLOWS GENERATION AND DEBT REDUCTION

Success at holding accounts receivable and inventories to proper levels means that we need less additional working capital when sales rise. Capital expenditures are also kept at the proper level by concentrating these investments mainly on R&D activities and IT infrastructure components that can raise productivity. Together, these actions helped generate more than ¥100 billion in free cash flows in fiscal 2005. This cash was proactively used during the past fiscal year for new product development activities and interest-bearing debt reductions. We achieved negative net debt that gave us virtually debt-free operations.

Free Cash Flows and Interest-bearing Debt



MEETING THE DEMAND FOR INVESTMENTS IN TECHNOLOGY AND NEW PRODUCTS

Our customers need to make semiconductor devices with greater scales of integration, more functions, higher speeds and lower power consumption, all at high volumes and with excellent productivity. At the heart of our ability to meet these demands is our Process Technology Center, which has an environment identical to the wafer fabs of our customers. Here and at other locations, we work with customers from around the world, consortiums, universities and other partners to develop sophisticated technologies. Developing semiconductor manufacturing technology is becoming increasingly sophisticated. By leveraging our technological leadership, we will continue to develop equipment that provides the solutions customers require.

AIMING FOR FURTHER GROWTH

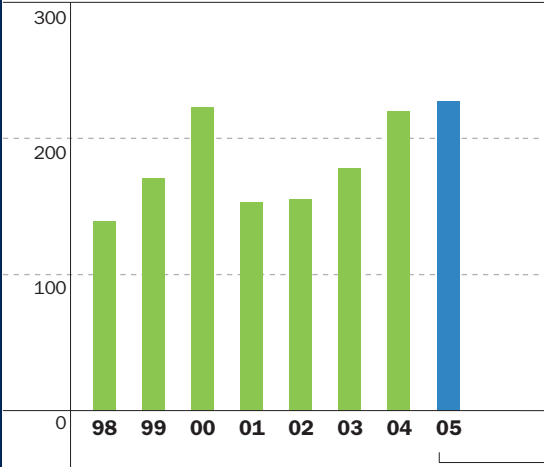
Our primary goal is to attain further growth in corporate value. Following up on structural reforms enacted in recent years, we plan to take initiatives to generate record earnings each time the semiconductor industry reaches a cyclical peak.

SEMICONDUCTOR-RELATED MARKETS STILL HAVE ENORMOUS GROWTH POTENTIAL

Increasing applications for semiconductors are fueling explosive growth in the volume of devices shipped. That translates into substantial demand for manufacturing equipment. At the semiconductor industry's next peak, which is forecast to be around 2008, projections show that markets for semiconductors and production equipment will be about 30% larger than the recent peak.

Worldwide Semiconductor Revenue (Calendar Year)

(Billions of U.S. Dollars)



Source: Gartner Dataquest (April 2005) GJ05220

NEW APPLICATIONS DRIVE DEMAND FOR SEMICONDUCTORS

Growth of the semiconductor market has been driven mainly by the PC. Looking ahead, the market will be backed by a multitude of other applications as well, like mobile devices, automotive electronics and digital consumer electronics.

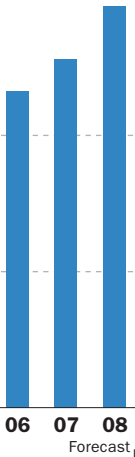
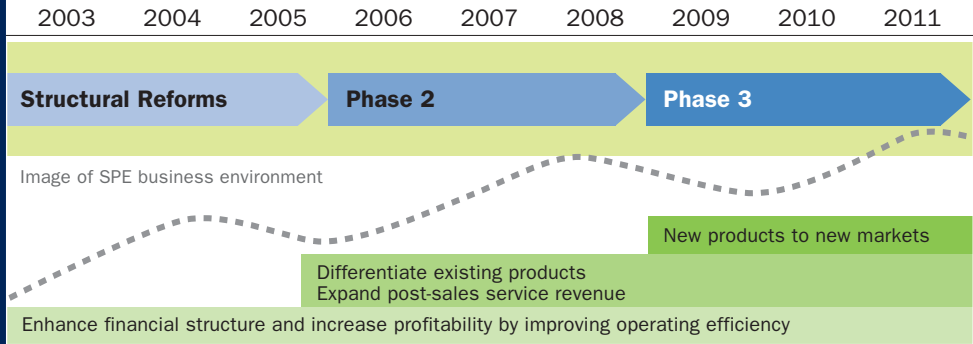
ENVISIONING FURTH BY INNOVATIVE TECH



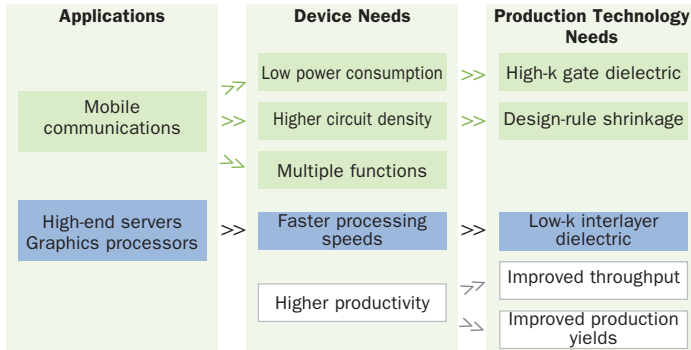
OUR GOAL – RECORD EARNINGS

We continue to concentrate on reducing costs and shortening manufacturing lead times in our ongoing structural reform program. At the same time, we are active in two other areas to lay the groundwork for continued growth. One is becoming more competitive by adding more value to our existing product lineup. The other is expanding after-sales businesses, such as the sale of parts and equipment refurbish. Furthermore, we expect that the results of development projects now under way will contribute to additional earnings growth at the next stage by providing new products to new market sectors.

Scenario to Increase Profitability



Device and Production Equipment Needs

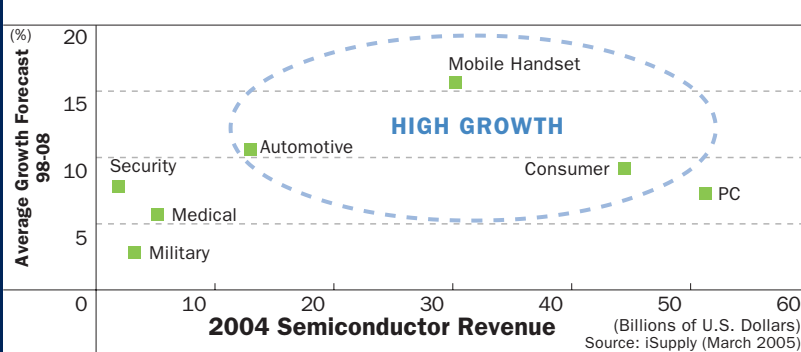


"k" in high-k and low-k refers to the dielectric constant of the insulator

REQUIREMENTS FOR SEMICONDUCTOR TECHNOLOGIES DEMANDED BY END PRODUCTS

Cell phones and other mobile devices need to be lighter and have longer battery lives in order to smoothly handle streaming video and other content in the coming age of digital networks. Networks linking these devices require high-performance servers with massive processing power and data storage capacity. Tokyo Electron is responding by developing sophisticated technologies that precisely target the requirements of end products.

Semiconductor Forecast by Application, 1998-2008 (Calendar Year)



ER GROWTH NOLOGY

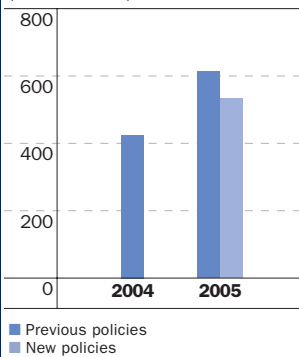
TOKYO ELECTRON AT A GLANCE (BY BUSINESS)

COMPOSITION OF SALES
FOR 2005
(New policies)

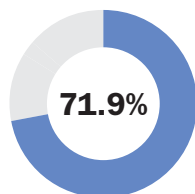
OVERVIEW OF 2005 AND BASIC STRATEGY

INDUSTRIAL ELECTRONIC EQUIPMENT

(Billions of Yen)



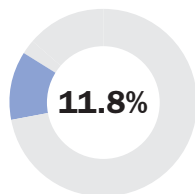
SEMICONDUCTOR PRODUCTION EQUIPMENT



This division offers proprietary products and outstanding products sourced from other companies as well as related services to customers, all of which are closely matched to their needs. In fiscal 2005, Tokyo Electron received a steady stream of orders from manufacturers stemming from demand for system LSIs incorporated in digital consumer electronics and robust demand for memory. Together with the introduction of new products and other factors, this resulted in sales of ¥457.2 billion (based on newly adopted accounting policies).

As the market leader, Tokyo Electron will continue to develop equipment compatible with 65nm and finer design rule processes, as well as bring to market new products embracing new materials and technologies. Tokyo Electron will also continue to set itself apart through the provision of new value, such as by incorporating metrology technology in production equipment.

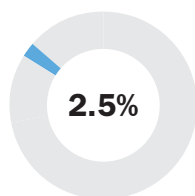
FPD PRODUCTION EQUIPMENT



This business provides products and services drawing on the advanced technological capabilities acquired from the development of semiconductor production equipment. In fiscal 2005, orders were brisk as LCD panel manufacturers moved strategically to increase their supply capabilities to popularize and expand the market for flat-panel TVs. As a result, sales were ¥75.0 billion (based on newly adopted accounting policies).

FPD production equipment will be required to handle increasingly larger glass substrates. Tokyo Electron aims to enhance its market-leading position by working hand in hand with customers on the development of products with long-term growth prospects.

COMPUTER NETWORK

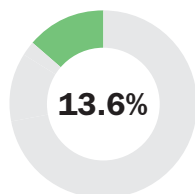
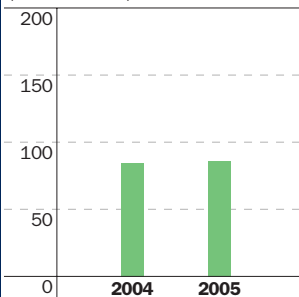


This business provides world-leading products and solutions for the broadband era, such as storage area network (SAN) and Internet-related solutions. In fiscal 2005, efforts were made to expand sales of SAN, network and broadband solutions. Sales were ¥16.0 billion. Sales fell 13.5% from the previous fiscal year.

Undeterred by this performance, the business will work to provide upgraded support services and expand sales of cutting-edge products offering high added-value.

ELECTRONIC COMPONENTS

(Billions of Yen)



Operations in this business are the responsibility of consolidated subsidiary Tokyo Electron Device Limited. This company selects and offers the world's best products from leading suppliers to deliver total solutions for customers' needs. In fiscal 2005, the Electronic Components segment turned in sales of ¥86.2 billion on firm growth of semiconductor products for use in digital consumer electronics. Semiconductor products accounted for around 90% of segment sales. As a result, segment sales rose 2.4% from the previous fiscal year.

Tokyo Electron's goal is to become the leading technology trading company, trusted by customers and suppliers alike. Tokyo Electron's approach, as it strives to achieve this goal, will be to focus on providing thorough technical support for value-added products and to beef up development of own-brand products and contract design services.



Coater/Developer
CLEAN TRACK™ LITHIUS™



Plasma Etch System
Telius™

■ ORIGINAL PRODUCTS

- Coater/Developer
- Spin-on Dielectric Coater/EB Cure
- Mask Coater/Developer
- Plasma Etch System
- Thermal Processing System
- Single Wafer CVD System
- SPA Plasma Processing System
- Auto Wet Station
- Single Wafer Processor
- Wafer Scrubber System
- Wafer Prober
- Dicing Frame Prober
- Integrated Metrology
- ODP (Optical Digital Profilometry)

■ DISTRIBUTED PRODUCTS

- FIB/SEM System (FEI Company)
- Film Metrology Tool
- Yield Management Software (Yield Dynamics, Inc.)
- X-ray Diffraction Measurement Equipment (Bede Scientific Instruments Ltd.)
- Electron-Beam Defect Inspection System (Hermes Microvision Inc.)



FPD Coater/Developer
CL1300



FPD Plasma Etch/Ash System
IMPRESSIO

- FPD Coater/Developer
- FPD Plasma Etch/Ash System



Brocade Communications
Systems, Inc.
Fibre Channel Integrated
Fabric Switch



F5 Networks, Inc.
Local Traffic Manager

■ BUSINESS NETWORK SOLUTIONS

■ SAN SOLUTIONS

■ ENTERPRISE SECURITY SOLUTIONS

■ AEROSPACE PRODUCTS

Computer/Networks

- Advanced Digital Information Corporation (ADIC)
- ALAXALA Networks Corporation
- Brocade Communications Systems, Inc.
- CipherTrust, Inc.
- Data Domain, Inc.
- DataPower Technology, Inc.

- Emulex Corporation
- Extreme Networks, Inc.
- F5 Networks, Inc.
- GoAhead Software Inc.
- Hewlett-Packard Japan, Ltd.
- Hitachi, Ltd.
- Isilon Systems, Inc.
- Juniper Networks, Inc.
- McDATA Corporation
- Meru Networks, Inc.
- nCipher Corporation Ltd.
- NeoScale Systems, Inc.
- TimesTen Performance Software, Inc.
- VERITAS Software Corporation

Aerospace Products

- BAE SYSTEMS
- Conax Florida Corp.
- Scot Inc.
- H. Koch & Sons Corp.
- Irvine Aerospace Inc.
- ITT Aerospace Controls Corp.
- Pacific Cast Technologies
- DIT-MCO International Corp.
- McCormick Selph, Inc.
- Kontron Embedded Technology, Inc.
- Z Microsystems Inc.



