

Consolidated Financial Review for the Year Ended March 31, 2005

Company name:	 TOKYO ELECTRON LIMITED
Headquarters address:	3-6 Akasaka 5-chome, Minato-ku, Tokyo 107-8481 Japan
Telephone number:	(03) 5561-7000
URL:	http://www.tel.com
Stock exchange listing:	Tokyo Stock Exchange 1st Section
Code number:	8035
Representative:	Kiyoshi Sato, President & COO
Person-in-charge	Yukio Saeki, Director, Accounting Department
Board of Directors Meeting:	May 12, 2005
Application of U.S. GAAP:	None

For reference only: The accompanying financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan.

1. Financial highlights for the year ended March 31, 2005 (4/1/04 - 3/31/05)

Note: All figures are rounded down to the nearest million yen.

(1) Operating results

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended 3/31/05	635,710	20.0	63,982	187.2	65,632	210.1
Year ended 3/31/04	529,653	15.0	22,279	-	21,167	-

	Net income		Net income per share	Fully diluted net income per share	Return on equity	Ordinary income to total assets	Ordinary income to net sales
	Millions of yen	%	Yen	Yen	%	%	%
Year ended 3/31/05	61,601	642.4	343.63	343.54	20.3	10.9	10.3
Year ended 3/31/04	8,297	-	46.37	45.78	3.1	3.9	4.0

Notes:

1. Profit/loss on equity method:

Year ended 3/31/05: (351) million yen

Year ended 3/31/04: (132) million yen

2. Average number of shares of common stock (consolidated) issued:

Year ended 3/31/05: 178,252,161 shares

Year ended 3/31/04: 176,629,342 shares

3. Changes in accounting methods: Changed

4. Percentages for net sales, operating income, ordinary income and net income indicated changes from the previous term.

(2) Financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
As of 3/31/05	644,319	332,165	51.6	1,863.28
As of 3/31/04	561,631	275,799	49.1	1,543.73

Note:

Number of shares of common stock (consolidated) issued as of:

March 31, 2005	178,081,239 shares
March 31, 2004	178,588,568 shares

(3) Consolidated cash flow position

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at the end of the period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended 3/31/05	114,349	(7,450)	(34,343)	115,420
Year ended 3/31/04	7,883	(8,544)	(10,270)	42,649

(4) Scope of consolidation and application of equity method

Consolidated subsidiaries:	25 companies
Unconsolidated subsidiaries:	0 company
Affiliates using the equity method:	1 company

(5) Changes in scope of consolidation and application of equity method

Consolidated companies:	Additions: 2 companies	Deletions: 4 companies
Companies using the equity method:	Additions: 0 company	Deletions: 0 company

2. Corporate estimates for the year ending March 31, 2006 (4/1/05 - 3/31/06)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Six months ending 9/30/05	315,000	30,500	18,000
Year ending 3/31/06	610,000	61,000	36,000

For reference: Estimate of net income per share for the year ending March 31, 2006: 202.15 yen

Management Policy

1. Basic Management Policy

The basic management policy of Tokyo Electron Limited (the Company) is to increase its corporate value continuously even in any business environment by working to implement four fundamental management initiatives: (1) a policy of placing customers first; (2) strengthening its product development and technology development capabilities; (3) invigorating its employees; and (4) profit-oriented operations.

Under this policy, the Company intends to promote efforts for creating a powerful, vibrant company with high global competitiveness, high growth, and high profitability, and make its stock attractive to investors.

2. Basic Policies for Allocation of Earnings

The Company's dividend policy is to link dividends to overall results and earnings in providing returns to shareholders. In addition, directors' bonuses also fluctuate according to overall results as part of an overall policy of linking compensation to results and earnings.

Until the year ended March 31, 2005, as a rule, in setting dividends, the Company took into account both consolidated results and a payout ratio of approximately 20% of parent company earnings. As announced on April 19, 2005, the Company has adopted a new policy of basing its dividends on consolidated financial results, taking into consideration the recent trend in which greater emphasis is being placed on consolidated financial results as an indicator for group management. Specifically, the Company's new dividend policy is to keep a payout ratio of 20% based on consolidated net income for the current term, and the company will pay interim and year-end dividends in accordance with the new policy, starting from the year ending March 31, 2006.

To meet the continued support of shareholders, the Company not only makes effective use of internal capital resources to further expand the scope of business through research and development, capital investment and global expansion, but also places priority on sound cash flow management and earnings growth.

3. Basic Policy Concerning Corporate Governance and its Implementation

(1) Basic Policy Concerning Corporate Governance

As its operations have become increasingly globalized, the Company aims to promote management focused on increasing corporate value for shareholders and all other stakeholders.

In order to achieve this goal, the company is making an all-out effort to achieve superior business ethics and strict compliance, put in place internal control systems and risk management systems and strengthen them, and ensure the transparency and objectivity of management.

(2) Implementation of Measures of Corporate Governance

1) Organizational structure for management decision-making, execution and supervision and other corporate governance system

The Company recognizes that it is important to bolster corporate governance to maximize corporate value and enhance shareholder satisfaction and is striving to build a system to ensure:

- (1) Transparency and soundness of management
- (2) Swift decision-making and efficient execution of business
- (3) Timely and appropriate information disclosure

At the Company, the statutory auditor system is currently working effectively. It consists of the board of directors comprised of nine directors, including two outside directors, and the board of statutory auditors comprised of four statutory auditors, including two outside auditors.

From early on, the Company has separated the functions of the board of directors from those of executive body. Within the board of directors, the Company has established the compensation committee, which determines the amount of compensation for the president, and the nomination committee, consisting of three directors excluding the president, which nominate candidates for the post of director to be elected at the general meeting of shareholders and candidates for president to be elected by the board of directors.

Under its management policy that focuses on shareholders interests, the Company considers it is important to improve transparency for shareholders and discloses information on compensation for each of its three representative directors.

At the general meeting of shareholders held in June 2002, a resolution to reduce the term of office of corporate directors from two years to one year was adopted to enable the Company to respond swiftly to changes in the business environment and clarify management responsibilities.

