

Consolidated Interim Financial Review for the Six Months Ended September 30, 2005

Company name:	 TOKYO ELECTRON LIMITED
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Telephone number:	(03) 5561-7000
Stock exchange listing:	Tokyo Stock Exchange 1st Section
Code number:	8035
Company representative:	Kiyoshi Sato, President & COO
Person-in-charge:	Yukio Saeki, Director, Accounting Department
Interim Board of Directors Meeting:	November 9, 2005
Application of U.S. GAAP:	None

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

1. Financial highlights for the six months ended September 30, 2005 (4/1/05- 9/30/05)

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	%
Six months ended 9/30/05	333,138	18.9	36,242	78.8	36,754	75.1
Six months ended 9/30/04	280,199	26.5	20,275	-	20,984	-
Year ended 3/31/05	635,710		63,982		65,632	

	Net income		Net income per share	Fully diluted net income per share
	Millions of yen	(%)	Yen	Yen
Six months ended 9/30/05	23,978	-	134.64	134.58
Six months ended 9/30/04	1,272	-	7.13	7.13
Year ended 3/31/05	61,601		343.63	343.54

Notes:

- Profit/loss on equity method:

Six months ended 9/30/05:	-186 million yen
Six months ended 9/30/04:	-139 million yen
Year ended 3/31/05:	-351 million yen
- Average number of shares of common stock (consolidated) issued:

Six months ended 9/30/05:	178,096,861 shares
Six months ended 9/30/04:	178,420,803 shares
Year ended 3/31/05:	178,252,161 shares
- Changes in accounting methods: None
- Percentages for net sales, operating income, ordinary income and net income indicate 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 9/30/05	604,260	352,811	58.4	1,980.53
As of 9/30/04	579,885	273,285	47.1	1,534.56
Year ended 3/31/05	644,319	332,165	51.6	1,863.28

Note:

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

September 30, 2005	178,139,876 shares
September 30, 2004	178,086,447 shares
March 31, 2005	178,081,239 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
Six months ended 9/30/05	53,483	(6,349)	(35,877)	126,222
Six months ended 9/30/04	32,960	(4,257)	(28,245)	42,939
Year ended 3/31/05	114,349	(7,450)	(34,343)	115,420

(4) Scope of consolidation and application of equity method

Consolidated subsidiaries:	25 companies
Unconsolidated subsidiaries:	None
Affiliates using the equity method:	1 company

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

Consolidated companies:	Additions: 1 companies	Deletions: 1 companies
Companies using the equity method:	Additions: None	Deletions: None

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
Year ending 3/31/06	650,000	69,000	44,000

For reference: Estimate of net income per share for the year ending March 31, 2006: 247.00 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 dividend policy of the Company has been to link dividend payments to business performance and revenue on an ongoing basis. Also, the Company's basic policy for returning profits to shareholders is to maintain a payout ratio of around 20% based on consolidated net income for the current term. In addition, as a link in tying its executive compensation system to business performance and revenue, its basic approach in paying bonuses to executives is to pay cash compensation based on business performance.

To expand the Company's business scope, internal capital reserves are used effectively for research and development, capital investment, and global business expansion. Priority is also placed on sound cash flow management and earnings growth in order to respond to the warm support the Company's shareholders provide.

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 twelve 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 chairman & CEO and the president & COO, and the nomination committee, 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, both committees consist of three directors excluding the chairman & CEO and the president & COO.

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 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, and 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 9 individuals) annually performs 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 meetings 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.

(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. Togo Tajika, 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 him. 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. Management Task

The Company has gained a high level of trust from customers and has established a strong reputation 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 in the previous fiscal year (FY2005).

In the future, in order to further strengthen its functions as a manufacturer, the Company will have its manufacturing subsidiaries set activities as priority goals that will continually enhance product quality. In terms of strategies for medium-term growth, the Company will strengthen the profitability of its existing businesses and create and nurture new businesses.

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 Period of Interim Consolidated Financial Results

During the period of the interim consolidated financial results, there was a concern about the increase in the prices of raw materials resulting from soaring oil prices and other factors. In addition, although hurricane damage resulted in a stronger feeling of non-transparency in the U.S., the U.S. economy remained generally solid, centered on robust consumer spending and housing investments. There was also concern about the influence of China's revaluation of the RMB, but in general the Asian and European economies progressed steadily. In Japan, the economy continued to recover gradually, supported by solid consumer spending and the recovery of capital investments in the private sector, against the backdrop of improvements in corporate revenue.