Fujitsu Ltd.



Xilinx, Inc.

■ SEMICONDUCTOR PRODUCTS

■ BOARD COMPUTER PRODUCTS

■ SOFTWARE

■ OTHER ELECTRONIC COMPONENTS

- Advanced Micro Devices, Inc.
- Agilent Technologies, Inc.
- Ardence, Inc.
- Cavium Networks, Inc.
- ChaosWare Inc.
- Conexant Systems, Inc.
- Cosel Co., Ltd.
- Digital Electronics Corp.
- Entropic Communications, Inc.
- Emuzed, Inc.
- ERNI Elektroapparate GmbH
- Eudyna Devices Inc.

- Freescale Semiconductor, Inc.
- Fujifilm Microdevices Co., Ltd.
- Fujitsu Ltd.
- Fujitsu Media Devices Ltd.
- Infineon Technologies AG
- Integrated Device Technology, Inc.
- Intel Corp. (Dialogic Product)
- Intersil Corp.
- Kopin Corp.
- Legerity, Inc.
- Linear Technology Corp.
- Metrowerks, Inc.
- Microsoft Corp.
- 3M (Minnesota Mining and Manufacturing Co.)
- Motorola, Inc.
- ON Semiconductor Corp.

- PFU Ltd.
- Phoenix Technologies Ltd.
- Pixelworks, Inc.
- Portwell, Inc.
- Potentia Semiconductor Corp.
- Ramtron International Corp.
- SafeNet, Inc.
- Shinko Electric Industries Co., Ltd.
- Texas Instruments Inc.
- Tokyo Electron Device Ltd.
- Tundra Semiconductor Corp.
- Winchester Electronics
- Woodhead Industries, Inc.
- Xilinx, Inc.
- Zarlink Semiconductor Inc.

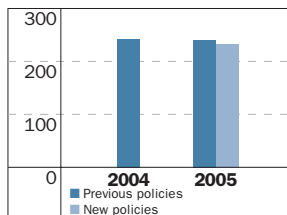
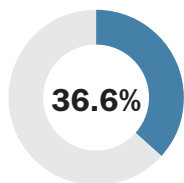
TOKYO ELECTRON AT A GLANCE (BY GEOGRAPHIC REGION)

COMPOSITION OF SALES FOR 2005 (New policies)

SALES (Billions of Yen)

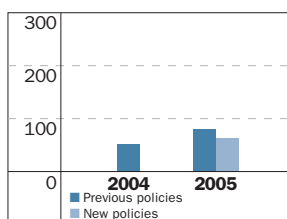
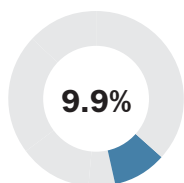
OVERVIEW OF 2005

JAPAN



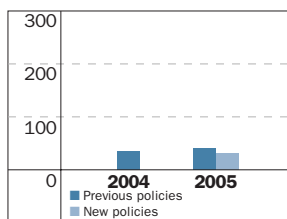
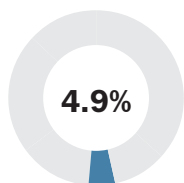
The high level of sales in the previous fiscal year continued in fiscal 2005 thanks to active investment in logic products, system LSIs and memory for digital consumer electronics.

U.S.



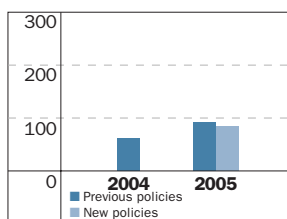
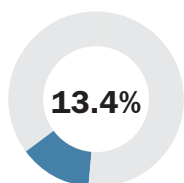
Investments increased in MPU and other logic products, reflecting strategic investments by memory manufacturers and healthy demand for PCs.

EUROPE



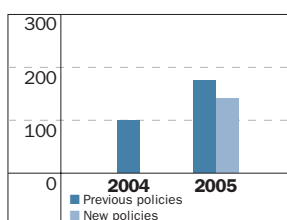
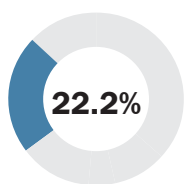
Steady investments were made in logic devices for MPU, onboard automotive, communications and other applications.

SOUTH KOREA



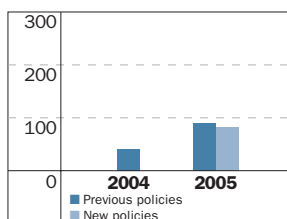
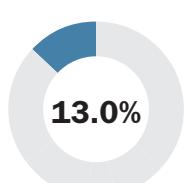
Sales increased sharply, the result of large investments by memory and FPD manufacturers.

TAIWAN



Logic fabs and memory manufacturers made substantial investments. Capital expenditures for FPD manufacturing equipment, particularly for large substrates, were also brisk.

CHINA AND SOUTHEAST ASIA



Supported by broad-based demand for devices, there was a large volume of investments by fabs.

INTELLECTUAL PROPERTY REPORT

Process and mechatronic technologies used in the manufacture of semiconductors and flat panel displays represent Tokyo Electron's core technologies. Tokyo Electron devotes considerable resources to developing technologies that bolster the competitiveness of its products. Without protection of its intellectual property rights, Tokyo Electron would not be able to lay claim to independently developed technologies and products as proprietary assets. It is precisely the integration of our intellectual property strategy with our technological and product strategies that allows Tokyo Electron to realize maximum benefits from development efforts.

With the increasing division of roles between semiconductor manufacturers and SPE suppliers, Tokyo Electron is playing an expanding role that goes beyond the supply of production equipment and embraces processing, multiple process integration and process control technologies. This situation makes protection of intellectual property rights all the more complex. Tokyo Electron places high priority on protecting intellectual property by actively filing for process recipe, software and other patents.

CONTRIBUTION OF LICENSE-RELATED ACTIVITIES

In developing and implementing our intellectual property rights strategy, we do not primarily see intellectual property rights acquired by filing applications and securing rights for proprietary products and development 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. Semiconductor and FPD production technologies are becoming increasingly advanced and sophisticated. 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. Tokyo Electron places high value on introducing cutting-edge technology, on constantly enhancing the efficiency of research and development, and on quickly launching new products. We also respect the intellectual property rights of others, just as we do our own, and effectively use them through licensing.

Tokyo Electron is also exploring the feasibility of licensing or selling its proprietary technology to third parties in other business fields and to cooperating partners.

POLICIES ON ACQUIRING AND MANAGING INTELLECTUAL PROPERTY, MANAGING TRADE SECRETS AND PREVENTING TECHNOLOGY LEAKAGE

Tokyo Electron has a set of internal rules that define the management of its intellectual property. According to these rules, Tokyo Electron provides incentives for inventors and creators within Tokyo Electron. We established awards to honor inventors and creators. We also make lump-sum payments at the time of submission of applications for patents, utility model rights, designs and other property rights. Bonuses are also given as incentives if such creations are implemented at Tokyo Electron or licensed to

third parties. The latter bonuses are scaled to the earnings record of such licenses and other rights.

Based on the Revised Patent Law that came into force in fiscal 2005, Tokyo Electron is working to make its award and bonus systems for creations easier to understand and revising how inventors are rewarded for their contributions. The goal is to bring the system into conformity with the recommendations in "The Case Studies of Procedures Under the New Employee Invention System," published in September 2004 by the Patent Office.

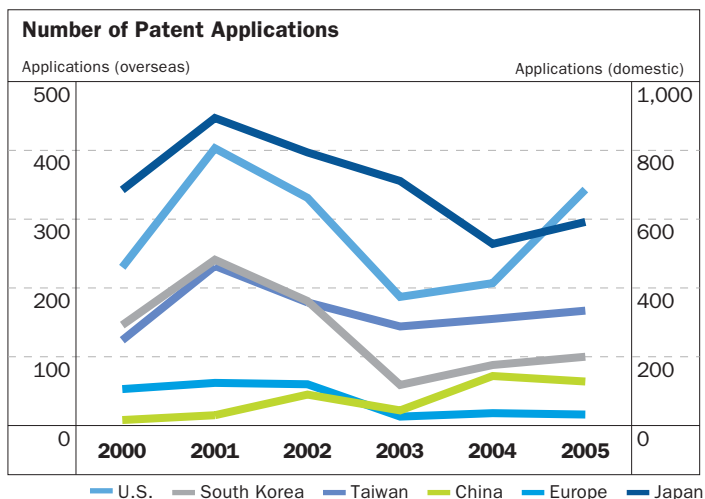
Management of trade secrets is handled according to Tokyo Electron's "Internal Rules on Managing Technology and Marketing Information" and "Manual for Managing Technology and Marketing Information." The provisions of these measures are approximately equivalent to those of the government's "Policies Regarding Managing Trade Secrets" and "Policies Regarding the Prevention of Technology Leakage."

By promoting greater cooperation with the materials and procurement divisions, Tokyo Electron is strengthening measures against pirated technologies at the component level. These initiatives are not limited to operations in Japan alone. They are to be expanded overseas through tie-ups with local law offices in the U.S. and in Asia.

INTELLECTUAL PROPERTY BY MAJOR COUNTRY

The following graph shows historical data on the number of patent applications filed in Japan by Tokyo Electron up to the end of March 2005. With it becoming more difficult to acquire patents in Japan and other countries, Tokyo Electron is reviewing its policy regarding the country of application, including Japan, from the standpoint of key manufacturing bases and the markets of its operating divisions.

In addition to the recent policy of emphasizing filing applications in the U.S., Tokyo Electron will also stress the need to file applications in China, South Korea, Taiwan and other Asian countries.



ENVIRONMENTAL, HEALTH AND SAFETY ACTIVITIES

BASIC POLICY

Tokyo Electron observes socially responsible corporate management as a means to achieve sustained corporate growth and continued social development. Assuring safety in our own facilities and those of our customers and minimizing environmental loads across our activities are the two defining principles of our CSR policy. Tokyo Electron aims to achieve cohesion of environmental protection and safety by investing the required management resources from the equipment development stage onwards.

In 1997, Tokyo Electron adopted environmental management policies based on ISO 14001 that have subsequently acquired ISO certification for our facilities. Tokyo Electron recognizes that making every effort to assure that everyone associated with our business can look forward to a comfortable, healthy and safe life is no less important than the environment. Acting on this, we established the Tokyo Electron Credo and Principles on Environment, Safety and Health in 1998. At Tokyo Electron, we are aware of the importance of the environment, health and safety. We have given them an important place in our statement of management philosophy and actively promote these activities throughout Tokyo Electron.

ENVIRONMENTAL ACTIVITIES

■ Preventing Global Warming

Following ratification of the Kyoto Protocol, companies are being asked to contribute more to prevent global warming.

Carbon dioxide is emitted during the operation of our equipment. It is also emitted by our manufacturing facilities and from the use of energy at our offices. The Life Cycle Assessment (LCA) method we use to quantitatively assess a product's environmental load showed that our products emit relatively high levels of carbon dioxide gas during the operation stage as compared to other stages in their life cycle. We are responding with special environmental measures to reduce such emissions.

■ Promoting Environmentally Friendly Products

We are active in incorporating environmental suggestions from our customers into our products in order to lower environmental loads during the semiconductor manufacturing process and to eliminate use of hazardous substances in the manufacture of our equipment. Particular about environmental loads

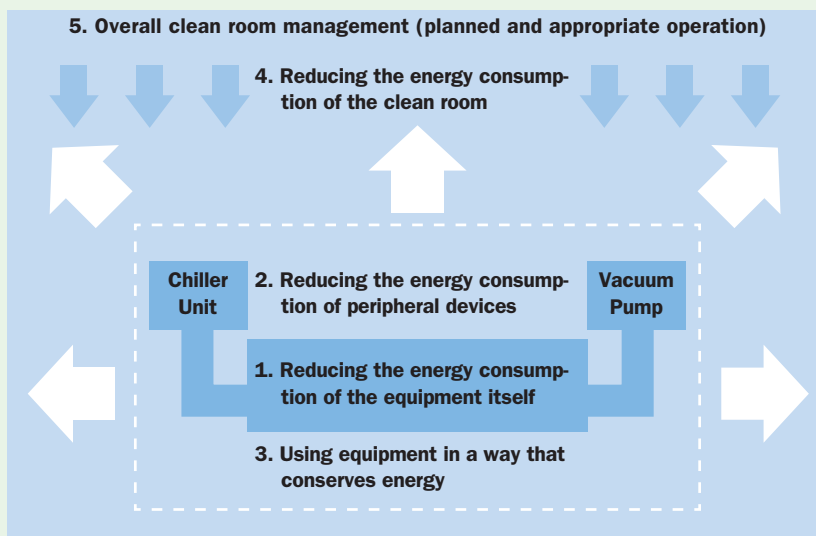
generated during their life cycles, we have compiled quantitative data on such environmental burdens during each stage of a product's life, from manufacturing and use to disposal, and built up a product LCA database. The ability to draw on this information in the design of our products has made us a leading company in our industry in energy conservation.