The Company introduced an executive officer system in April 2003 to clarify the roles of the board of directors and those of the executive body, enabling quicker formulation and implementation of strategies.

2) Internal control systems and risk management systems put in place

The Company places top priority on maintaining a high level of corporate ethics and acting in

compliance with international laws and regulations. Based on these principles, the Company has appointed a chief business ethics director and established a code of ethics to thoroughly implement business ethics throughout the Company. Reconfirming the importance of proper internal control and risk management systems, the Company has bolstered the internal auditing functions of the Global Audit Center and established a new section within the General Affairs Dept. that carries out measures for managing business/operations and other risks. In addition, efforts are being made to develop internal regulations required to manage these risks and implement educational and training programs.

3) Internal audits, audits by statutory auditors, and audits of accounting

For internal audits, the Global Audit Center has been set up to expand and improve auditing functions. It carries out audits regarding business operations, compliance, systems, and monitoring quality and standards. Placed under the direct control of the company's president, the Global Audit Center (consisting of 10 individuals) annually performs 41 audits at the Company's domestic and overseas business locations. It implements the Company's internal control system – which involves sharing management policy and the like, communication of various kinds of information, risk assessments, and evaluations of the effectiveness of operations based on the foregoing – and supports continuous improvement at the frontlines of operations as necessary.

The Global Audit Center also reports the results of audits to management every month and holds 18 meetings a year with statutory auditors for information exchange and reporting.

The audits, which are conducted under the direction of statutory auditors, involve attending all of the important meetings – including those of the board of directors and the top management conference – auditing business operations and accounting, evaluating risk management, and other activities, while at the same time involving auditing the performance of duties by corporate directors

The Company has entered into an accounting audit contract with KPMG AZSA & Co. Audits are carried out not only at the end of the fiscal year but also when necessary, and the Company provides various kinds of necessary information and data to ensure that swift and accurate audits are easily implemented. The chart below lists the names of certified public accountants who audited the Company's operations, the auditing firm to which they belong, the number of years they have continuously carried out audits, and the number of audit assistants involved:

Name of certified public accountant	Auditing firm	Number of years of continuous auditing	Number of audit assistants
Shigeru Iwamoto, Partner	KPMG AZSA & Co.	One year	Six certified public accountants Three assistant accountants
Kentaro Onishi, Partner	KPMG AZSA & Co.	One year	Two other employees

4) Compensation for executives and auditing

The compensation for the Company's directors and auditors during the current fiscal year, as well as the compensation paid to the independent auditors for audit certificates, is as follows:

Executive compensation

Total compensation paid to internal directors: 297 million yen

Total compensation paid to outside directors: 7 million yen

Total compensation paid to internal statutory auditors: 46 million yen

Total compensation paid to outside statutory auditors: 26 million yen

Compensation for auditing

Compensation for audit certificates: 45 million yen

(3) Overview of the Personal Relationship, Capital Relationship or Business Relationship between the Company and its Outside Directors and Outside Auditors or any other Interests

Mr. Yukio Sunahara, an outside director, is Chairman of Tokyo Broadcasting System, Inc. (TBS). The Company has signed an office lease agreement with TBS, but the agreement is one of the Company's standard transactions, and the outside director does not have a direct personal interest in the agreement. Mr. Toshiyuki Kondo, an outside director, does not have a business relationship with the Company.

Mr. Fujio Kimura, an outside statutory auditor, does not have any business relationship with the Company. Mr. Hiroshi Maeda, an outside statutory auditor, is an attorney at Nishimura & Partners, and the Company has not concluded a continuous retainer contract with his law office. Therefore, the outside statutory auditors do not have a direct interest in the Company. If it becomes necessary for the Company to entrust legal affairs to the law office, the two organizations will negotiate contractual terms and conditions and conclude individual contracts

with each other as independent parties.

(4) Measures Taken by the Company during the Past Year to Improve Corporate Governance

To further enhance its corporate value and the transparency of management, the Company recently decided to adopt a new policy of linking dividend payments and executive compensation more closely to consolidated financial results from the year ending March 31, 2006.

As described above, the Company's dividend policy has been to link dividend payments to business performance and revenues on an ongoing basis, and its basic policy for returning profits to shareholders has been to maintain a payout ratio of around 20% based on non-consolidated financial results and to determine the amount of the dividends by taking consolidated financial results into consideration. However, considering the recent trend in which greater emphasis is being placed on consolidated financial results as an indicator for group management, the Company has decided to adopt a new dividend policy of maintaining a payout ratio at 20% based on consolidated net income for the current term, starting from the year ending March 31, 2006.

With respect to executive compensation, the Company abolished payment of retirement allowances to corporate directors, statutory auditors, and executive officers at the end of the fiscal year ended March 31, 2005. It also decided to determine the total portion of compensation for corporate directors, statutory auditors, and executive officers by linking this to business performance, with a limit of 3% of consolidated net income, thus clarifying the relation between compensation and business performance and linking executive compensation more closely to consolidated financial results and stock prices.

4. Management Task

The Company has gained a high level of trust from customers and has established a strong reputation as a player in the market by providing the most advanced technology with full technical support for its equipment. It has also contributed to worldwide growth of the semiconductor-related industries as a market leader. In the 21st century semiconductors and the added value they generate will penetrate into all aspects of people's lives, and to make this happen, there will be increasing needs for technological innovation. While the business sector in which the Company operates is expected to achieve dynamic growth in the future, while undergoing repeated changes, it is also anticipated that intensifying competition between companies will widen the gap between the winners and losers.

The Company recognizes that the next several years will be an important period, as described above, and the company has positioned technology development capabilities as a top priority for continuous success in the industry. To advance “acceleration of development” and the “timely launch of new products” even more forcefully, The Company has clearly defined the responsibilities of the development divisions by establishing an independent organization to develop new products and separating it from development lines of existing products. The Company also recognizes the importance of building a financial structure capable of generating high profits to enable further investments in development. In this respect, the Company carried out business structural reforms, including bolstering profitability, maintaining inventories, equipment, and personnel at reasonable levels, and collecting accounts receivable early. As a result, at the end of the fiscal year ended March 31, 2005, the Company posted a substantial surplus in cash flows from operating activities, at 114,349 million yen (106,466 million yen more than at the end of the previous fiscal year). To further reinforce its functions as a manufacturer in the future, the Company will make “quality improvement” a priority goal for its manufacturing subsidiaries, with the aim of increasing customer confidence, and will also work hard to attain the goal of “shortening lead-time in production and developing cost reduction abilities.”