In the electronics industry, the main industry in which the Company operates, the market for digital home appliances, such as flat-panel TVs and DVD recorders, continued to expand. Also, together with steady progress in sales of mobile phones and PCs, there was a worldwide increase in the demand for portable music players. Inventory adjustments were completed for devices related to semiconductors and flat panel displays (FPDs) which are used in these electronics.

2. Overview of Profit and Loss for Interim Consolidated Financial Results

Consolidated net sales for the interim consolidated financial results were 333,138 million yen, an 18.9% increase compared to the previous year. By region, net sales in Japan were 118,111 million yen, an increase of 1.2% compared to the previous year, and net sales overseas were 215,027 million yen, a 31.5% increase. The percentage of overseas net sales to consolidated net sales was 64.5%, and the value of consolidated net orders for the current interim period was 296,966 million yen, a decrease of 19.2% compared to a year earlier. The backlog of orders at the end of the interim period was 276,947 million yen, an 11.6% decrease over the previous year.

Cost of sales was 243,913 million yen, an annual increase of 19.9%, and gross profit on sales was 89,224 million yen, an increase of 16.3% over the previous year. As a result, the gross profit margin was 26.8%.

Selling, general and administrative (SG&A) expenses were 52,982 million yen, a decrease of 6.1% from the previous year, and the ratio of SG&A expenses to net sales was 15.9%.

As a result of the foregoing, operating income was 36,242 million yen, an annual increase of 78.8%. With non-operating income and non-operating expenses at 1,724 million yen (down 21.5% from the previous year) and 1,213 million yen (down 18.4%), respectively, ordinary income was 36,754 million yen, an annual increase of 75.1%.

The Company posted an extraordinary loss of 180 million yen, compared to the 13,040 million yen of a year earlier.

Income before income taxes for the interim period was 36,574 million yen, a 360.4% increase over the previous interim period. Net income was 23,978 million yen, up from 1,272 million yen in the previous interim report. As a result, net income per share was 134.64 yen, up from 7.13 yen in the previous interim period.

The standards for recognizing the company's revenue have changed, beginning with the previous fiscal year ended March 31, 2005, from shipment of products to confirmation of set-up and testing of products. Additionally, we have reported accrued warranty expenses for products estimated on the basis of expenses incurred in the past since last fiscal year (FY2005).

3. Overview of Operations during the Period of Interim Consolidated Financial Results by Business Segment

1) Industrial Electronic Equipment Business

Due to continued strong sales of semiconductor production equipment and FPD production equipment, the key divisions in this business segment, net sales for external customers during this interim period were 291,229 million yen, an increase of 23.9% over the previous year.

<<Semiconductor and FPD production equipment>>

(a) Semiconductor production equipment

After the completion of inventory adjustments of digital home appliances, which began at the end of last year, a move was initiated among some semiconductor manufacturers to accelerate capital investments in order to strengthen competitiveness. Given this situation, net sales for the interim period in this division were 239,259 million yen, an increase of 16.1% over the previous year.

A look at trends according to the type of equipment shows that with the increased market demand for devices, there were increases over to the previous interim period report for all major product categories, including coaters/developers, etch systems, thermal processing systems,

CVD systems, and cleaning systems. Sales of new coaters/developers called CLEAN TRACK™ LITHIUS™ and the new auto wet station EXPEDIUS – both for next-generation equipment – were particularly favorable.

In terms of wafer diameter, semiconductor manufacturers were mainly moving to invest in 300mm wafer plants, and the Company focused on investing in 300mm wafer plants. As a result, the percentage of sales from this area to total net sales for semiconductor production equipment was about 85%.

(b) FPD production equipment

With Asian manufacturers of LCD panels continuing to strategically increase their supply capacity to popularize flat-panel TVs and expand the market, net sales of the Company's dry process systems and photo process systems increased compared to the interim report one year ago. Against this backdrop, consolidated net sales for the interim period for this division were 43,037 million yen, an increase of 104.8% over the previous year.