Since many of our products are manufactured and used in clean rooms, we take an all-inclusive approach that factors in the energy conservation aspect of the entire system, including the equipment and the clean room. The five major approaches taken in this respect are as follows:

1. Reducing the energy consumption of the equipment itself
2. Reducing the energy consumption of peripheral devices
3. Using equipment in a way that conserves energy
4. Reducing the energy consumption of the clean room
5. Overall clean room management (planned and appropriate operation)

Tokyo Electron will implement environmental activities concerning our equipment and operation of clean rooms in cooperation with customers.

Promoting these initiatives directs Tokyo Electron toward the manufacture of energy-efficient equipment and to advising customers on how to use the equipment in a way that minimizes energy consumption.



■ Lead-free Soldering Technology

European Union (EU) directives will ban the use of mercury, cadmium, lead and other hazardous substances in electrical and electronic equipment in Europe after June 2006. Although these directives do not apply to semiconductor manufacturing equipment, Tokyo Electron is voluntarily and systematically manufacturing lead-free products as part of efforts to forestall further pollution.

Tokyo Electron established the Lead-free Task Team, made up of leaders of Tokyo Electron's firms and operating divisions, to develop lead-free soldering technology for the manufacture of our equipment. Plans call for completing preparations for production of equipment using lead-free solder in the year ending March 31, 2006 and starting production in January 2006.

■ Introduction of Environmental Management System

Tokyo Electron's manufacturing facilities have developed and implemented environmental management systems based on ISO 14001 and are now ISO certified. The Tokyo Electron Device Limited Yokohama Office and the Tokyo Electron AT Limited Miyagi Plant became ISO 14001 certified in the year ended March 31, 2005.

■ Energy Conservation Initiatives

Each of our facilities is working to prevent the greenhouse effect by reducing energy use. Energy conservation programs include those to reduce power consumption for lighting and office equipment, and setting air-conditioning temperature targets. Our manufacturing and development facilities systematically shut down equipment during consecutive holiday periods, and implement measures to reduce energy consumption by enhancing operating efficiency.

Tokyo Electron Kyushu Limited's Koshi Plant in February 2005 won the Kyushu Bureau of Economy, Trade and Industry Director's Prize (Electrical Division), which is awarded to manufacturing plants in recognition of notable achievements in energy conservation.



Tokyo Electron Kyushu Limited, Koshi Plant

The Koshi Plant was cited for its energy conservation measures, such as adjusting air circulation in its clean room facilities at night and on holidays and for reducing lighting in its logistics areas.

■ Green Procurement

Almost all of our materials and parts for the manufacturing of semiconductor production equipment are sourced from suppliers. If we are to reduce environmental loads across all of our business activities, components and raw materials must be produced in ways that take the environment into account. In this respect, we are making an effort to conduct procurement based on our Green Procurement Guideline, buying only from those suppliers who are actively making efforts to reduce environmental impacts. In the future, we intend to start procuring materials only from suppliers who meet specific environmental standards.



Green Procurement Guideline

■ Environmental Sustainability Report

Tokyo Electron has been publishing environmental reports since 2000. We believe that it is important to strengthen communication with the public by providing and sharing as much information as possible about our environmental activities. The environmental report for the fiscal year ended March 2005 is to be published in autumn 2005.



Environmental Sustainability Report 2004

■ Safety and Health 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 ensuring safety rules are adhered to with regard to equipment.

The Tokyo Electron Credo and Principles on Environment, Safety and Health clearly state that employees are responsible for being constantly aware of health and safety considerations in each and every business activity. To implement these guidelines, we conduct risk assessments of our shipped products and each assembly and start-up process. Where safety risk is judged to be high, we take systematic steps to reduce it. We are also making efforts to identify and eliminate dangers in our work processes before problems occur.

CORPORATE GOVERNANCE

FUNDAMENTAL POLICY CONCERNING CORPORATE GOVERNANCE

Reflecting the ongoing globalization of management practices, our fundamental policy is to strictly observe standards for corporate ethics and comply with laws and regulations. We are also dedicated to establishing and reinforcing internal control and risk management systems, and to maintaining the transparency and objectivity of our business activities. The primary objective of this policy is to conduct management that prioritizes the creation of corporate value for the benefit of shareholders and all other stakeholders.

MEASURES CONCERNING CORPORATE GOVERNANCE FRAMEWORK

Tokyo Electron regards the strengthening of corporate governance as vital to increasing its corporate value and shareholders' satisfaction. For this purpose, we concentrate on three aspects of corporate governance: 1) ensuring the transparency and soundness of business operations; 2) facilitating quick decision-making and the efficient execution of business operations; and 3) building an effective system for the timely and suitable disclosure of information.

■ The Corporate Governance Framework

Tokyo Electron has a board of directors with twelve members, including two external directors. We have adopted the statutory auditor system, due to our belief that statutory auditors are an effective means of conducting management that reflects the interests of shareholders. Accordingly, we have four statutory auditors, two of whom are from outside the company. In addition, we have separated the roles of the directors and executives who oversee business operations. The compensation of directors is determined by a Compensation Committee that is composed of some of the board of directors. The Nomination Committee, which is composed of three directors other than the president, selects candidates for director for submission to the annual shareholders' meeting and a candidate to be elected as president by the board of directors. Through these measures we are constantly working on improving corporate governance. In April 2003, we adopted the executive officer system to further clarify the roles of the board of directors and executives in charge of business operations. This system facilitates the speedy establishment and execution of business strategies.

■ Internal Controls and Risk Management

All activities at Tokyo Electron are based on adherence to the highest standards of corporate ethics and compliance with laws, regulations and international rules. To accomplish this, a director has been named as Chief Business Ethics Director, to oversee ethics, and ethics standards have been established and measures are taken to see that these standards are strictly observed.

Reflecting the even greater importance we now place on internal control and risk management systems, we have upgraded the internal audit functions of the Global Audit Center. We have also added to the General Affairs Department crisis management functions, such as measures involving business risk and operational risk. This department

is responsible for establishing the necessary internal regulations for managing each category of risk, as well as for activities for training and raising employees' awareness of risk management.

■ Other Corporate Governance Units

Compensation for each of the three representative directors is disclosed in our "Notice of Annual General Meeting of Shareholders." This action is based on our belief that management transparency is vital to conducting shareholder-oriented management. At the annual shareholders' meeting held in June 2002, the term of office for directors was shortened from two years to one. This revision enables us to respond quickly to changes in our business environment as well as to further clarify management accountability.

COMPENSATION FOR DIRECTORS, EXECUTIVE OFFICERS AND STATUTORY AUDITORS

Beginning with the fiscal year that ended in March 2005, retirement allowances were eliminated from the compensation of directors, statutory auditors and executive officers. This action was aimed at achieving further gains in corporate value and management transparency. Along with this revision, a part of the compensation for directors, statutory auditors and executive officers was linked to operating results, with an upper limit of 3% of consolidated net income. As a result, there is now clearly a higher correlation between consolidated net income and the portion of result-linked compensation.

Compensation for directors and statutory auditors

Amount paid to internal directors	¥297 million
Amount paid to external directors	¥7 million
Amount paid to internal statutory auditors	¥46 million
Amount paid to external statutory auditors	¥26 million

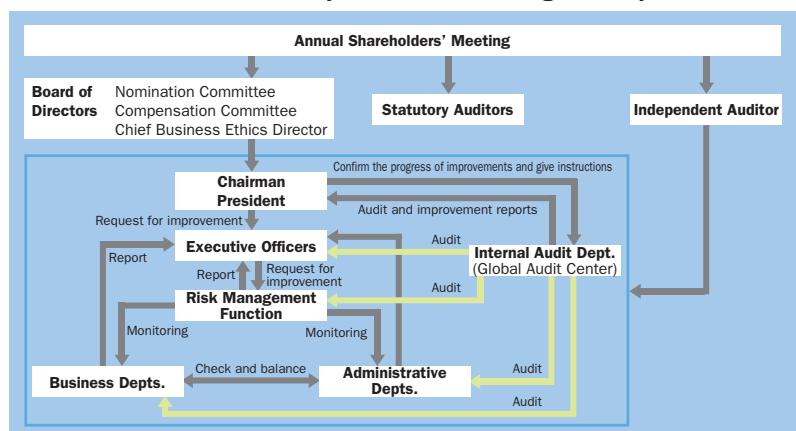
Note: The above amounts do not include annual bonuses and retirement allowances paid to directors.

Compensation for auditing

Amount paid for audit	¥45 million
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Note: The above amount is paid in accordance with an audit contract between the Company and KPMG AZSA & Co.

Diagram of the corporate governance, internal control system and risk management system



BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVE OFFICERS

(AS OF JUNE 24, 2005)

BOARD OF DIRECTORS



TETSURO HIGASHI
Chairman & CEO



TETSUO TSUNEISHI
Vice Chairman of the Board



KIYOSHI SATO
President & COO



MASAO KUBODERA²
Corporate Director



HIROSUKE ISHIBASHI¹
Corporate Director



MAMORU HARA¹
Corporate Director



KENGO KUROIWA²
Corporate Director



YUICHI HONDA³
Corporate Director



KEIICHI FURUGAKI²
Corporate Director



HARUO IWATSU
Corporate Director



YUKIO SUNAHARA¹
Corporate Director/
Chairman, Tokyo
Broadcasting System, Inc.



TOSHIYUKI KONDO
Corporate Director/
Chairman of the Board,
SRL, Inc.

STATUTORY AUDITORS



TAKETOSHI ITOYAMA
Statutory Auditor



TAKEO TANAKA
Statutory Auditor



TOGO TAJIKA
Statutory Auditor



HIROSHI MAEDA
Statutory Auditor/
Nishimura & Partners

Notes:

1. Member of Compensation Committee
2. Member of Nomination Committee
3. Chief Business Ethics Director

EXECUTIVE OFFICERS

Chairman & CEO

TETSURO HIGASHI

President & COO

KIYOSHI SATO

Senior Vice Presidents

MASAO KUBODERA
Technology & Development

HIROKI TAKEBUCHI
Corporate Strategic Planning Dept.

MAKOTO MIZOKUCHI
Business Development & Account
Management
General Manager,
Business Development & Account
Management, Japan

MITSURU ONOZATO
FPD
General Manager, FPD Division

BEN TSAI
Technology

VPs & General Managers

JINZABURO SAKAMOTO
Field Engineering

SATOSHI NAKASHIMA
Manufacturing & IT

YOSHITERU HARADA
Administration

YUTAKA NANASAWA
HR/Finance

HIKARU ITO
Clean Track BU

TAKASHI ITO
Etch Systems BU

HIROSHI TAKENAKA
Thermal Processing Systems BU

KENJI WASHINO
Single Wafer Deposition BU

SYUNRO NAGASAWA
Test Systems BU

YASUYUKI KURIKI
Business Development &
Account Management, Korea

CHIAKI YAMAGUCHI
Business Development &
Account Management, Asia

KIYOSHI SUNOHARA
Business Development & Account
Management, North America & Europe

KATSUYUKI AMANO
Computer Network Division

YOICHI ISHIKAWA
Marketing

SHIGETOSHI HOSAKA
Technology & Development Center/
Development Planning

HIROSHI TOMITA
MEMS Business

*BU: Business Unit

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unless otherwise indicated, financial results referred to in this MD&A refer to fiscal 2005, the year ended March 31, 2005. Percentage comparisons, unless otherwise indicated, refer to year-on-year changes from fiscal 2004.

Sales and Income

Operating Environment

During fiscal 2005, there were concerns that the world economy would slow due to a rise in the prices of raw materials resulting from soaring crude oil prices and other factors. Nevertheless, the U.S. economy showed steady growth, backed by pump-priming measures leading up to the presidential election. In Asia, the Chinese economy continued to grow rapidly, while the South Korean and Taiwanese economies also recorded healthy growth. Meanwhile, the Japanese economy continued to perform strongly as a whole, due chiefly to growth in consumer spending and corporate capital expenditure.

In the electronics industry, the digital consumer electronics market, which includes DVD recorders and flat-panel TVs, remained buoyant, partly as an effect of the Summer Olympic Games in Athens, Greece. In addition, the market was driven by demand for PCs to replace older models, as well as by demand from consumers upgrading their mobile phones to third-generation models. The market for semiconductors, FPD, and other electronic components used in these products also grew steadily as a result. These trends, together with the silicon cycle reaching a peak and other factors, combined to create a favorable business environment for Tokyo Electron.

Changes in Accounting Policies

Effective from fiscal 2005, the Company changed the method for revenue recognition from semiconductor and FPD production equipment from the time of shipment to, in principle, the time of confirmation of set-up and testing of products. This change is intended to more appropriately reflect actual revenue of the Company. There are two reasons for this change. First, lead times from the shipment of products to the confirmation of set-up and testing are becoming markedly longer. Second, revisions to post-shipment business processes have made it possible to provide a complete set of data upon the confirmation of set-up and testing of products.

Also beginning in fiscal 2005, the Company changed how it recognizes after-sale repair expenses incurred during the warranty period for semiconductor and FPD production equipment. In past fiscal years, these expenses were charged to income as incurred. However, effective from the fiscal year ended March 31, 2005, Tokyo Electron provides accrued warranty expenses for estimated expenses calculated on the basis of after-sale repair expenses incurred in the past. This change is intended to make income statements more appropriate by matching after-sales repair expenses with revenues when products are sold. The change was made because a complete set of historical data on these expenses and remaining warranty periods has been compiled and because the after-sale business has gained importance from a customer satisfaction perspective.