5. Policy Concerning the Reduction in Size of the Stock Trading Unit

As part of its efforts to consider and implement measures to offer individual shareholders greater convenience, the Company reduced the size of its share trading unit from 1,000 shares to 100 shares on August 1, 2000. The Company also made efforts to improve its website, financial reports and the running of the general meeting of shareholders.

The Company believes that it has achieved greater liquidity for its shares as a result.

The Company intends to adopt a careful approach toward making further reductions in the size of the share trading unit, taking into consideration trends in the stock market, financial performance and other factors.

6. Matters Related to the Parent Company

There is no applicable information since the Company has no parent company.

Operating Results

1. Business Environment during the year ended March 31, 2005

During the year ended March 31, 2005, there was a concern that the world economy would slow due to a rise in the prices of raw materials resulting from soaring oil prices and other factors, but the U.S. economy showed steady growth backed by business-stimulating measures taken in conjunction with the presidential election. In terms of Asian economies, China continued to grow rapidly, while the South Korean and Taiwanese economies also remained firm. Overall the Japanese economy continued to perform strongly, due chiefly to growth in consumer spending and capital investments in the private sector.

In the electronics industry, in which the Company operates, the digital home appliance market, particularly DVD recorders and flat-panel TVs, continued to show high levels of activity, partly as a result of the Athens Olympics. In addition, the market was driven by demand for PCs to replace older models, as well as for third-generation mobile phones. Demand was also strong for semiconductors, flat panel displays (FPDs), and other electronic components used in these products, which meant that the "silicon cycle" reached its peak, providing a favorable business environment for the Company.

2. Changes in Accounting Policy

In the past, revenue from semiconductor and FPD production equipment was recognized at the time of shipment, but beginning with the year ended March 31, 2005, such revenue has been recognized at the time of the confirmation of set-up and testing of products. This change is intended to reflect the actual condition of revenue more accurately, because the process from shipment of products to the confirmation of set-up and testing of products has shown a marked tendency to become longer. Post-shipment review of business processes has made it possible to provide a complete set of data upon the confirmation of set-up and testing of products.

Previously, after-sale service expenses incurred during the warranty period for semiconductor and FPD production equipment were reported when such expenses occurred, but beginning with the year ended March 31, 2005, the Company has reported warranty reserves for products, estimated on the basis of after-sale service expenses incurred in the past. This change is intended to make the periodic profit and loss statements more appropriate by taking into account after-sale service expenses when products are sold and is based on a complete set of data of actual after-sale service expenses for previous years.

The following is a comparison of consolidated results during the year ended March 31, 2005 with earlier results using previous standards.

(Millions of Yen)

			Year ended 3/31/2005		Increase (decrease)	(For reference) Year ended 3/31/2004	
			Previous Standard (A)	New Standard (B)	(B)-(A)		
Net Sales	Industrial Electronic Equipment	Semiconductor/ FPD Production Equipment	613,184	532,228	(80,956)	425,747	
		SPE	516,318	457,190	(59,127)		
		FPD	96,866	75,038	(21,828)		
		Computer Network	15,966	15,966	-		18,447
		Other	1,266	1,266	-		1,229
	Total	630,417	549,460	(80,956)	445,424		
	Electronic Components	86,249	86,249	-	84,229		
Total	716,666	635,710	(80,956)	529,653			
Operating Income			85,159	63,982	(21,176)	22,279	
Ordinary Income			86,836	65,632	(21,203)	21,167	
Income before Income Taxes			89,444	55,775	(33,668)	14,935	

3. Sales in the year ended March 31, 2005

In this business environment, consolidated net sales for the current fiscal year increased by 20.0% as compared to the previous fiscal year, to 635,710 million yen. As access equipment, such as PCs, mobile phones, and digital home appliances, offered higher performance with the development of communications infrastructure, semiconductor production equipment, the Company's mainstay product, saw growth in demand for DRAMs, flash memories, and system LSIs, which are incorporated into such devices. Because of this, the Company received many inquiries from semiconductor manufacturers in Japan, South Korea, Taiwan, and other Asian countries, and sales of semiconductor production equipment totaled 457,190 million yen. As manufacturers of LCD panels strategically increased their supply capacity to popularize and grow sales of flat-panel TVs through price reductions and mass production, net sales of FPD production equipment totaled 75,038 million yen. Both the computer network and electronic component divisions remained strong.

By region, net sales in Japan fell by 4.0% compared to the previous year, to 232,677 million yen, while overseas net sales jumped by 40.3% to 403,032 million yen. The percentage of overseas net sales to consolidated net sales rose from 54.2% for the previous fiscal year to 63.4%.

The value of consolidated net orders for the current fiscal year was 674,153 million yen, up by 3.1% over the previous fiscal year, and the backlog of orders at the end of the fiscal year was worth 313,120 million yen, up by 14.0% over a year earlier.

4. Overview of Operations during the Current Fiscal Year by Business Segment

1) Industrial Electronic Equipment Business

Due to strong sales of semiconductor production equipment, the key division in this business segment, net sales for external customers in this segment during the current fiscal year rose by 23.4% as compared to the previous fiscal year, to 549,460 million yen.

<<Semiconductor and FPD production equipment>>

(a) Semiconductor production equipment

The Company received many inquiries from Japanese semiconductor manufacturers, which particularly excel in system LSIs, which are built into digital home appliances. LSIs are one of the major factors driving the current economic recovery, and South Korean and Taiwanese manufacturers of semiconductors are active in making capital investments backed by strong demand for memory chips. Under these conditions, net sales for this division during the current fiscal year totaled 457,190 million yen.