<<Computer network>>

Net sales for this interim period in the computer network division that provides storage area network (SAN; high-speed network that connects external storage systems or storage systems with computers) solutions, network solutions, and broadband solutions were 8,278 million yen, an annual increase of 12.5%.

Among SAN-related products, sales of security solution products continued to expand as companies moved to strengthen internal controls in response to the Personal Information Protection Law.

Among network-related products, sales were solid during the interim period for products used in the construction of websites and for maintenance services.

<<Other>>

Net sales for other divisions during the current interim period were 653 million yen, an increase of 4.2% over a year ago.

2) Electronic Components Business (Tokyo Electron Device Limited)

Among semiconductor products, which account for about 90% of this business segment's total net sales, although sales of medical devices and FA-related devices in the industrial equipment

sector were firm, domestic sales of dedicated ICs for mobile phones and memory ICs were sluggish, and sales of products for the digital home appliance sector did not recover quickly.

Among board products, efforts were made to expand sales of PC motherboards, VME boards, and other FA-related devices, as well as voice processing boards for communications devices.

Software sales progressed steadily as a result of strong efforts to increase the sales of various operating systems and tools targeted mainly at embedded system equipment centered on POS terminals. Sales were supported by an increase in IT investments against the background of improved corporate earnings.

For general electronic components, efforts were made to increase sales mainly of switching power sources, LCDs, and panel PCs, resulting in steady sales of LCD monitors for use with digital video cameras. As a result, net sales for external customers in this segment during the current interim period were 41,909 million yen, an annual decrease of 7.2%.

4. Financial Condition and Cash Flow

(1) Financial Position

Current assets at the end of this interim period decreased by 38,356 million yen compared to the end of the previous consolidated fiscal year, to 456,829 million yen. Major changes included cash and deposit increases of 10,802 million yen as accounts receivable were collected, decreased trade notes and accounts receivable of 23,608 million yen, decreased inventory of 13,890 million yen, and a decrease from the redemption of accrued consumption tax of 9,501 million yen.

Tangible fixed assets decreased by 1,795 million yen compared to the end of the previous consolidated fiscal year, to 96,620 million yen. The value of capital investments during the current interim period was 6,442 million yen. As a result, total assets at the end of the interim period decreased by 40,059 million yen to 604,260 million yen.

Current liabilities were down 37,678 million yen compared to the end of the previous consolidated fiscal year, to 168,932 million yen. Major changes included decreases in customer advances of 18,833 million yen, decreases in trade notes and accounts payable of 3,210 million yen, a decrease of 30 billion yen related to redemption of the ninth issue of unsecured corporate bonds, and increases tied to the transfer from fixed liabilities of the tenth issue of unsecured corporate bonds worth 20 billion yen and the fourth issue of unsecured corporate bonds with

share subscription rights worth 4.5 billion yen, which came due within one year.

Long-term liabilities decreased by 23,156 million yen from the end of the previous consolidated fiscal year, to 77,975 million yen, mainly because of the transfer to the current liabilities to cover 20 billion yen from the tenth issue of unsecured corporate bonds and 4.5 billion yen from the fourth issue of unsecured corporate bonds with share subscription rights, which came due within one year.

Shareholders' equity for the current interim period increased by 20,645 million yen compared to the end of the previous consolidated fiscal year, to 352,811 million yen. The equity ratio rose by 6.8 percentage points, from 51.6% at the end of the previous consolidated fiscal year to 58.4%.

(2) Cash Flow

Cash flow obtained from operating activities during the current interim period increased by 20,522 million yen over the previous year, to 53,483 million yen. Major positive factors included income before income taxes of 36,574 million yen, depreciation and amortization of 9,211 million yen, a decrease in accounts receivable of 24,055 million yen, and a decrease in inventory of 12,443 million yen. Major negative factors included a decrease in customer advances of 18,860 million yen and payment of corporate taxes of 12,575 million yen.

Cash flow from investment activities was 6,349 million yen, mainly due to expenditures of 4,846 million yen to acquire tangible fixed assets.

Cash flow from financial activities was 35,877 million yen, mainly due to redemption of the ninth issue of unsecured corporate bonds worth 30 billion yen and dividend payments of 5,342 million yen.

As a result, the balance of cash and cash equivalents for this interim period was 126,222 million yen.

The trends in cash flow indicators are shown below.