Comparison of Consolidated Results Under the New Accounting Policies With Previous Accounting Policies

	Fiscal 2004 Previous Policies	Fiscal 2005 Previous Policies (A)	YoY Change	Fiscal 2005 New Policies (B)	Difference (B-A)
(Millions of Yen)					
Net sales	¥529,654	¥716,666	35.3%	¥635,710	¥-80,956
Industrial electronic equipment	445,425	630,417	41.5%	549,461	-80,956
Semiconductor/FPD production equipment	425,747	613,185	44.0%	532,229	-80,956
Semiconductor production equipment (SPE)	-	516,318	-	457,191	-59,127
FPD production equipment	-	96,867	-	75,038	-21,829
Computer network	18,448	15,966	-13.5%	15,966	0
Other	1,230	1,266	3.0%	1,266	0
Electronic components	84,229	86,249	2.4%	86,249	0
Gross profit	140,155	197,167	40.7%	175,913	-21,254
Selling, general and administrative expenses	117,875	112,007	-5.0%	111,930	-77
Operating income	22,280	85,160	282.2%	63,983	-21,177
Other income (expenses)	-7,344	4,284	-158.3%	-8,208	-12,492
Income before income taxes	14,936	89,444	498.9%	55,775	-33,669

Note: Sales were not disclosed separately for SPE and FPD production equipment until fiscal 2004.

There was no effect on Computer network division and Electronic components segment of changes in accounting policies.

Change to the Classification of Business Segments

Tokyo Electron is engaged in the manufacture and sale of industrial electronic products. Until previous fiscal years, Tokyo Electron's businesses were classified as a single segment based on the sales formation. Effective from the fiscal year ended March 31, 2005, however, Tokyo Electron's businesses have been reclassified into two segments, "Industrial Electronic Equipment" and "Electronic Components," based on the similarities between products and services as well as sales methods.

This change was made to present more appropriately the actual state of Tokyo Electron's businesses following the change in the method of revenue recognition in the "Industrial Electronic Equipment" segment from the time of shipment to the time of the confirmation of set-up and testing of products.

Sales

Consolidated net sales for fiscal 2005 were ¥635.7 billion. Under the previous accounting policies, net sales rose 35.3% to ¥716.7 billion.

Sales of Tokyo Electron's core SPE Division for fiscal 2005 were ¥457.2 billion. Under the previous accounting policies, division sales were ¥516.3 billion. The sales in this division reflected a large volume of orders from semiconductor manufacturers in Japan, South Korea, Taiwan and elsewhere in Asia. This was the result of growth in demand for DRAMs, flash memories and system LSIs for PCs, mobile phones, digital consumer electronics and other access devices in line with the development of communications infrastructure.

Sales of FPD production equipment for fiscal 2005 were ¥75.0 billion. Under the previous accounting policies, sales were ¥96.9

billion. Results reflect strategic actions taken by LCD panel manufacturers to increase their supply capacity to popularize and grow sales of flat-panel TVs through price reductions and mass production.

Sales in the Computer Network Division for fiscal 2005 fell 13.5% to ¥16.0 billion, while sales in the Electronic Components Division rose 2.4% to ¥86.2 billion.

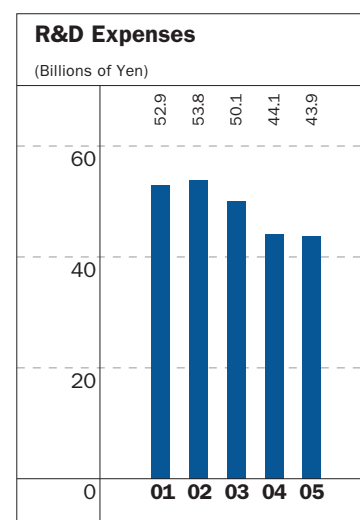
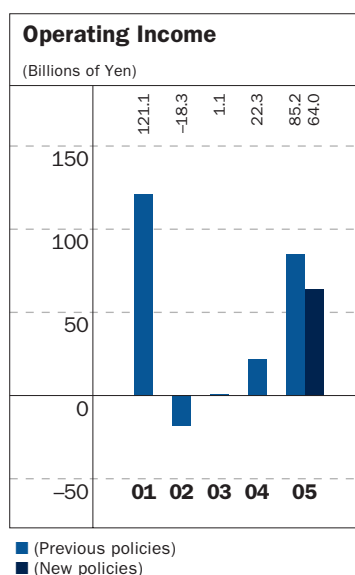
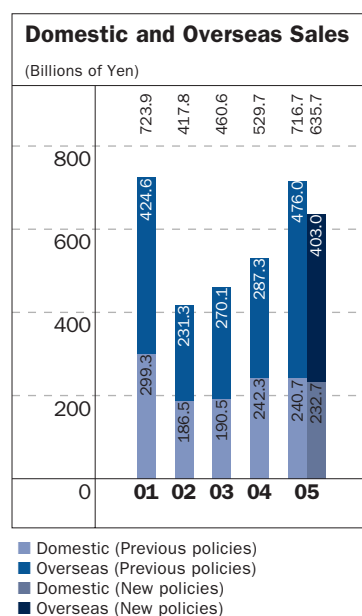
By region, net sales for fiscal 2005 in Japan were ¥232.7 billion. Under the previous accounting policies, sales fell 0.7% to ¥240.7 billion. Overseas sales for fiscal 2005 were ¥403.0 billion and, under the previous accounting policies, rose 65.7% to ¥476.0 billion. Overseas sales for fiscal 2005 accounted for 63.4% of consolidated net sales, up from 54.2% in the previous fiscal year.

Consolidated orders received for fiscal 2005 increased by 3.1% to ¥674.2 billion. Order backlogs as of March 31, 2005 were ¥313.1 billion. Under the previous accounting policies, order backlogs were ¥232.2 billion, down 15.5% year on year.

Cost of Sales, Selling, General and Administrative ("SG&A") Expenses and Operating Income

Cost of sales for fiscal 2005 rose 18.0% to ¥459.8 billion. Gross profit was ¥175.9 billion, representing a gross profit ratio to net sales of 27.7%. Under the previous accounting policies, cost of sales rose 33.4% to ¥519.5 billion, and gross profit increased by 40.7% to ¥197.2 billion. The gross profit ratio was 27.5%. The higher gross profit mainly reflects an increase in net sales and an improved gross profit margin in the SPE Division.

SG&A expenses for fiscal 2005 decreased by 5.0% to ¥111.9 billion, and SG&A expenses to net sales were 17.6%. Under the



previous accounting policies, SG&A expenses decreased 5.0% to ¥112.0 billion, and represented 15.6% of net sales. The main reasons for the decrease in SG&A expenses were a reduction of ¥2.2 billion in personnel expenses as a result of a headcount reduction carried out as part of structural reforms in fiscal 2004, and a ¥2.4 billion decrease in depreciation and amortization due to curbs on capital expenditures. R&D expenses for fiscal 2005 included in general and administrative expenses declined 0.6% to ¥43.9 billion, and represented 6.9% of net sales.

As a result of the above and other factors, operating income for fiscal 2005 was ¥64.0 billion. Under the previous accounting policies, operating income increased by ¥62.9 billion from ¥22.3 billion to ¥85.2 billion.

Other Income and Expenses and Net Income

Net non-operating expenses were ¥8.2 billion, despite Tokyo Electron booking a gain of ¥7.1 billion on return of substitutional portion of employees' pension fund. This mainly reflected losses on business reorganization of ¥2.8 billion, and ¥12.5 billion for accrued warranty expenses for previous fiscal years. As a result, income before income taxes was ¥55.8 billion. Under the previous accounting policies, income before income taxes rose ¥74.5 billion, from ¥14.9 billion to ¥89.4 billion.

Net income for fiscal 2005 dramatically increased to ¥61.6 billion, increasing by ¥53.3 billion from fiscal 2004, reflecting in part a contribution from reversal of valuation allowance on deferred tax assets that amounted to ¥22.0 billion. Net income per share was ¥343.63, compared with ¥46.37 a year earlier. Tokyo Electron increased cash dividends by ¥35.0 per share to ¥45.0 per share; the payout ratio was 13.1% on a consolidated basis and 23.9% on a non-consolidated basis.

Performance by Segment

Industrial Electronic Equipment Segment

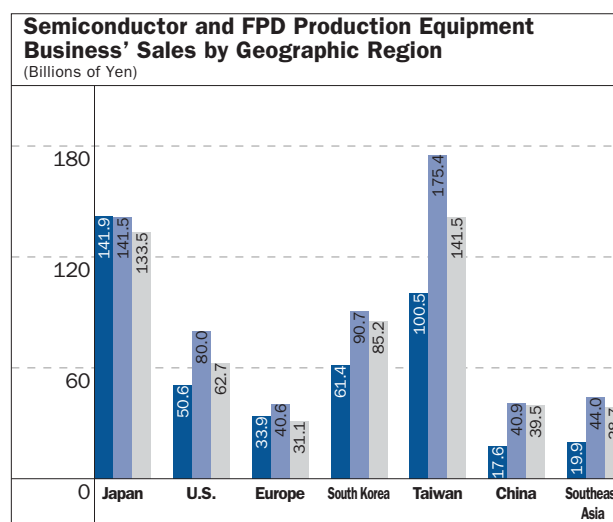
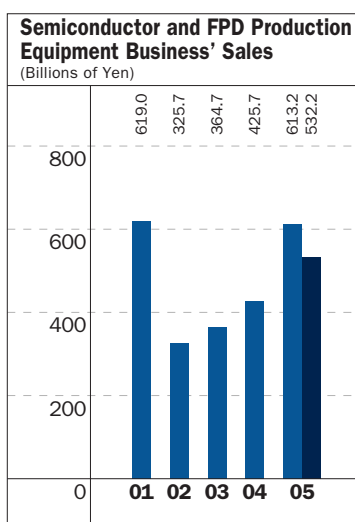
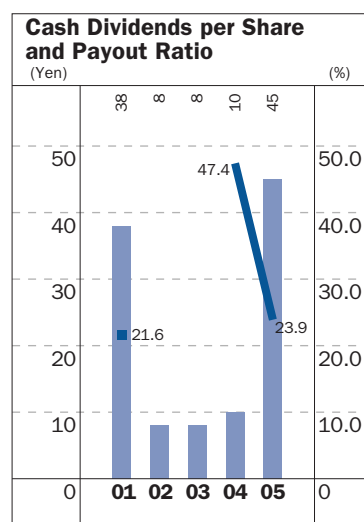
Net sales, including the inter segment sales, for fiscal 2005 were ¥550.5 billion due to strong sales in the mainstay SPE Division. Under the new accounting policies, the gross profit ratio to the segment sales for fiscal 2005 was 29.9%, operating income was ¥60.8 billion and the operating income ratio was 11.0%.

Semiconductor and FPD Production Equipment

Semiconductor Production Equipment

Division sales for fiscal 2005 were ¥457.2 billion. Under the previous accounting policies, division sales were ¥516.3 billion. During the year ended March 31, 2005, Tokyo Electron received a steady stream of orders from Japanese semiconductor manufacturers, who specialize in system LSIs. These products are embedded in digital consumer electronics, one of the driving forces of the current economic recovery. A large number of orders were also received from South Korean and Taiwanese semiconductor manufacturers, who are actively making investments, backed by strong demand for DRAM and flash memory.

In terms of trends by equipment type, sales of all product categories, including coaters/developers, etch systems, thermal processing systems, CVD systems, wafer probers and surface preparation systems, increased as the market for semiconductor production equipment expanded. Tokyo Electron expanded sales of new products, in particular, such as the TELFORMULA™, a thermal processing system, the CLEAN TRACK™ LITHIUS™, a coater/developer compatible with next-generation semiconductor production technology, and the EXPEDIUS, a surface preparation system.



Note: The payout ratio of FY2002 and FY2003 are not indicated due to net loss on a non-consolidated basis.

In terms of wafer diameter, Tokyo Electron focused on 300mm wafers as many semiconductor manufacturers moved to invest in 300mm wafer plants. As a result, sales of these products accounted for around 70% of total sales of semiconductor production equipment.

Orders received in this division for fiscal 2005 were ¥510.5 billion and order backlogs as of March 31, 2005 were ¥236.2 billion. From fiscal 2005, orders received and order backlogs for this business are disclosed on a consolidated basis.

FPD Production Equipment

Sales in this division for fiscal 2005 were ¥75.0 billion. During fiscal 2005, orders were brisk for Tokyo Electron's dry process and photo process systems as LCD panel manufacturers took strategic actions to increase production capacity to popularize flat-panel TVs and expand the market.

Orders received for fiscal 2005 were ¥62.3 billion and order backlogs as of March 31, 2005 were ¥66.8 billion. From fiscal 2005, orders received and order backlogs for this business are disclosed on a consolidated basis.

Computer Network

Division sales for fiscal 2005 declined 13.5% from fiscal 2004 to ¥16.0 billion, despite Tokyo Electron's efforts to increase sales of storage area network ("SAN": high-speed networks that connect external storage systems or storage systems with computers) solutions, network solutions and broadband solutions.

In SAN-related products, which account for 71% of division sales, fibre channel fabric switches and fibre channel host bus adapters, both of which are technological platforms for network

construction, recorded firm growth in sales. During the year, Tokyo Electron bolstered its backup solutions, such as by securing the right to sell ADIC's products and introducing high-compression backup disks and other products. Tokyo Electron also began sales of storage data encryption products in Japan. These moves were made against a backdrop of demand for better data protection. Network security countermeasures are attracting the attention of businesses from the standpoint of preventing the unauthorized disclosure of personal and corporate information.