A look at trends by equipment type indicates that as the semiconductor production equipment market expanded, sales of all major product categories, including coater/developers, etching systems, thermal processing systems, CVD systems, wafer probers, and cleaning systems, increased. The Company in particular strove to increase sales of such new products as the TELFORMULA™, a thermal processing system, the CLEAN TRACK™ LITHIUS™, a coater/developer that supports next-generation semiconductor production, and the EXPEDIUS, a cleaning system.

In terms of wafer diameter, as many semiconductor manufacturers moved to invest in 300 mm wafer plants, the Company focused on this area. As a result, the percentage of sales from this area to total net sales for semiconductor production equipment reached approximately 70%.

(b) FPD production equipment

As Asian manufacturers of LCD panels strategically increased their supply capacity to popularize flat-panel TV and expand the flat-panel TV market, the Company also received many inquiries about its dry process systems and photo process systems. Against this backdrop, net sales of FPD production equipment during the current fiscal year totaled 75,038 million yen.

<<Computer network>>

The computer network division strove to increase sales of storage area network (SAN; high-speed network that connects external storage systems or storage systems with computers) solutions, network solutions, and broadband solutions. Net sales of these solutions during the current fiscal year, however, dropped by 13.5% compared to the previous year, to 15,966 million yen.

Among SAN-related products, which account for 71% of the division's total net sales, fiber channel fabric switches and fiber channel host bus adapters, both of which are technological platforms for network construction, saw their sales remain strong. From the viewpoint of preventing the leakage of personal and corporate information, network security measures are attracting the attention of businesses. Against the background of demand for stronger data protection, the Company solidified its backup solutions by obtaining the right to sell ADIC's products and introducing high-compression backup disks and other products, and the company also began sales of storage data encryption products in Japan.

In terms of network-related products, the website construction business continued to be strong, with activity centered on F5's products that enable highly-secure website construction.

The network construction business, which enables secure access to networks through secure sockets layer-virtual private network (SSL-VPN) products, got off to a good start. The Company also added CipherTrust's new products, which block spam and fraudulent e-mail, to its computer network product lineup, thus branching out in corporate business.

<<Others>>

Net sales for the other divisions during the current fiscal year grew by 3.0% compared to the previous fiscal year, to 1,266 million yen.

2) Electronic Components Business (Tokyo Electron Device Limited)

Among semiconductor products, which account for about 90% of this business segment's total net sales, those for digital home appliances remained firm overall. Sales of application-specific ICs (ASICs) and other customized ICs, which require technological prowess, grew especially to meet the needs of flat-panel TV manufacturers. Sales of dedicated ICs for mobile phones also grew. For these and other reasons, net sales for this business during the current fiscal year remained strong.

Among board products, sales of PC motherboards and other boards for FA-related equipment continued to be strong due to increases in capital investments backed by improvements in corporate revenue. Sales of voice processing boards for communications equipment also continued to be strong.

In software, while providing a wide range of technical support, the Company made an effort to increase sales of operating systems and tools equipped with the latest diverse technologies and functions which are targeted mainly at embedded system equipment centered on POS terminals.

The Company also strove to increase sales of general electronic components, with a focus on switching power sources, LCDs, and panel PCs.

As a result, net sales for external customers in this segment during the current fiscal year increased by 2.4% compared to the previous year, to 86,249 million yen.

5. Overview of Profit and Loss

Cost of sales rose by 18.0% over a year earlier, to 459,797 million yen, and gross profit on sales jumped by 25.5%, to 175,912 million yen. As a result, the gross profit margin was 27.7%.

Selling, general and administrative (SG&A) expenses fell by 5.0% from the previous fiscal year, to 111,929 million yen with the ratio of these expenses to net sales decreasing from 22.3% for the previous fiscal year, to 17.6%. The major reasons for the decreases in SG&A expenses were a reduction in salaries and allowances as a result of headcount reduction carried out as part of structural reforms in the previous fiscal year and lower depreciation and amortization due to reduced capital investments.

As a result, operating income, which stood at 22,279 million yen a year earlier, increased by 41,703 million yen, to 63,982 million yen. With non-operating income and non-operating expenses at 4,533 million yen and 2,883 million yen, respectively, ordinary income totaled 65,632 million yen, 44,465 million yen more than the previous fiscal year.

The Company posted an extraordinary loss of 9,857 million yen. This was because the company reported loss from discontinued operations of 2,783 million yen and warranty reserves of 12,470 million yen that corresponded to revenues for previous years, despite posting a profit of 7,083 million yen on the return of substitutional portion of employees' pension fund.

Income before income taxes for the current fiscal year increased by 40,839 million yen as compared to the previous fiscal year, to 55,775 million yen. Due to deferred tax assets reported again, 21,970 million yen in deferred income taxes and other adjustments was reported, and net income totaled 61,601 million yen, 53,304 million yen more than the previous year.

As a result, net income per share was 343.63 yen (46.37 yen in the previous fiscal year).

6. Financial Condition and Cash Flow

(1) Financial Position

Current assets at the end of the fiscal year grew by 92,211 million yen compared to the end of the previous fiscal year, to 495,185 million yen. Major changes include cash and deposits increased by 72,770 million yen due to efforts to collect accounts receivable as promptly as possible. Trade notes and accounts receivable decreased by 58,557 million yen compared to the previous year, despite continuous growth in net sales, mainly due to the effort to collect accounts receivable as quickly as possible and the change of revenue recognition standards from shipment of products to the confirmation of set-up and testing of products.

Inventory assets grew by 56,302 million yen compared to the previous year. This growth was also due to the change of revenue recognition standards.

Tangible fixed assets decreased by 10,372 million yen from the previous fiscal year, to 98,416 million yen. The major reason for this was further depreciation of equipment.

Total assets at the end of the current fiscal year increased by 82,688 million yen as compared to the end of the previous fiscal year, to 644,319 million yen.

Current liabilities grew by 65,139 million yen over a year earlier, to 206,611 million yen. Major changes include increases in advances from customers of 30,828 million yen, accrued income taxes of 10,084 million yen, as well as an increase in corporate bonds worth 10 billion yen due within one year. Another reason is that warranty reserves of 13,105 million yen was reported with the change of accounting for after-sale services as mentioned above.