	Year ended March 31, 2005	6 months ended September 30, 2005
Equity ratio (%)	51.6	58.4
Equity ratio at market value (%)	168.9	177.8
Debt redemption period (number of years)	0.9	0.6
Interest coverage ratio	98.64	115.15

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.

5. Financial Forecasts for the Year Ending March 31, 2006

(1) Forecasts of Overall Performance for the Year Ending March 31, 2006

Concerning the business outlook for the entire fiscal year, it now appears that sales in both the semiconductor production equipment and FPD production equipment divisions will exceed initial forecasts. This new outlook is based on the fact that in markets related to semiconductors and FPDs, adjustments in inventory of semiconductors and electronic components begun in the second half of the previous fiscal year were completed, and more vigorous capital investment by semiconductor and FPD manufacturers. Given this situation, estimated business results for the overall fiscal year were adjusted on October 25, 2005, as follows.

(For reference)

Consolidated

(Billions of yen)

			Full year	
Net Sales	Industrial Electronic Equipment	Semiconductor/ FPD Production Equipment	547.0	2.8%
		SPE	467.0	2.1%
		FPD	80.0	6.6%
		Computer Network	17.0	6.5%
		Other	1.0	-21.0%
		Total	565.0	2.8%
	Electronic Components	85.0	-1.4%	
Total		650.0	2.2%	
Ordinary income			69.0	5.1%
Net income			44.0	-28.6%

Non-consolidated

(Billions of yen)

			Full year	
Net Sales	Semiconductor/FPD Production Equipment		533.0	2.4%
	SPE		453.0	1.6%
	FPD		80.0	6.9%
	Computer Network		17.0	6.4%
	Total		550.0	2.5%
Ordinary income			37.0	11.4%
Net income			24.0	-29.0%

(2) Profit Distribution Forecast

Based on the financial forecasts described above, the Company plans to pay an interim dividend of 25 yen per share (10 yen increase from previous fiscal year). The year-end dividend is expected to be 25 yen per share (5 yen decrease from previous fiscal year). The dividend for the entire fiscal year will be 50 yen per share (5 yen increase from previous fiscal year).

6. 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 September 30, 2005		As of September 30, 2004		Increase (decrease)	As of March 31, 2005	
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount	Amount	Compo- sition (%)
(Assets)	604,260	100.0	579,885	100.0	24,375	644,319	100.0
Current Assets	456,829	75.6	429,408	74.1	27,421	495,185	76.9
Cash and cash equivalents	126,222		42,939			115,420	
Trade notes and accounts receivable	148,878		197,359			172,487	
Inventories	147,598		163,484			161,489	
Others	34,264		25,768			45,902	
Allowance for doubtful accounts	(136)		(144)			(114)	
Long-term Assets	147,431	24.4	150,477	25.9	(3,045)	149,133	23.1
Tangible fixed assets	96,620		104,676		(8,055)	98,416	
Intangible fixed assets	18,072		20,314		(2,241)	18,611	
Investments and other assets	33,112		25,875		7,237	32,473	
Allowance for doubtful accounts	(374)		(388)		13	(367)	
Total Assets	604,260	100.0	579,885	100.0	24,375	644,319	100.0

Consolidated Balance Sheet

(Millions of yen)