In network-related products, the website construction business turned in a solid performance, particularly in F5 Networks, Inc's products that facilitate the construction of highly secure websites. The network construction business also made a solid start. This business facilitates secure access through the provision of secure sockets layer-virtual private network products. At the same time, Tokyo Electron made inroads in business to corporations by adding to its lineup CipherTrust, Inc's new products, which block spam and fraudulent e-mail.

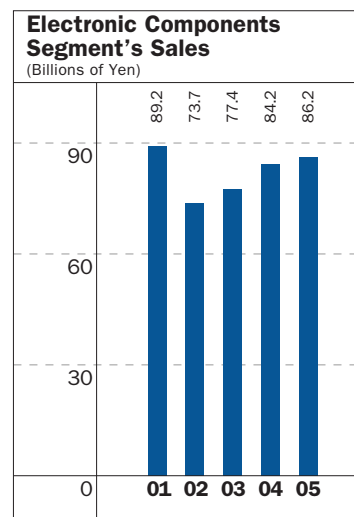
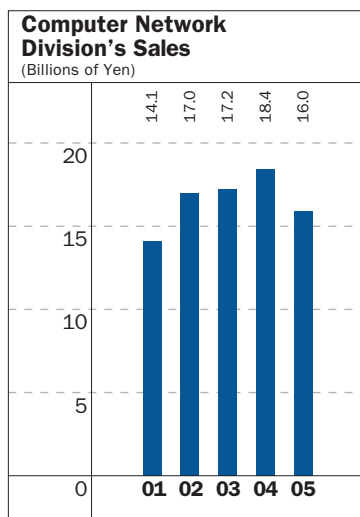
Orders received for fiscal 2005 were ¥16.5 billion, on a par with the previous fiscal year, and order backlogs were ¥4.1 billion, up 13.6% from fiscal 2004.

Others

Sales for fiscal 2005 rose 3.0% to ¥1.3 billion. Orders received for fiscal 2005 were flat at ¥1.3 billion.

Electronic Components Segment

This segment is the responsibility of Tokyo Electron Device Limited, a consolidated subsidiary.



In fiscal 2005, the business concentrated on sales activities that closely targeted customer needs through 16 sales offices nationwide, including three newly established bases in the cities of Kyoto, Hamamatsu and Mishima. Furthermore, Tokyo Electron worked to raise the profile of its proprietary products under the *inrevium* brand by developing ICs, boards, software and other products that reflect market needs. At the same time, efforts were made to expand design services, whereby Tokyo Electron undertakes the design of customized ICs and other products on a contract basis. As a result, net sales in this segment including the inter segment sales for fiscal 2005, which handles semiconductor products, board computer products, software and general electronic components, rose 2.7% to ¥88.1 billion. The gross profit ratio to the segment sales for fiscal 2005 edged down from 13.3% to 13.2%, while operating income was flat at ¥3.1 billion and the operating margin declined from 3.7% to 3.5%.

Segment orders received for fiscal 2005 fell 3.0% from fiscal 2004 to ¥83.6 billion. Order backlogs as of March 31, 2005 were ¥6.1 billion, 30.3% less than the amount as of March 31, 2004.

Sales of semiconductor products for fiscal 2005, which account for 88% of segment sales, rose 2.9% from fiscal 2004. This result reflects firm overall sales of products for digital consumer electronics. Sales of ASICs and other customized ICs for fiscal 2005, which require advanced technological capabilities, grew for use in flat-panel PDP and LCD TVs. Furthermore, sales of dedicated ICs for mobile phones also grew.

Sales of board computer products for fiscal 2005 rose 11.0% from fiscal 2004 on the back of healthy sales of PC motherboards for FA-related equipment and voice processing boards for

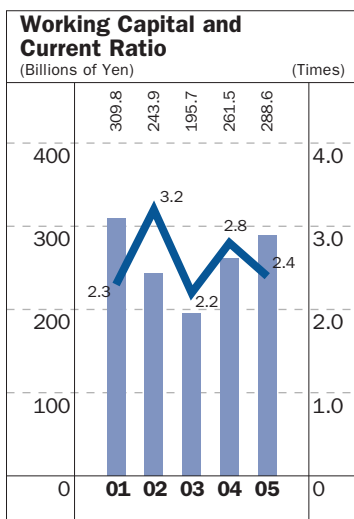
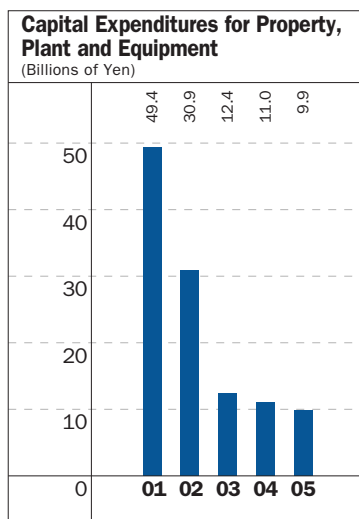
communications equipment. Software sales from fiscal 2004 declined 9.1% from fiscal 2004, despite efforts to expand sales of operating systems and tools for embedded system equipment, particularly POS terminals. Sales of other electronic components declined by 1.6% even as Tokyo Electron worked to expand sales, particularly of switching power supplies, LCDs and panel PCs.

Looking ahead, Tokyo Electron continues to aim to become the leading technology trading company, trusted by customers and suppliers alike. Tokyo Electron's approach, as it strives to achieve this goal, will be to focus on providing thorough technical support for value-added products such as custom ICs and to beef up development of own-brand *inrevium* products and contract design services. In addition, actions will be taken to expand business in the rest of Asia and the Pacific region. One recent development was the start of operations in April 2005 at a subsidiary established in Hong Kong in fiscal 2005.

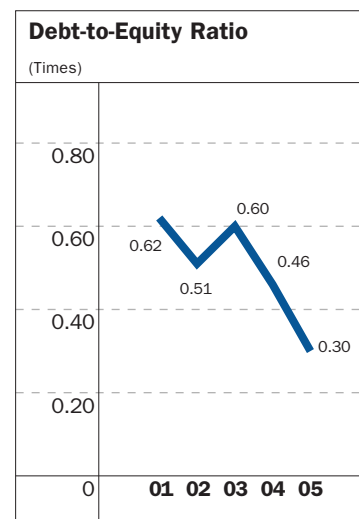
Financial Position and Cash Flows

Financial Position

Current assets as of March 31, 2005 were ¥495.2 billion, ¥92.2 billion higher than the amount as of March 31, 2004. In terms of the major changes, cash and cash equivalents increased ¥72.8 billion due in part to the early collection of trade notes and accounts receivable. Trade notes and accounts receivable improved ¥58.6 billion from March 31, 2004 despite the upward trend in sales. This reflected efforts to collect trade notes and accounts receivable as well as the change in revenue recognition



■ Working Capital
■ Current Ratio



Debt-to-Equity Ratio = Interest-bearing Debt / Shareholders' Equity as of Fiscal Year-end

policies from the time of shipment to the time of confirmation of set-up and testing of products. Furthermore, inventories increased ¥56.3 billion due to the change in revenue recognition policies, although Tokyo Electron saw benefits from measures taken to reduce inventories. Deferred tax assets for fiscal 2005 increased ¥15.3 billion due to the reversal of valuation allowance on deferred tax assets.

Excluding non-trade accounts receivable, trade notes and accounts receivable turnover based on figures at the end of the fiscal year improved from 159 days to 114 days due to the early collection of trade notes and accounts receivable as part of structural reforms and the shortening of the number of days that are required to obtain confirmation of set-up and testing of products at customers fabs. Inventory turnover improved from 72 days to 56 days. Both the trade notes and accounts receivable and inventory turnovers are computed based on net sales at year-end under the previous accounting policies.

Property, plant and equipment as of March 31, 2005 decreased by ¥10.4 billion to ¥98.4 billion, the result mainly of the depreciation of equipment. During fiscal 2005, the Company made an investment of ¥9.9 billion in property, plant and equipment, primarily for the purchase of evaluation equipment.

As a result of the above and other changes, total assets as of March 31, 2005 increased by ¥82.7 billion to ¥644.3 billion.

Current liabilities as of March 31, 2005 rose ¥65.1 billion to ¥206.6 billion. This mainly reflected an increase of ¥30.8 billion in customer advances, mostly due to a change in the accounting policy for revenues recognition, and increases of ¥10.1 billion and ¥10.0 billion in income taxes payable and straight bonds due within one year, respectively. In addition, accrued warranty expenses of

¥13.1 billion were recorded following the change in the accounting policy for after-sale repair.

Non-current liabilities as of March 31, 2005 decreased by ¥39.3 billion to ¥101.1 billion, reflecting factors such as the 9th series of unsecured straight bonds of ¥30.0 billion becoming due within one year.

Shareholders' equity increased ¥56.4 billion to ¥332.2 billion. As a percentage of total assets, shareholders' equity rose 2.5 percentage points from 49.1% to 51.6%. Return on average total shareholders' equity ("ROE") increased by 17.2 percentage points from 3.1% to 20.3%.

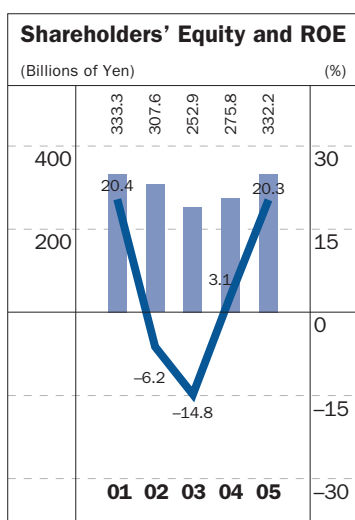
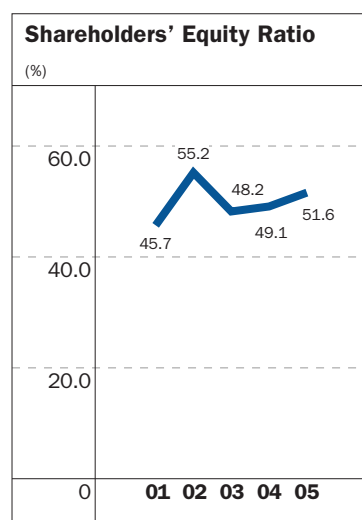
Cash Flows

Net cash provided by operating activities for fiscal 2005 increased sharply from ¥7.9 billion to ¥114.4 billion. This mainly reflected income before income taxes of ¥55.8 billion, depreciation and amortization of ¥21.5 billion and an increase in customer advances of ¥30.8 billion, as well as the benefits of efforts to achieve the early collection of trade notes and accounts receivable and other factors.

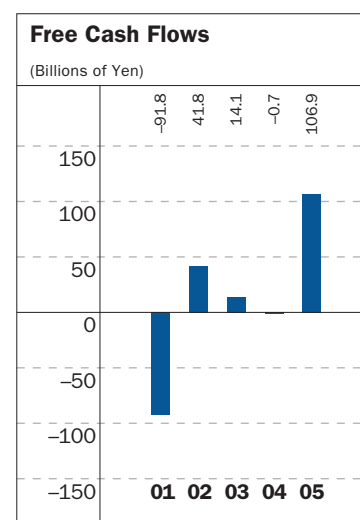
Investing activities used net cash of ¥7.5 billion in fiscal 2005, compared with ¥8.5 billion in fiscal 2004. The main component was outflows of ¥8.7 billion for the acquisition of evaluation equipment.

Financing activities used net cash of ¥34.3 billion in fiscal 2005, compared with ¥10.3 billion in fiscal 2004. This increase mainly reflected the redemption of the 7th series of unsecured corporate bonds of ¥20.0 billion and debt repayments as Tokyo Electron continued to reduce debt, as well as dividends paid.

As a result, cash and cash equivalents as of March 31, 2005 were ¥115.4 billion, ¥72.8 billion higher than the ¥42.7 billion as of March 31, 2004.



■ Shareholders' Equity
■ ROE



Free Cash Flows = Cash Flows From Operating Activities + Cash Flows From Investing Activities

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 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.

(2) 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.

(3) 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, such as 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.

(4) 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.

(5) 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 problems or other problems related to Tokyo Electron's products could adversely affect Tokyo Electron's business performance.

(6) 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.

(7) 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 Tokyo Electron's ability to capture a high market share and generate high profit margins in each of its product fields. However, Tokyo Electron's products incorporate and optimize many of these proprietary cutting-edge technologies. There may be cases, therefore, where by avoiding the use of third-party technologies and intellectual property rights, Tokyo Electron's business performance could be adversely affected.