Fixed liabilities decreased by 39,280 million yen over a year earlier, to 101,132 million yen, mainly because the ninth issue of unsecured corporate bonds, worth 30 billion yen, became due within one year.

Shareholders' equity at the end of the current fiscal year grew by 56,365 million yen compared

with the end of the previous fiscal year. The equity ratio rose by 2.5 percentage points from the 49.1% for the previous fiscal year, to 51.6%.

(2) Cash Flow

Cash flow from operating activities during the current fiscal year was a positive 114,349 million yen, significantly larger than the positive 7,883 million yen during the previous fiscal year. Major positive factors included income before income taxes of 55,775 million yen, depreciation and amortization of 21,462 million yen, and an increase in advances from customers of 30,815 million yen. This result was due to each contributing to a positive cash flow and efforts to collect accounts receivable as quickly as possible and reduce inventories.

Cash flow from investment activities was a negative 7,450 million yen as compared to a negative 8,544 million yen in the previous fiscal year. One major negative factor was the expenditure of 8,679 million yen due for the acquisition of mechanical systems for research and development.

Cash flow from financial activities during the current fiscal year was a negative 34,343 million yen as compared to a negative 10,270 million yen in the previous fiscal year. Major factors included the redemption of the seventh corporate bonds worth 20 billion yen, debt repayments, and dividend payments.

As a result, the balance of cash and cash equivalents at the end of the fiscal year increased by 72,770 million yen to 115,420 million yen as opposed to 42,649 million yen at the end of the previous fiscal year.

The trends in cash flow indicators are shown below.

	Year ended March 31, 2004	Year ended March 31, 2005
Equity ratio (%)	49.1	51.6
Equity ratio at market value (%)	221.0	168.9
Debt redemption period (number of years)	16.1	0.9
Interest coverage ratio	6.03	98.64

Equity ratio: Shareholders' equity / Total assets x 100

Equity ratio at market value: Market capitalization / Total assets x 100

Debt redemption period: Interest-bearing debt / Cash flow from operating activities

Interest coverage ratio: Cash flow from operating activities / Interest expenses

- * All indices are calculated using figures on a consolidated basis.
- * Market capitalization is calculated based on the following formula: Closing stock price at fiscal year-end x Number of shares outstanding at fiscal year-end.
- * Cash flow from operating activities corresponds to the cash flow from operating activities in the consolidated statement of cash flows. Interest-bearing debt includes all liabilities for which the Company is paying interest among the liabilities reported on the consolidated balance sheet. Interest expenses correspond to the interest paid in the consolidated statement of cash flows.

7. Projected Allocation of Profit

Based on basic policies for allocation of earnings, cash dividends for the year ended March 31, 2005, have been planned, taking into consideration the outcome of the fiscal year and policies emphasizing shareholders. It is planned to propose a year-end dividend of 30 yen per share (in addition to interim dividend of 15 yen, total cash dividends for the year ended March 31, 2005 has increased 35 yen compared with the previous fiscal year) in the 42nd general meeting of shareholders to be held in June 2005. As a result, the dividend payout ratio is 23.9% of parent company earnings.

With the fiscal year's operating results, it is also planned to propose a total of 204 million yen as bonuses for board members at the general meeting of shareholders.

8. Trends in the Fourth Quarter

Looking at consolidated results for the fourth quarter, net sales came to 206,101 million yen, up by 10.2% compared with the same quarter of the previous year and up by 37.9% compared with the previous quarter. Ordinary income came to 27,237 million yen, up by 19.7% compared with the same quarter of the previous fiscal year and the net income for the year to 46,927 million yen, up by 205.7% compared with the same quarter of the previous fiscal year.

By division, consolidated sales came to 177,833 million yen (up 13.3% year-on-year) in the Semiconductor/FPD Production Equipment division, 5,486 million yen (down 8.4% year-on-year) in the Computer Network division and 22,432 million yen (down 5.3% year-on-year) in the Electronic Components division.

(For reference)

Consolidated

(Millions of yen)

	Six months ended September 30, 2004	Third Quarter	Fourth Quarter	Year ended March 31, 2005
Net Sales	280,199	149,409	206,101	635,710
Industrial Electronic Equipment	235,062	130,729	183,669	549,460
Semiconductor/ FPD Production Equipment	227,078	127,316	177,833	532,228
SPE	206,063	102,050	149,076	457,190
Japan	59,471	20,496	32,486	112,454
U.S.	19,054	13,973	29,697	62,725
Europe	11,744	9,207	10,175	31,127
Korea	25,561	12,513	32,976	71,051
Taiwan	44,183	33,046	33,416	110,646
China	20,643	6,914	3,110	30,668
S.E. Asia	25,405	5,897	7,212	38,516
FPD	21,014	25,266	28,757	75,038
Computer Network	7,357	3,123	5,486	15,966
Other	627	289	349	1,266
Electronic Components	45,136	18,679	22,432	86,249
Ordinary income	20,984	17,410	27,237	65,632
Net income	1,272	13,401	46,927	61,601

9. Projected Operating Results for the Next Fiscal Year ending March 31, 2006

(1) Overall Projected Operating Results for the Next Fiscal Year

For the next fiscal year ending March 2006, in the short term, the conditions of the semiconductor-related market cannot be taken lightly in some aspects. In the medium term, however, demand for semiconductors is expected to grow steadily, and capital investment in semiconductor-related plants and equipment are also anticipated to increase. In addition, since the second half of last year, there have been signs of production and inventory adjustments for semiconductors, electronic components and other products being completed in a short period of time. There have also been moves among some semiconductor manufacturers to strategically accelerate capital investment. Given these circumstances, the Company will continue to work for greater operational efficiency and cost reductions to increase profitability. Financial forecasts for the next fiscal year are as follows:

Consolidated forecast (Billions of Yen, Y/Y change)