(8) Other Risks

Tokyo Electron is actively involved in reforming the corporate structure so that it can generate profits even when markets contract. These reforms have entailed creating new high-growth, 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 SIX-YEAR SUMMARY

Tokyo Electron Limited and Subsidiaries

Years ended March 31, 2005, 2004, 2003, 2002, 2001 and 2000

	Thousands of U.S. dollars		Millions of yen				
	2005	2005	2004	2003	2002	2001	2000
Net sales ¹	\$5,919,640	¥635,710	¥529,654	¥460,580	¥417,825	¥723,880	¥440,729
Semiconductor production equipment ² . . .	4,257,291	457,191	425,747	364,689	325,715	619,001	355,103
FPD production equipment ²	698,743	75,038					
Computer network ²	148,677	15,966	18,448	17,193	17,031	14,054	12,357
Electronic components	803,140	86,249	84,229	77,380	73,658	89,211	72,051
Other	11,789	1,266	1,230	1,318	1,421	1,614	1,218
Operating income (loss)	595,800	63,983	22,280	1,119	(18,310)	121,086	35,816
Income (loss) before income taxes	519,373	55,775	14,936	(23,010)	(22,919)	99,132	29,689
Net income (loss)	573,623	61,601	8,297	(41,554)	(19,938)	62,012	19,848
Domestic sales	2,166,661	232,678	242,318	190,513	186,516	299,272	183,987
Overseas sales	3,752,979	403,032	287,336	270,067	231,309	424,608	256,742
Depreciation and amortization	199,856	21,463	24,963	27,374	26,294	21,679	19,446
Capital expenditures	91,967	9,876	11,007	12,359	30,946	49,403	18,999
R&D expenses	408,686	43,889	44,150	50,123	53,827	52,911	37,135
Total assets	5,999,810	644,320	561,632	524,901	556,915	729,511	499,499
Total shareholders' equity	3,093,075	332,165	275,800	252,904	307,579	333,281	273,603
Number of employees		8,864	8,870	10,053	10,171	10,236	8,946
	U.S. dollars		Yen				
Net income (loss) per share of common stock: ³							
Basic	\$ 3.20	¥ 343.63	¥ 46.37	¥ (238.57)	¥ (113.85)	¥ 353.76	¥ 113.53
Diluted ⁴	3.20	343.54	45.78	—	—	344.75	110.64
Cash dividends per share of common stock . .	0.42	45.00	10.00	8.00	8.00	38.00	14.00
Number of shares outstanding (thousands) . . .		180,611	180,611	175,698	175,691	175,691	175,660
Number of shareholders		60,857	60,873	49,259	37,116	42,781	7,147
			Percent				
ROE		20.3	3.1	(14.8)	(6.2)	20.4	7.5
Operating income margin		10.1	4.2	0.2	(4.4)	16.7	8.1
Shareholders' equity ratio		51.6	49.1	48.2	55.2	45.7	54.8
Asset turnover (times)		1.05	0.97	0.85	0.65	1.18	0.96
	U.S. dollars		Thousands of yen				
Net sales per employee	\$ 667,829	¥ 71,718	¥ 59,713	¥ 45,815	¥ 41,080	¥ 70,719	¥ 49,265

1 Until 2004, revenue from Semiconductor and FPD (Flat Panel Display) production equipment had been recognized at the time of shipment. From 2005, such revenue is principally recognized at the time of the confirmation of set-up and testing of products.

2 Until 2004, the FPD division had been included in Semiconductor production equipment. The Computer systems division was renamed the Computer network division as of April 1, 2000.

3 From 2003, the Company applies "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).

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

CONSOLIDATED BALANCE SHEETS

Tokyo Electron Limited and Subsidiaries
March 31, 2005 and 2004

ASSETS

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current assets:			
Cash and cash equivalents	¥115,420	¥ 42,650	\$1,074,775
Trade notes and accounts receivable	172,488	231,045	1,606,179
Allowance for doubtful accounts	(114)	(155)	(1,063)
Inventories	161,489	105,187	1,503,765
Deferred income taxes	18,173	2,943	169,221
Prepaid expenses and other current assets	27,730	21,304	258,221
Total current assets	495,186	402,974	4,611,098
Property, plant and equipment:			
Land	18,351	19,577	170,879
Buildings	111,119	108,718	1,034,722
Machinery and equipment	90,497	92,379	842,697
Construction in progress	1,786	2,552	16,631
Total property, plant and equipment	221,753	223,226	2,064,929
Less: Accumulated depreciation	123,337	114,437	1,148,493
Net property, plant and equipment	98,416	108,789	916,436
Investments and other assets:			
Investment securities	10,381	10,874	96,667
Deferred income taxes	15,313	10,203	142,597
Intangible assets	18,612	21,513	173,308
Other assets	6,412	7,279	59,704
Total investments and other assets	50,718	49,869	472,276
Total assets	¥644,320	¥561,632	\$5,999,810

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current liabilities:			
Short-term borrowings	¥ 976	¥ 6,815	\$ 9,087
Current portion of long-term debt	35,476	21,754	330,344
Trade notes and accounts payable	70,472	78,009	656,228
Customer advances	42,970	12,142	400,135
Income taxes payable	13,357	3,273	124,383
Accrued employees' bonuses	8,645	6,376	80,496
Accrued warranty expenses	13,106	–	122,038
Accrued expenses and other current liabilities	21,609	13,103	201,223
Total current liabilities	206,611	141,472	1,923,934
Long-term debt, less current portion	63,000	98,476	586,647
Accrued pension and severance costs	36,382	38,275	338,778
Other liabilities	1,751	3,662	16,304
Total liabilities	307,744	281,885	2,865,663
Minority interests	4,411	3,947	41,072
Contingent liabilities			
Shareholders' equity:			
Common stock	54,961	54,961	511,791
Authorized: 300,000,000 shares			
Issued: 180,610,911 shares as of March 31, 2005 and 2004			
Capital surplus	78,023	78,023	726,540
Retained earnings	212,094	154,343	1,974,987
Unrealized gains on securities	2,133	2,396	19,859
Foreign currency translation adjustments	997	(720)	9,285
Treasury stock, at cost	(16,043)	(13,203)	(149,387)
2,529,672 and 2,022,343 shares as of			
March 31, 2005 and 2004, respectively			
Total shareholders' equity	332,165	275,800	3,093,075
Total liabilities and shareholders' equity	¥644,320	¥561,632	\$5,999,810

CONSOLIDATED STATEMENTS OF INCOME

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Net sales	¥635,710	¥529,654	\$5,919,640
Cost of sales	459,797	389,499	4,281,568
Gross profit	175,913	140,155	1,638,072
Selling, general and administrative expenses	111,930	117,875	1,042,272
Operating income	63,983	22,280	595,800
Other income (expenses):			
Interest and dividend income	236	200	2,197
Interest expenses	(1,094)	(1,326)	(10,182)
Income from development grants	2,194	113	20,432
Gain on return of substitutional portion of employees' pension fund	7,084	—	65,962
Provision for accrued warranty expenses for previous fiscal years	(12,470)	—	(116,122)
Loss on business reorganization	(2,783)	—	(25,916)
Impairment of investment securities	(573)	(470)	(5,335)
Loss on disposal of property, plant and equipment	(1,388)	(1,257)	(12,925)
Restructuring costs	—	(2,540)	—
Impairment of goodwill	—	(1,933)	—
Other, net	586	(131)	5,462
Income before income taxes	55,775	14,936	519,373
Income taxes:			
Current	15,540	5,108	144,710
Deferred	(21,970)	1,016	(204,582)
Minority interests	604	515	5,622
Net income	¥ 61,601	¥ 8,297	\$ 573,623
Per share of common stock:			
Net income — basic	¥ 343.63	¥ 46.37	\$ 3.20
Net income — diluted	343.54	45.78	3.20
Cash dividends	45.00	10.00	0.42

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Common stock			
Balance at beginning of year	¥ 54,961	¥ 47,223	\$ 511,791
Conversion of convertible bonds	–	7,738	–
Balance at end of year	54,961	54,961	511,791
Capital surplus			
Balance at beginning of year	78,023	70,285	726,540
Conversion of convertible bonds	–	7,738	–
Balance at end of year	78,023	78,023	726,540
Retained earnings			
Balance at beginning of year	154,343	147,465	1,437,217
Net income	61,601	8,297	573,623
Cash dividends	(3,743)	(1,409)	(34,853)
Bonuses to directors	(107)	(10)	(1,000)
Loss on disposal of treasury stocks	–	(0)	–
Balance at end of year	212,094	154,343	1,974,987
Unrealized gains on securities			
Balance at beginning of year	2,396	(59)	22,306
Net changes during the year	(263)	2,455	(2,447)
Balance at end of year	2,133	2,396	19,859
Foreign currency translation adjustments			
Balance at beginning of year	(720)	1,229	(6,703)
Net changes during the year	1,717	(1,949)	15,988
Balance at end of year	997	(720)	9,285
Treasury stock, at cost			
Balance at beginning of year	(13,203)	(13,239)	(122,946)
Purchase	(2,840)	(55)	(26,441)
Resale for stock option plan	–	91	–
Balance at end of year	(16,043)	(13,203)	(149,387)
Total shareholders' equity	¥332,165	¥275,800	\$3,093,075

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes	¥ 55,775	¥14,936	\$ 519,373
Depreciation and amortization	21,463	24,963	199,856
Amortization of goodwill	1,600	1,898	14,900
Increase in accrued pension and severance costs	5,158	1,891	48,031
Interest expenses	1,094	1,333	10,184
Loss on disposal of property, plant and equipment	1,388	1,257	12,925
Gain on return of substitutional portion of employees' pension fund	(7,084)	–	(65,962)
Loss on business reorganization	2,783	–	25,916
Restructuring costs	–	2,540	–
Impairment of goodwill	–	1,933	–
(Increase) decrease in trade notes and accounts receivable	59,115	(61,789)	550,467
Increase in inventories	(59,914)	(5,326)	(557,910)
Increase (decrease) in trade notes and accounts payable	(7,440)	29,154	(69,284)
Increase in customer advances	30,816	10,657	286,953
Increase in accrued employees' bonuses	2,258	2,765	21,032
Increase in accrued warranty expenses	13,106	–	122,038
Other, net	1,482	(3,741)	13,800
Subtotal	121,600	22,471	1,132,319
Receipts from interest and dividends	241	193	2,249
Interest paid	(1,159)	(1,307)	(10,795)
Payment for special retirement benefits	–	(6,513)	–
Payment for business reorganization	(1,558)	–	(14,506)
Income taxes paid	(4,774)	(6,961)	(44,457)
Net cash provided by operating activities	114,350	7,883	1,064,810
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment	(8,680)	(7,530)	(80,822)
Proceeds from sale of property, plant and equipment	3,798	2,391	35,362
Payment for acquisition of intangible assets	(1,780)	(3,200)	(16,577)
Other, net	(788)	(205)	(7,337)
Net cash used in investing activities	(7,450)	(8,544)	(69,374)
Cash flows from financing activities:			
Decrease in short-term borrowings	(5,864)	(1,464)	(54,608)
Decrease in commercial paper	–	(35,000)	–
Repayment of long-term debt	(1,754)	(1,922)	(16,331)
Proceeds from issuance of bonds	–	49,767	–
Redemption of unsecured bonds	(20,000)	(20,005)	(186,237)
(Increase) decrease in treasury stock	(2,840)	35	(26,441)
Dividends paid	(3,743)	(1,409)	(34,853)
Other	(143)	(273)	(1,335)
Net cash used in financing activities	(34,344)	(10,271)	(319,805)
Effect of exchange rate changes on cash and cash equivalents	214	600	1,995
Net increase (decrease) in cash and cash equivalents	72,770	(10,332)	677,626
Cash and cash equivalents at beginning of year	42,650	52,982	397,149
Cash and cash equivalents at end of year	¥115,420	¥ 42,650	\$1,074,775

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 Japanese Securities and Exchange Law 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.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

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, but 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 ¥107.39 to \$1.00, the approximate rate as of March 31, 2005. 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 25 subsidiaries.

The 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 of all entities ends on March 31, except for two foreign subsidiaries, which use a December 31 year-end, and no significant transactions were noted 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.

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

The balance sheet accounts of the 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 the foreign subsidiaries are translated at average rates of exchange in effect during the year. Resulting translation adjustments are presented as a component of shareholders’ equity and minority interests in the consolidated financial statements.

(c) Investment securities

Tokyo Electron is required to examine the intent of holding each security and classify 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 as a component of shareholders’ equity. 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

Inventories other than raw materials are stated principally at cost, which is determined principally by the individual method. Raw materials are stated principally at cost, which is determined principally by the moving-average method.

(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 by the declining balance method, except for buildings acquired subsequent to March 31, 1998 on which depreciation is computed by the straight-line method based on the estimated useful lives of assets. The straight-line method is mainly applied for its foreign subsidiaries 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

For the years ended March 31, 2005 and 2004, the Company and its domestic subsidiaries did not adopt early the new accounting standard for impairment of fixed assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption. The Company and its domestic subsidiaries are currently determining the impact of the adoption of the standard on the consolidated financial statements.

(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 two to five years. Goodwill is evaluated on an individual basis and amortized over a period not exceeding 20 years.

(g) 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.

(h) Accrued pension and severance costs

The Company and its domestic subsidiaries provide an accrual for employees' pension and severance costs based on the projected benefit obligation and pension assets on the account settlement date. Prior service costs are charged to income 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 differences occur. Actuarial differences are charged to income 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 annual provision for accrued pension and severance costs for directors and statutory auditors of the Company and its domestic subsidiaries is also calculated to state the liability at the amount that would be required if all directors and statutory auditors retired at the end of the fiscal year according to internal regulations.

Tokyo Electron has recently announced to revise its executive compensation system. With this revision, Tokyo Electron has abolished the system of accrued pension and severance costs for directors and statutory auditors from the period starting April 2005. Accrued pension and severance costs for directors and statutory auditors as of March 31, 2005 will remain until actually paid out, upon retirement of directors and statutory auditors.

(i) 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 the warranty period are accrued based on the historical ratio of actual repair expenses to corresponding sales.

(j) Leases

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases), except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(k) 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 does not trade in derivatives for speculative purposes.

Derivatives are carried at fair value with changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferred hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(l) Income taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise tax. Tokyo Electron records deferred tax assets and liabilities, which are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(m) Revenue recognition

Revenue from Semiconductor and FPD (Flat Panel Display) production equipment is principally recognized at the time of the 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.

(n) Per share information

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year.

The Company applies "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.

Dividends per share have been presented on an accrual 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.

(o) Research and development expenses

Research and development expenses are charged to income as incurred, and amounted to ¥43,889 million (\$408,686 thousand) and ¥44,150 million for the years ended March 31, 2005 and 2004, respectively.

(p) 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.

(q) 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, 2005. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Changes in Accounting Policies

(a) Revenue recognition

Until the year ended March 31, 2004, revenue from Semiconductor and FPD production equipment was recognized at the time of shipment. Effective from the year ended March 31, 2005, the Company changed its method of revenue recognition in which such equipment sales revenue is principally recognized at the time of the confirmation of set-up and testing of products. This change is intended to reflect the actual situation of revenue more appropriately, corresponding to the fact that the process from the shipment of products to the confirmation of set-up and testing of products has shown a marked tendency to become longer, and review of post-shipment business processes has made it possible to provide a complete set of data upon the confirmation of set-up and testing of products.

The effect of this change was to decrease net sales, operating income and income before income taxes by ¥80,956 million (\$753,852 thousand), ¥20,541 million (\$191,278 thousand) and ¥20,563 million (\$191,479 thousand), respectively, for the year ended March 31, 2005 as compared with the corresponding amounts which would have been recorded if the previous method had been followed.

(b) Accrued warranty expenses

Until the year ended March 31, 2004, after-sale repair expenses incurred during the warranty period for Semiconductor and FPD production equipment were charged to income as incurred. Effective from the year ended March 31, 2005, the Company changed its method to account for after-sale repair expenses by implementing accrued warranty expenses for such equipment, calculated on the basis of after-sale repair expenses incurred in the past. This change is intended to make periodic income more appropriate by matching after-sale repair expenses with revenues when products are sold, with the increased importance on after sale service. A complete set of historical data on actual after-sale repair expenses, as well as remaining warranty period compiled, has made possible the calculation of accrued warranty expenses.

The effect of this change was to decrease operating income and income before income taxes by ¥635 million (\$5,916 thousand) and ¥13,106 million (\$122,038 thousand), respectively, for the year ended March 31, 2005 as compared with the corresponding amounts which would have been recorded if the previous method had been followed. The provision for accrued warranty expenses related to revenues recognized in prior years were recorded as other expense in the accompanying consolidated statement of income for the year ended March 31, 2005.

(c) Business segment

Tokyo Electron is involved in the manufacture and sale of industrial electronic products. In the past, Tokyo Electron's business was classified as a single segment based on its sales method.

Effective from the year ended March 31, 2005, the segment classification was changed and separated into two segments: "industrial electronic equipment" and "electronic components", which were determined based on the types of products and service, as well as sales methods. The new classification of the business segments reflects more appropriately the businesses of Tokyo Electron.

4. Investment Securities

Investment securities, which solely comprises of other securities, as of March 31, 2005 and 2004 are as follows:

2005:	Millions of yen	
	Cost	Carrying value
Securities with market prices		
Equity securities	¥5,484	¥ 9,059
Other	114	115
Securities without market value		
Unlisted stock	1,712	1,184
Other	23	23
Total	¥7,333	¥10,381

2004:	Millions of yen	
	Cost	Carrying value
Securities with market prices		
Equity securities	¥5,405	¥ 9,429
Other	114	116
Securities without market value		
Unlisted stock	1,503	1,328
Other	1	1
Total	¥7,023	¥10,874

2005:	Thousands of U.S. dollars	
	Cost	Carrying value
Securities with market prices		
Equity securities	\$51,073	\$84,354
Other	1,059	1,073
Securities without market value		
Unlisted stock	15,939	11,026
Other	214	214
Total	\$68,285	\$96,667

5. Inventories

Inventories as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished products	¥102,418	¥ 49,759	\$ 953,701
Work in process, raw materials and supplies	59,071	55,428	550,064
Total	¥161,489	¥105,187	\$1,503,765

6. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2005 and 2004.

7. Short-term Borrowings and Long-term Debt

Short-term borrowings are represented by 365-day notes issued by Tokyo Electron to banks and bore interest at the average annual rate of 1.80% and 1.13% as of March 31, 2005 and 2004, respectively.

Long-term debt as of March 31, 2005 and 2004 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
1.39% unsecured bonds due 2004 . . .	¥ -	¥ 20,000	\$ -
1.30% unsecured bonds due 2005 . . .	30,000	30,000	279,356
0.42% unsecured bonds due 2006 . . .	20,000	20,000	186,237
0.72% unsecured bonds due 2008 . . .	30,000	30,000	279,356
1.59% unsecured bonds with warrants due 2006	4,500	4,500	41,903
0.86% unsecured bonds with warrants due 2007	5,500	5,500	51,215
Other loans from banks	8,476	10,230	78,924
Current portion	(35,476)	(21,754)	(330,344)
Total	¥ 63,000	¥ 98,476	\$ 586,647

As of March 31, 2005, Tokyo Electron has unused lines of credit amounting to ¥113,106 million (\$1,053,227 thousand).

The maturities of long-term debt are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
	2005	2005
2006	¥35,476	\$330,344
2007	24,500	228,140
2008	8,500	79,151
2009	30,000	279,356
2010 and thereafter	-	-
Total	¥98,476	\$916,991

8. Accrued Pension and Severance Costs

The Company and its domestic 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. In addition, the majority of the employees of the Company and its domestic subsidiaries are covered by a contributory pension plan, whose benefits are based on length of service and certain other factors. This pension plan includes a substitutional portion representing the government social security welfare pension.

Certain foreign subsidiaries have a noncontributory retirement and severance benefit plan that provides for pension or lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause.

In January 2004, following the enactment of changes to the Japanese Welfare Pension Insurance Law, the Company and its domestic subsidiaries obtained an approval from the Japanese Ministry of Health, Labor and Welfare for exemption from the future benefit obligation with respect to the substitutional portion of the Welfare Pension Insurance Scheme. After obtaining the approval, in January 2005, these companies obtained another approval for separation of the remaining benefit obligation of the substitutional portion that is related to past employees services. The transfer of pension plan assets to the Government is expected in the year ending March 31, 2006.

The Company and its domestic subsidiaries accounted for the transitional provisions in accordance with paragraph 44-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)," and recognized a gain of ¥7,084 million (\$65,962 thousand), upon the receipt of the second approval in January 2005, as "Gain on return on substitutional portion of employees' pension fund" in the consolidated statement of income for the year ended March 31, 2005.

In January 2005, following the approval for separation of the substitutional portion, the Company and its domestic subsidiaries amended the contributory pension plan to a cash balance pension plan. Additionally, the Company and its domestic subsidiaries amended the noncontributory retirement and severance benefit plans. The net effect of these plan amendments was to increase the benefit obligation by ¥3,799 million (\$35,371 thousand), and the resulting prior service cost is amortized over four years.

The funded status of the defined benefit plans, a substantial portion of which consists of domestic benefit plans, as of March 31, 2005 and 2004 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Benefit obligation	¥(59,984)	¥(75,682)	\$(558,559)
Fair value of plan assets	18,388	23,686	171,225
Unrecognized benefit obligation	(41,596)	(51,996)	(387,334)
Unrecognized actuarial difference	1,249	13,929	11,628
Unrecognized prior service cost	4,714	492	43,901
Amount recognized in the consolidated balance sheets (Note)	¥(35,633)	¥(37,575)	\$(331,805)

Note: The annual provision for accrued pension and severance costs for directors and statutory auditors (¥749 million (\$6,972 thousand) in 2005 and ¥700 million in 2004) is not included.

Net pension cost of the plans is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost	¥ 4,724	¥ 5,909	\$ 43,985
Interest cost	1,397	1,733	13,007
Expected return on plan assets	(317)	(206)	(2,948)
Amortization of actuarial difference	4,677	4,034	43,551
Amortization of prior service cost	350	(35)	3,258
Net pension cost	10,831	11,435	100,853
Gain on return of substitutional portion of employees' pension fund	(7,084)	-	(65,962)
Net	¥ 3,747	¥11,435	\$ 34,891

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

	2005	2004
Allocation method of benefit obligation	Straight-line method	
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	1.50%	1.00%
Amortization period of prior service cost	4 years	4 years
Amortization period of actuarial difference	4 years	4 years

9. Income Taxes

Significant components of the deferred tax assets and liabilities of Tokyo Electron as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets			
Accrued pension and severance costs	¥13,469	¥13,470	\$125,426
Elimination of unrealized profit on inventories	6,293	208	58,596
Accrued warranty expenses	5,333	-	49,657
Devaluation of inventories	3,751	3,570	34,927
Accrued employees' bonuses	3,498	2,579	32,573
Depreciation and amortization	2,501	2,963	23,288
Net operating loss carryforwards	2,082	17,735	19,385
Elimination of unrealized profit on fixed assets	1,104	1,286	10,284
Accrued business taxes	1,030	272	9,589
Other	4,690	3,032	43,677
Total gross deferred tax assets	43,751	45,115	407,402
Less valuation allowance	(2,112)	(31,431)	(19,670)
Total deferred tax assets	41,639	13,684	387,732
Deferred tax liabilities			
Prepaid start-up expenses	(2,783)	-	(25,917)
Reserves under Special Taxation Measures Law, etc.	(2,568)	(1,877)	(23,916)
Undistributed earnings of foreign subsidiaries	(2,444)	-	(22,754)
Net unrealized gains on securities	(1,443)	(1,630)	(13,436)
Other	(254)	(264)	(2,362)
Total gross deferred tax liabilities	(9,492)	(3,771)	(88,385)
Net deferred tax assets	¥32,147	¥ 9,913	\$299,347

As of March 31, 2004, management of Tokyo Electron considered that the deferred tax assets of the Company and its certain subsidiaries would not be realizable, and had established valuation allowance of ¥31,431 million. 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. Management considers the scheduled reversal of deferred tax liabilities, future taxable income, tax planning strategies and level of net operating loss carryforwards in making this assessment in accordance with accounting principles generally accepted in Japan. After the utilization of significant portion of net operating loss carryforwards with operating income earned for the year ended March 31, 2005 and the reassessment of future taxable income over the periods in which the net deductible temporary differences are expected to reverse, management believes Tokyo Electron will realize the benefits of these deferred tax assets, net of remaining valuation allowance as of March 31, 2005, and accordingly, has reversed a significant portion of valuation allowance as of March 31, 2005.

The aggregate statutory income tax rate was reduced from the year ended March 31, 2005 due to the revised local tax law. As of March 31, 2004, the Company and its domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40.69% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on April 1, 2004 or later. The effects of the reduction in the tax rate were not material to the consolidated financial statements.

Significant components of the difference between the statutory and effective tax rates for the year ended March 31, 2005 were as follows:

	2005
Statutory tax rate in Japan	40.69%
Adjustments:	
Utilization of net operating loss carryforwards	(27.77)
Change in valuation allowance other than net operating loss carryforwards	(24.79)
Increase in deferred tax liabilities on undistributed earnings of foreign subsidiaries	4.38
Elimination of unrealized profit on inventories	(3.17)
Tax credits, etc.	(2.81)
Others, net	1.94
Effective tax rate	(11.53)

The effective tax rate did not differ by more than 5.0% from the statutory tax rate for the year ended March 31, 2004.

10. Shareholders' Equity

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital, which is included in capital surplus in the accompanying consolidated balance sheets, equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the board of directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal reserve as of March 31, 2005 amounts to ¥5,660 million (\$52,709 thousand), and is included in retained earnings in the accompanying consolidated financial statements.

Cash dividends charged to retained earnings for the years ended March 31, 2005 and 2004 represent dividends paid out during those years. The total amount of legal reserve and additional paid-in capital of the Company has been reached to 25% of common stock, and therefore, the Company is not required to provide legal reserve any more. Provision has not been made in the consolidated financial statements for the dividend for the second half year of ¥30 (\$0.28) per share subsequently proposed by the board of directors and approved by the shareholders' meeting on June 24, 2005, in respect of the year ended March 31, 2005.

The Company issued 4,912,981 shares of common stock for the year ended March 31, 2004 in connection with the conversion of convertible bonds.

Conversion of convertible bonds into common stock has been accounted for in accordance with the provisions of the Japanese Commercial Code by crediting one-half of the conversion price to the common stock account and additional paid-in capital, respectively.

Under the Japanese Commercial Code, the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of the board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

11. Stock-based Compensation

Tokyo Electron has two types of stock-based compensation plans as incentive plans for directors and selected employees. The stock-based compensation plans include stock options ("Stock option plan") and bonds with detachable warrants ("Warrant plan").

Stock option plan

Since the year ended March 31, 1999, the Company's shareholders have approved annual stock option plans for directors and selected employees. The cumulative number of shares authorized up to the year ended March 31, 2003 totaled 1,153,600, with the weighted average exercise price of ¥8,856. Under the stock option plans, 799,700 shares and 978,300 shares were authorized for the years ended March 31, 2005 and 2004, respectively. Options were granted with exercise prices of ¥5,884 (\$54.79) and ¥6,794 for plans approved in August 2004 and 2003, respectively. The options under the plans vest immediately with restriction on exercise up to two years after the date of grant, and have exercise period of eight years from the date of grant.