			Interim		Full year	
Net Sales	Industrial Electronic Equipment	Semiconductor/ FPD Production Equipment	266.5	17.4%	507.5	-4.6%
		SPE	225.0	9.2%	435.0	-4.9%
		FPD	41.5	97.5%	72.5	-3.4%
		Computer Network	8.5	15.5%	18.0	12.7%
		Other	0.5	-20.3%	1.0	-21.0%
		Total	275.5	17.2%	526.5	-4.2%
	Electronic Components	39.5	-12.5%	83.5	-3.2%	
Total		315.0	12.4%	610.0	-4.0%	
Ordinary income			30.5	45.3%	61.0	-7.1%
Net income			18.0	-	36.0	-41.6%

Non-consolidated forecast (Billions of Yen, Y/Y change)

		Interim		Full year	
Net Sales	Semiconductor/FPD Production Equipment	261.5	17.9%	492.0	-5.5%
	SPE	220.0	9.5%	419.5	-5.9%
	FPD	41.5	98.8%	72.5	-3.1%
	Computer Network	8.5	15.5%	18.0	12.7%
	Total	270.0	17.8%	510.0	-5.0%
Ordinary income		14.0	15.3%	29.0	-12.7%
Net income		8.5	-	17.5	-48.2%

(2) Profit Distribution Forecast

Based on the financial forecasts described above, the Company plans to pay total cash

dividends of 42 yen per share for the year ending March 31, 2006, comprising interim and year-end dividend of 21 yen per share. As a result, the dividend payout ratio will be 20.8% of consolidated net income.

10. Business-related and Other Risks

The following are possible risks that may have an impact on the Company's operating results, stock prices, or financial position.

(1) Impact of Fluctuating Foreign Exchange Rates

By succeeding in actively developing overseas operations, the Company has increased the proportion of its overseas sales. As a rule, the Company carries out export transactions on a yen-basis in order to avert exchange-related risks, but there are some exports involving foreign currency. In these cases, the Company employs an exchange risk hedge, such as a forward exchange contract at the time an order is placed. However, since for overseas customers, exchange-related risks can arise from fluctuations in prices due to drastic exchange fluctuations, this may have an indirectly negative impact on the Company's performance.

(2) Impact from Research and Development

The Company has created cutting-edge technologies through its ongoing implementation of proactive R&D investment and activities, including miniaturization, vacuum, plasma, thermal-processing, coating/developing, cleaning, wafer-transfer, and clean technologies. By promptly introducing new products on the market that are equipped with these technologies, the Company has successfully obtained a large market share in each of the product fields, along with a high profit margin. However, the possibility does exist that the ill-timed introduction of new products may have a negative impact on the Company's performance.

(3) Impact from Changes in the Semiconductor Market

The Company has been able to achieve a high profit margin by concentrating resources in the high-tech field, including semiconductor production equipment, where technologies undergo rapid change and the Company is able to display its strength. The semiconductor market may enjoy broad growth through technological change, while on the other hand, the size of the market may temporarily contract due to an imbalance of supply and demand. Therefore, the Company has been actively involved in business structural reforms to be able to generate profit even when such rapid changes take place. However, the possibility does exist that business results will be negatively impacted by an unexpectedly broad contraction in the size of the market, resulting in order write-offs, excess capacity and personnel, or increased inventories.

(4) Impact from Transactions Concentrated on Particular Customers

The Company has been successful in expanding its business transactions with the world's leading semiconductor manufacturers both inside and outside of Japan by providing products equipped with superior, cutting-edge technology and offering a service system with high customer satisfaction. However, since the Company's net sales may at times be temporarily concentrated on particular customers due to the timing of large-scale capital investments by major semiconductor manufacturers, there is the possibility of a negative impact on business results from intensified sales competition.

(5) Safety-related impact

The Company always carries out operations, including development, manufacturing, sales, services, and administration, with the necessity of paying attention to safety and health in mind. In accordance with this basic principle, the Company is making an active and continued effort to improve the safety of its products and eliminate any harmful impact on health. If damage were to be caused to customers or orders were to be canceled, or some other unexpected event were to occur due to a problem arising from the safety of the Company's products or other causes, it would likely adversely affect the performance of the Company

(6) Impact from Quality Issues

The Company has been proactively developing superior, cutting-edge technologies utilized in new products that are promptly introduced onto the market, while at the same time establishing a quality assurance system, including obtaining ISO 9001 certification. The Company has also worked to establish a world-class service system, and this has resulted in a large number of customers adopting our products. However, because of the cutting-edge nature of our technologies, in addition to other factors, many of the technologies developed are in unknown fields, and the possibility exists that business results may be negatively affected by the unforeseen appearance of defective products.

(7) Impact of Intellectual Property Rights

In order for the Company to set its products apart from rival products and enhance its competitive strength, the Company has promoted an R&D strategy for the prompt development of cutting-edge technologies, together with business and intellectual property strategies. This has made it possible for the Company to obtain many of its own proprietary technologies, thereby successfully ensuring a large market share and high profit margin in each product field. However, partly because the Company's products use many of the consolidated and optimized cutting-edge technologies, there may be cases where a negative impact on business results

arises from avoiding the use of third-party technologies and intellectual property rights.

(8) Other Risks

The Company has been active in creating new high-growth and high-revenue businesses, pursuing even higher revenue in existing businesses, and improving its structure so that it can earn profits even as the market shrinks. It has also worked to promote environmental protection activities and restructure its compliance and risk management systems. However, to the extent that the Company performs its operations, it is subject - just like other companies in the same or different industries - to the impact from factors that include the global or local economic environment, natural disasters, wars, terrorism, unavoidable incidents (such as infectious diseases), financial or stock markets, government regulation, provision systems of suppliers, market conditions for products and real estate, securing of personnel domestically or overseas, competition over standardization, loss of important personnel, etc., and thus it can be assumed that the Company's business performance will be negatively affected at times by such factors.

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

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

Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2005		As of March 31, 2004		Increase (Decrease)	
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount	(%)
(Assets)	644,319	100.0	561,631	100.0	82,688	14.7
Current Assets	495,185	76.9	402,974	71.8	92,211	22.9
Cash and time deposits	115,420		42,649			
Trade notes and accounts receivable	172,487		231,044			
Inventories	161,489		105,186			
Deferred tax assets	18,172		2,943			
Others	27,730		21,303			
Allowance for doubtful accounts	(114)		(154)			
Long-term Assets	149,133	23.1	158,657	28.2	(9,523)	(6.0)
Tangible fixed assets	98,416	15.2	108,788	19.4	(10,372)	(9.5)
Buildings & structures	51,044		53,741			
Machinery & carriers	20,737		25,350			
Tools, furniture & fixtures	6,497		7,567			
Land	18,350		19,577			
Construction in progress	1,786		2,552			
Intangible fixed assets	18,611	2.9	21,512	3.8	(2,900)	(13.5)
Consolidating adjustments	9,600		11,200			
Others	9,010		10,311			
Investments and other assets	32,106	5.0	28,356	5.0	3,749	13.2
Investment securities	10,381		10,873			
Deferred tax assets	15,313		10,203			
Others	6,779		7,590			
Allowance for doubtful accounts	(367)		(311)			
Total Assets	644,319	100.0	561,631	100.0	82,688	14.7

Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2005		As of March 31, 2004		Increase (Decrease)	
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount	(%)
(Liabilities)	307,743	47.7	281,885	50.2	25,858	9.2
Current liabilities	206,611	32.0	141,472	25.2	65,139	46.0
Trade notes and accounts payable	58,229		65,419			
Short-term borrowings	6,451		8,569			
Bonds due within 1 year	30,000		20,000			
Accrued income taxes	13,357		3,272			
Advance from customer	42,970		12,141			
Allowance for employees' bonuses	8,644		6,376			
Warranty reserves	13,105		-			
Others	33,852		25,692			
Long-term liabilities	101,132	15.7	140,412	25.0	(39,280)	(28.0)
Straight bonds	60,000		90,000			
Long-term loans	3,000		8,475			
Allowance for retirement and severance benefits	35,632		37,575			
Allowance for retirement and severance benefits for directors	748		700			
Others	1,750		3,661			
(Minority interest)	4,410	0.7	3,946	0.7	463	11.8
(Shareholders' equity)	332,165	51.6	275,799	49.1	56,365	20.4
Common stock	54,961	8.5	54,961	9.8	-	
Capital surplus	78,023	12.1	78,023	13.9	-	
Retained earnings	212,093	32.9	154,342	27.5	57,751	
Revaluation of investment in securities	2,132	0.4	2,395	0.4	(262)	
Foreign currency translation adjustment	997	0.2	(719)	(0.1)	1,716	
Treasury stock, at cost	(16,042)	(2.5)	(13,203)	(2.4)	(2,839)	
Total liabilities, minority interest and shareholders' equity	644,319	100.0	561,631	100.0	82,688	14.7

Consolidated Statement of Income

(Millions of yen)

	Year ended March 31, 2005		Year ended March 31, 2004		Increase (decrease)	
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	(%)
Net sales	635,710	100.0	529,653	100.0	106,056	20.0
Cost of sales	459,797	72.3	389,498	73.5	70,298	18.0
Gross profit	175,912	27.7	140,155	26.5	35,757	25.5
Selling, general & administrative expenses	111,929	17.6	117,875	22.3	(5,945)	(5.0)
Operating income	63,982	10.1	22,279	4.2	41,703	187.2
Non-operating income						
Interest income	188		158			
Dividend income	47		41			
Rent revenue	498		779			
Revenue from development grants	2,194		113			
Others	1,604		1,566			
Non-operating expenses						
Interest expenses	1,093		1,326			
Rent expenses	310		436			
Foreign currency translation loss	722		531			
Loss on equity method	351		132			
Others	405		1,344			
Ordinary income	65,632	10.3	21,167	4.0	44,465	210.1
Unusual or infrequent profit						
Reversal of allowance for doubtful accounts	32		226			
Gain on sale of fixed assets	584		404			
Gain on return of substitutional portion of employees' pension fund	7,083		-			
Others	75		0			
Unusual or infrequent loss						
Loss on proceeds or disposal of fixed assets	1,469		1,298			
Warranty reserves for previous fiscal years	12,470		-			
Loss from discontinued operations	2,783		-			
Restructuring costs	-		2,540			
Impairment of consolidated good will	-		1,933			
Others	911		1,091			
Income before income taxes	55,775	8.8	14,935	2.8	40,839	273.4
Provision for income taxes and enterprise taxes	15,540	2.5	5,107	0.9	10,433	204.3
Deferred income taxes	(21,970)	(3.5)	1,015	0.2	(22,985)	-
Minority interest	603	0.1	515	0.1	88	17.2
Net income	61,601	9.7	8,297	1.6	53,304	642.4

Consolidated Statement of Retained Earnings

(Millions of yen)

	Year ended March 31, 2005	Year ended March 31, 2004	Increase (Decrease)
	Amount	Amount	Amount
(Capital surplus)			
Capital surplus at the beginning of the period	78,023	70,285	7,737
Increase in capital surplus	-	7,737	(7,737)
Conversion of convertible bonds	-	7,737	(7,737)
Capital surplus at the end of the period	78,023	78,023	-
(Retained earnings)			
Retained earnings at the beginning of the period	154,342	147,464	6,877
Increase in retained earnings	61,601	8,297	53,304
Net income	61,601	8,297	53,304
Decrease in retained earnings	3,850	1,419	2,430
Cash dividends	3,742	1,409	2,333
Bonuses to directors and statutory auditors	107	10	96
Loss on disposal of treasury stocks	-	0	(0)
Retained earnings at the end of the period	212,093	154,342	57,751

Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2005	Year ended March 31, 2004	Increase (Decrease)
	Amount	Amount	Amount
I Cash flow from operating activities			
Income before income taxes	55,775	14,935	40,839
Depreciation and amortization	21,462	24,962	(3,500)
Amortization of consolidating adjustments	1,600	1,897	(297)
Increase in allowance for retirement and severance benefits (decrease)	5,109	2,264	2,844
Increase in allowance for retirement and severance benefits for directors (decrease)	48	(374)	422
Increase in allowance for doubtful accounts (decrease)	9	(302)	311
Increase in allowance for employees' bonuses (decrease)	2,258	2,764	(506)
Increase in warranty reserves (decrease)	13,105	-	13,105
Interest and dividend revenue	(235)	(200)	(35)
Interest expenses	1,093	1,332	(239)
Foreign currency translation loss (gain)	260	369	(109)
Loss (gain) on sale of fixed assets	(503)	(363)	(139)
Loss on disposal of fixed assets	1,388	1,257	130
Gain on return of substitutional portion of employees' pension fund	(7,083)	-	(7,083)
Loss from discontinued operations	2,783	-	2,783
Temporary impairment of consolidating adjustments	-	1,933	(1,933)
Restructuring costs	-	2,540	(2,540)
Decrease in trade notes and accounts receivable (increase)	59,114	(61,789)	120,903
Decrease in inventories (increase)	(59,914)	(5,326)	(54,587)
Increase in accounts payable (decrease)	(7,440)	29,153	(36,594)
Decrease in prepaid consumption tax (increase)	(6,926)	333	(7,260)
Increase in advance from customer (decrease)	30,815	10,656	20,159
Others	8,878	(3,577)	12,455
Subtotal	121,599	22,471	99,128
Receipts from interest and dividends	241	192	48
Interest paid	(1,159)	(1,306)	147
Payment for special retirement benefits	-	(6,513)	6,513
Payment for discontinued operations	(1,557)	-	(1,557)
Income taxes paid	(4,774)	(6,960)	2,186
Net cash generated by operating activities	114,349	7,883	106,466
II Cash flow from investing activities			
Payment for purchase of tangible fixed assets	(8,679)	(7,530)	(1,149)
Proceeds from sale of tangible fixed assets	3,797	2,391	1,406
Payment for acquisition of intangible fixed assets	(1,780)	(3,200)	1,420
Loans to third parties	(700)	(460)	(240)
Collection of loans	810	84	725
Others	(897)	170	(1,067)
Net cash used in investing activities	(7,450)	(8,544)	1,094
III Cash flow from financing activities			
Net increase in short-term borrowings (decrease)	(5,864)	(1,464)	(4,400)
Net increase in commercial paper (decrease)	-	(35,000)	35,000
Repayment of long-term debt	(1,753)	(1,922)	168
Proceeds from issuance of bonds	-	49,767	(49,767)
Redemption of straight bonds	(20,000)	(20,005)	5
Net decrease in treasury stock (increase)	(2,839)	35	(2,874)
Dividends paid	(3,742)	(1,409)	(2,333)
Others	(143)	(272)	129
Net cash generated by financing activities	(34,343)	(10,270)	(24,073)
IV Foreign currency translation difference in cash and cash equivalents	214	599	(385)
V Net increase in cash and cash equivalents (decrease)	72,770	(10,332)	83,102
VI Cash and cash equivalents at the beginning of the period	42,649	52,982	(10,332)
VII Cash and cash equivalents at the end of the period	115,420	42,649	72,770

Note: Figures in parentheses in the consolidated statement of cash flows represent outflows of cash and cash equivalents.

Segment Information

Information by business segment

(Millions of yen)

Year ended March 31, 2005					
	Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	549,460	86,249	635,710	-	635,710
(2) Intersegment sales or transfers	1,053	1,830	2,884	(2,884)	-
Total	550,514	88,079	638,594	(2,884)	635,710
Operating expenses	489,723	84,973	574,696	(2,969)	571,727
Operating income	60,790	3,106	63,897	85	63,982
2. Assets, depreciation expenses and capital expenditure					
Assets	609,295	35,988	645,284	(964)	644,319
Depreciation expensed	22,772	289	23,062	-	23,062
Capital expenditure	12,088	602	12,691	(348)	12,343

Note: 1. Method of classifying businesses: Businesses are classified after considering similarities in type of product, function, or method of sale.

2. Major products in each business segment:

Business segment	Major products
Industrial electronic equipment	Semiconductor production equipment, FPD production equipment, computer systems and networks, other
Electronic components	Semiconductor products, boards, software, other electronic components

3. Changes in method of accounting procedures

(1) Changes in method for revenue recognition

The standards for recognizing the company's revenue have changed, beginning with the year ended March 31, 2005, from shipment of products to confirmation of set-up and testing of products.

Considering this change, net sales and operating income for industrial electronic equipment business decreased by 80,956 million yen and 20,541 million yen, respectively, compared to figures based on the previous standards. The change did not affect the electronic components business.

(2) Warranty reserves

Beginning with the year ended March 31, 2005, we have reported warranty reserves for products estimated on the basis of expenses incurred in the past.

Considering this change, operating income for industrial electronic equipment business decreased by 635 million yen compared to figures based on the previous method. The change did not affect the electronic components business.

4. Changes in method of classifying businesses

The Company is involved in the manufacture and sale of industrial electronic products. In the past, the Company's business was classified as a single segment based on its sales format. Beginning with the year ended March 31, 2005, however, the segment was given two classifications: "industrial electronics equipment" and "electronic components" after considering the similarities between types of products and service and sales methods. Because of the significant increase in the length of time between shipment and confirmation of set-up and testing of products, the standard for revenue recognition for the industrial electronics equipment business, beginning with the year ended March 31, 2005, were changed from shipment of products to confirmation of set-up and testing of products. These steps were taken to more reliably reflect the actual situation of the Company. If segment information of the year ended March 31, 2004 were classified according to the business segment method used in this financial review for the year ended March 31, 2005, it would appear as follows:

(Millions of yen)

Year ended March 31, 2004					
	Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	445,424	84,229	529,653	-	529,653
(2) Intersegment sales or transfers	996	1,509	2,505	(2,505)	-
Total	446,421	85,738	532,159	(2,505)	529,653
Operating expenses	427,473	82,556	510,029	(2,655)	507,374
Operating income	18,947	3,182	22,129	150	22,279
2. Assets, depreciation expenses and capital expenditure					
Assets	525,079	37,424	562,503	(872)	561,631
Depreciation expensed	26,475	385	26,860	-	26,860
Capital expenditure	14,441	208	14,649	-	14,649