Warrant plan

In June 2000 and June 2001, the Company issued unsecured bonds with detachable warrants. Upon issuance of the unsecured bonds with detachable warrants, the Company purchased all of the detachable warrants and distributed them to the directors and selected employees. By exercising the warrant, directors and selected employees can purchase the common stock of the Company, the original number of which were 319,829 shares and 572,439 shares at the exercise price of ¥14,070 and ¥9,608 for warrants issued in June 2000 and June 2001, respectively. The warrants vest immediately with restriction on exercise up to two years after the date of grant, and have exercise period of six years from the date of grant. For financial reporting purposes, these transactions were accounted for as an issuance of debt to third parties and separately as the issuance of warrants to directors and selected employees.

As of April 1, 2003, outstanding granted stock options, including the warrant plan, were 1,949,784 shares, with a weighted-average exercise price of ¥9,989. For the year ended March 31, 2004, 287,237 shares of the options were forfeited, and 20,000 shares of the options were exercised. For the year ended March 31, 2005, 67,747 shares of the options were forfeited with no exercise. As of March 31, 2005, outstanding granted stock options, including the warrant plan, were 3,352,800 shares with a weighted-average exercise price of ¥8,045 (\$74.91).

12. Impairment of Goodwill

The impairment of goodwill was recognized as other expenses for the year ended March 31, 2004, due to the devaluation in a subsidiary, Supercritical Systems, Inc.

13. Restructuring Costs

Restructuring costs for the year ended March 31, 2004, represent impairment and disposal of property, plant and equipment and other related costs due to consolidation and closure of operating bases in accordance with the implementation of the business restructuring plan.

14. Leases

Pro forma information of leased property such as 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, 2005 and 2004 is as follows:

Leased assets not recorded in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition cost	¥1,216	¥1,014	\$11,326
Accumulated depreciation	704	412	6,559
Net leased property	¥ 512	¥ 602	\$ 4,767

Future minimum lease payments:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥296	¥176	\$2,757
Due over one year	216	426	2,009
Total	¥512	¥602	\$4,766

Lease payments relating to finance leases accounted for as operating leases amounted to ¥292 million (\$2,716 thousand) and ¥178 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, 2005 and 2004, respectively.

Future minimum lease payments on non-cancelable operating leases:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 514	¥ 721	\$ 4,791
Due over one year	668	700	6,220
Total	¥1,182	¥1,421	\$11,011

15. Contingent Liabilities

Tokyo Electron did not hold any material contingent liabilities as of March 31, 2005.

16. Derivative Financial Instruments

The Company and a domestic subsidiary have entered into forward foreign exchange contracts in order to hedge risks of adverse fluctuations in foreign currency exchange rates associated with export-import transactions, but do not enter into such transactions for speculative purposes. The Company and the domestic subsidiary are exposed to credit risk in the event of nonperformance by the counterparties to the derivative transactions, but any such loss would not be material because the Company and the domestic subsidiary enter into those transactions only with financial institutions with high credit ratings. Execution and management of all derivative transactions are conducted pursuant to the internal management rule for derivatives by the finance division and the effectiveness of derivative transactions is reported on a semiannual basis to the board of directors.

The estimated fair values of the derivative financial instruments as of March 31, 2005 and 2004 are as follows:

		Millions of yen		
		Contract amount	Fair value	Unrealized gains (losses)
2005:				
Sell	U.S. dollars	-	-	-
Buy	U.S. dollars	-	-	-

		Millions of yen		
		Contract amount	Fair value	Unrealized gains (losses)
2004:				
Sell	U.S. dollars	4,594	4,557	36
Buy	U.S. dollars	6,725	6,616	(108)

The contract amounts of the forward foreign exchange contracts presented above exclude those entered into to hedge receivables and payables denominated in foreign currencies which have been translated and are reflected at their corresponding contracted rates in the accompanying consolidated balance sheets. In addition, the disclosure of the fair value for derivatives, which are accounted for as hedges is omitted.

17. Segment Information

Business segment information as of and for the years ended March 31, 2005 and 2004 is as follows:

	Millions of yen				
	Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
2005:					
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	¥549,461	¥86,249	¥635,710	¥ -	¥635,710
(2) Intersegment sales or transfers	1,053	1,831	2,884	(2,884)	-
Total	550,514	88,080	638,594	(2,884)	635,710
Operating expenses	489,724	84,973	574,697	(2,970)	571,727
Operating income	60,790	3,107	63,897	86	63,983
2. Assets, depreciation and amortization expenses and capital expenditure					
Assets	¥609,296	¥35,988	¥645,284	¥ (964)	¥644,320
Depreciation and amortization expenses	22,773	290	23,063	-	23,063
Capital expenditure, including intangible and other assets	12,088	603	12,691	(348)	12,343

Note: 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, computer systems and networks and other
Electronic components	Semiconductor products, boards, software and other electronic components

3. Change in accounting policies

- Effective from the year ended March 31, 2005, Tokyo Electron changed its method of revenue recognition to the confirmation of set-up and testing of products basis. The effect of this change was to decrease net sales and operating income for the industrial electronic equipment segment by ¥80,956 million (\$753,852 thousand) and ¥20,541 million (\$191,278 thousand), respectively, for the year ended March 31, 2005 as compared with the corresponding amounts which would have been recorded if the previous method had been followed. The change did not affect the figures of the electronic components segment.
- Effective from the year ended March 31, 2005, Tokyo Electron changed its method to account for after-sale repair expenses by implementing accrued warranty expenses for Semiconductor and FPD production equipment. The effect of this change was to decrease operating income for the industrial electronic equipment segment by ¥635 million (\$5,916 thousand) for the year ended March 31, 2005 as compared with the corresponding amounts which would have been recorded if the previous method had been followed. The change did not affect the figures of the electronic components segment.

2004:	Millions of yen				
	Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	¥445,425	¥84,229	¥529,654	¥ –	¥529,654
(2) Intersegment sales or transfers	996	1,509	2,505	(2,505)	–
Total	446,421	85,738	532,159	(2,505)	529,654
Operating expenses	427,473	82,556	510,029	(2,655)	507,374
Operating income	18,948	3,182	22,130	150	22,280
2. Assets, depreciation and amortization expenses and capital expenditure					
Assets	¥525,080	¥37,424	¥562,504	¥ (872)	¥561,632
Depreciation and amortization expenses	26,475	385	26,860	–	26,860
Capital expenditure, including intangible and other assets	14,442	208	14,650	–	14,650

2005:	Thousands of U.S. dollars				
	Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	\$5,116,500	\$803,140	\$5,919,640	\$ –	\$5,919,640
(2) Intersegment sales or transfers	9,809	17,047	26,856	(26,856)	–
Total	5,126,309	820,187	5,946,496	(26,856)	5,919,640
Operating expenses	4,560,236	791,258	5,351,494	(27,654)	5,323,840
Operating income	566,073	28,929	595,002	798	595,800
2. Assets, depreciation and amortization expenses and capital expenditure					
Assets	\$5,673,672	\$335,120	\$6,008,792	\$ (8,982)	\$5,999,810
Depreciation and amortization expenses	212,058	2,698	214,756	–	214,756
Capital expenditure, including intangible and other assets	112,566	5,612	118,178	(3,241)	114,937

Domestic and overseas sales for the years ended March 31, 2005 and 2004 are as follows:

Net sales	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Japan	¥232,678	¥242,318	\$2,166,661
Taiwan	141,493	100,458	1,317,563
Korea	85,203	61,412	793,404
Others	176,336	125,466	1,642,012
Total	¥635,710	¥529,654	\$5,919,640

Others comprises primarily of the United States of America, China and European countries.

Total assets and sales outside Japan comprised less than 10% of the consolidated total assets and sales as of and for the years ended March 31, 2005 and 2004. Accordingly, geographical segment information has not been disclosed.

18. Subsequent Event

Grant of stock options under the stock option plans

On May 12, 2005, the Company's board of directors decided to submit a resolution to the shareholders' meeting for approval of the issuance of stock subscription rights to directors and selected employees of Tokyo Electron. This issuance of stock subscription rights is intended to enable the grant of stock options. Two types of stock subscription rights will be issued. For the first right, the maximum number of the options is 90,000 shares with a planned exercise price of ¥1 (\$0.01). For the second right, the maximum number of the options is 120,000 shares for selected employees of foreign subsidiaries, and the exercise price is calculated by multiplying the closing price per share under an ordinary trade of shares on the Tokyo Stock Exchange on the day preceding the grant of the options by 1.05. This grant of stock options was approved at the annual general meeting of the shareholders of the Company on June 24, 2005.

INDEPENDENT AUDITORS' REPORT



To the Board of Directors of
Tokyo Electron Limited:

We have audited the accompanying consolidated balance sheet of Tokyo Electron Limited and subsidiaries as of March 31, 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the year 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 audit. The accompanying consolidated financial statements of Tokyo Electron Limited and subsidiaries as of March 31, 2004 and for the year then ended, were audited by other auditors whose report dated June 22, 2004, expressed an unqualified opinion on those statements, before the reclassifications described in note 2-(q) to the consolidated financial statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2005 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, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As discussed in note 3 to the consolidated financial statements, the Company changed its method of revenue recognition, accrued warranty expenses, and the classification of business segment in the year ended March 31, 2005.

We also audited the reclassifications described in note 2-(q) to the consolidated financial statements that were applied to reclassify the 2004 consolidated financial statements. In our opinion, such reclassifications are appropriate and have been properly applied.

The accompanying consolidated financial statements as of and for the year ended March 31, 2005 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in note 1 to the consolidated financial statements.

KPMG AZSA & CO.

Tokyo, Japan
June 24, 2005

CORPORATE DIRECTORY

(AS OF JULY 1, 2005)

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Osaka Branch: Kyoto, Okayama

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(AS OF MARCH 31, 2005)

Corporate Name:

Tokyo Electron Limited

Established:

November 11, 1963

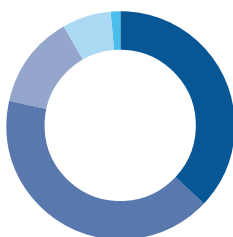
Annual General Meeting of Shareholders:

June

Common Stock:

Stock trading unit	100 shares
Authorized	300,000,000 shares
Issued and outstanding	180,610,911 shares
Number of shareholders	60,857

Distribution of Ownership Among Shareholders:



■ Japanese financial institutions	66,816,880 shares	37.00%
■ Foreign institutions and others	74,864,471 shares	41.45%
■ Individuals and others	23,902,245 shares	13.23%
■ Other Japanese corporations	12,497,643 shares	6.92%
■ Treasury stock	2,529,672 shares	1.40%
■ (Unlabeled)		1.00%

Common Stock Listed on:

The Tokyo Stock Exchange 1st Section (#8035)

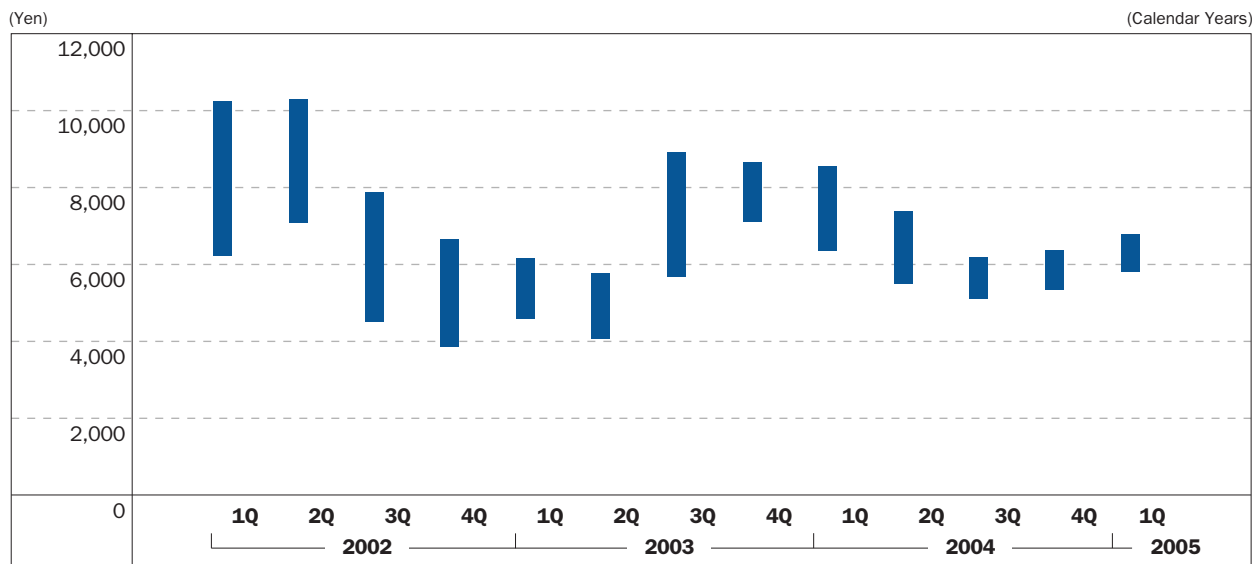
Transfer Agent for Common Stock:

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

For Further Information, Contact:

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Quarterly Stock Price Range:





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