	As of September 30, 2005		As of September 30, 2004		Increase (decrease) Amount	As of March 31, 2005	
	Amount	Compo- sition (%)	Amount	Compo- sition (%)		Amount	Compo- sition (%)
(Liabilities)	246,908	40.9	302,451	52.2	(55,542)	307,743	47.7
Current liabilities	168,932	28.0	190,300	32.8	(21,368)	206,611	32.0
Trade notes and accounts payable	55,019		59,189			58,229	
Short-term borrowings	5,771		4,860			6,451	
Bonds due within 1 year	24,500		30,000			30,000	
Income taxes payable	13,163		6,296			13,357	
Customer advances	24,136		35,165			42,970	
Accrued employees' bonuses	6,467		9,299			8,644	
Accrued warranty expenses	12,893		11,800			13,105	
Others	26,980		33,687			33,852	
Long-term liabilities	77,975	12.9	112,150	19.4	(34,174)	101,132	15.7
Straight bonds	35,500		60,000			60,000	
Long-term loans	3,000		8,026			3,000	
Accrued pension and severance costs	36,819		40,459			35,632	
Accrued pension and severance costs for directors	704		693			748	
Others	1,951		2,970			1,750	
(Minority interest)	4,540	0.7	4,148	0.7	391	4,410	0.7
(Shareholders' equity)	352,811	58.4	273,285	47.1	79,525	332,165	51.6
Common stock	54,961	9.1	54,961	9.5	-	54,961	8.5
Capital surplus	78,023	12.9	78,023	13.5	-	78,023	12.1
Retained earnings	230,364	38.1	154,436	26.6	75,928	212,093	32.9
Revaluation of investment in securities	3,478	0.6	1,356	0.2	2,122	2,132	0.4
Foreign currency translation adjustment	1,762	0.3	519	0.1	1,243	997	0.2
Treasury stock, at cost	(15,779)	(2.6)	(16,011)	(2.8)	231	(16,042)	(2.5)
Total liabilities, minority interest and shareholders' equity	604,260	100.0	579,885	100.0	24,375	644,319	100.0

Consolidated Statement of Income

(Millions of yen)

	Six months ended September 30, 2005		Six months ended September 30, 2004		Increase (decrease)		Year ended March 31, 2005	
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	(%)	Amount	Ratio to net sales
Net sales	333,138	100.0	280,199	100.0	52,939	18.9	635,710	100.0
Cost of sales	243,913	73.2	203,497	72.6	40,416	19.9	459,797	72.3
Gross profit	89,224	26.8	76,702	27.4	12,522	16.3	175,912	27.7
Selling, general & administrative expenses	52,982	15.9	56,426	20.2	(3,444)	(6.1)	111,929	17.6
Operating income (loss)	36,242	10.9	20,275	7.2	15,967	78.8	63,982	10.1
Non-operating income								
Interest income	166		58				188	
Rent revenue	140		336				498	
Revenue from development grants	707		983				2,194	
Miscellaneous income	710		817				1,652	
Non-operating expenses								
Interest expenses	413		609				1,093	
Rent expenses	117		168				310	
Foreign currency translation loss	378		371				722	
Equity in net losses of affiliates	186		139				351	
Others	116		198				405	
Ordinary income (loss)	36,754	11.0	20,984	7.5	15,769	75.1	65,632	10.3
Unusual or infrequent profit								
Gain on prior year adjustment	855		-				-	
Gain on sale of fixed assets	49		308				584	
Gain on return of substitutional portion of employees' pension fund	-		-				7,083	
Others	-		-				108	
Unusual or infrequent loss								
Loss on proceeds or disposal of fixed assets	338		645				1,469	
Loss on impairment	418		-				-	
Provision for possible loan loss reserve	13		97				-	
Warranty reserves for previous fiscal years	-		12,470				12,470	
Loss from discontinued operations	-		-				2,783	
Restructuring costs	214		-				-	
Others	99		136				911	
Income (loss) before income taxes	36,574	11.0	7,943	2.8	28,630	360.4	55,775	8.8
Provision for income taxes and enterprise	12,368	3.7	6,396	2.2			15,540	2.5
Deferred income taxes	-	-	-	-			(21,970)	(3.5)
Minority interest	227	0.1	275	0.1			603	0.1
Net income (loss)	23,978	7.2	1,272	0.5	22,706	-	61,601	9.7

Consolidated Statement of Retained Earnings

(Millions of yen)

	Six months ended September 30, 2005	Six months ended September 30, 2004	Increase (decrease)	Year ended March 31, 2005
	Amount	Amount	Amount	Amount
(Capital surplus)				
Capital surplus at the beginning of the period	78,023	78,023	-	78,023
Capital surplus at the end of the period	78,023	78,023	-	78,023
(Retained earnings)				
Retained earnings at the beginning of the period	212,093	154,342	57,751	154,342
Increase in retained earnings	23,978	1,272	22,706	61,601
Net income	23,978	1,272	22,706	61,601
Decrease in retained earnings	5,708	1,178	4,529	3,850
Cash dividends	5,342	1,071	4,270	3,742
Bonuses to directors and statutory auditors	349	107	241	107
Loss on disposal of treasury stocks	0	-	0	-
Decrease due to increment of consolidated companies	16	-	16	-
Retained earnings at the end of the period	230,364	154,436	75,928	212,093

Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended September 30, 2005	Six months ended September 30, 2004	Increase (decrease)	Year ended March 31, 2005
	Amount	Amount	Amount	Amount
I Cash flow from operating activities				
Income (loss) before income taxes	36,574	7,943	28,630	55,775
Depreciation and amortization	9,211	10,451	(1,240)	21,462
Loss on impairment	418	-	418	-
Amortization of consolidating adjustments	800	800	-	1,600
Increase in accrued pension and severance costs	1,176	2,872	(1,695)	5,109
Increase (decrease) in accrued pension and severance costs for directors	(43)	(6)	(37)	48
Increase (decrease) in allowance for doubtful accounts	26	62	(35)	9
Increase (decrease) in accrued employees' bonuses	(2,176)	2,910	(5,086)	2,258
Increase (decrease) in accrued warranty expenses	(222)	11,800	(12,023)	13,105
Interest and dividend revenue	(206)	(86)	(119)	(235)
Interest expenses	413	609	(195)	1,093
Gain on prior year adjustment	(855)	-	(855)	-
Loss (gain) on sale of fixed assets	(4)	(272)	268	(503)
Loss on disposal of fixed assets	292	609	(316)	1,388
Gain on return of substitutional portion of employees' pension fund	-	-	-	(7,083)
Restructuring costs	214	-	214	-
Loss from discontinued operations	-	-	-	2,783
Decrease (increase) in trade notes and accounts receivable	24,055	34,250	(10,194)	59,114
Decrease (Increase) in inventories	12,443	(59,400)	71,844	(59,914)
Increase in accounts payable	(3,445)	(6,468)	3,023	(7,440)
Decrease (increase) in prepaid consumption tax	9,531	46	9,485	(6,926)
Increase in customer advances	(18,860)	23,009	(41,870)	30,815
Others	(3,032)	6,546	(9,578)	9,138
Subtotal	66,314	35,679	30,635	121,599
Receipts from interest and dividends	209	94	114	241
Interest paid	(464)	(669)	205	(1,159)
Discontinued operations paid	-	-	-	(1,557)
Income taxes paid	(12,575)	(2,142)	(10,432)	(4,774)
Net cash generated by operating activities	53,483	32,960	20,522	114,349
II Cash flow from investing activities				
Payment for purchase of tangible fixed assets	(4,846)	(4,005)	(841)	(8,679)
Proceeds from sale of tangible fixed assets	426	1,275	(848)	3,797
Payment for acquisition of intangible fixed assets	(1,715)	(1,206)	(508)	(1,780)
Others	(213)	(321)	107	(787)
Net cash (used in) investing activities	(6,349)	(4,257)	(2,091)	(7,450)
III Cash flow from financing activities				
Net increase (decrease) in short-term borrowings	(264)	(3,504)	3,239	(5,864)
Repayment of long-term debt	(449)	(788)	338	(1,753)
Redemption of straight bonds	(30,000)	(20,000)	(10,000)	(20,000)
Net (increase) decrease in treasury stock	262	(2,808)	3,071	(2,839)
Dividends paid	(5,342)	(1,071)	(4,270)	(3,742)
Others	(84)	(73)	(10)	(143)
Net cash (used in) financing activities	(35,877)	(28,245)	(7,631)	(34,343)
IV Foreign currency translation difference in cash and cash equivalents	(502)	(167)	(334)	214
V Net increase (decrease) in cash and cash equivalents	10,754	290	10,464	72,770
VI Cash and cash equivalents at the beginning of the year	115,420	42,649	72,770	42,649
VII Cash and cash equivalents at the beginning of the year of newly added consolidated companies	48	-	48	-
VIII Cash and cash equivalents at the end of the period	126,222	42,939	83,283	115,420

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)

Six months ended September 30, 2005 (4/1/05 - 9/30/05)					
	Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
Net sales					
(1) Sales to external customers	291,229	41,909	333,138	-	333,138
(2) Intersegment sales or transfers	510	713	1,223	(1,223)	-
Total	291,740	42,622	334,362	(1,223)	333,138
Operating expenses	256,956	41,183	298,140	(1,244)	296,896
Operating income	34,783	1,438	36,222	20	36,242

(Millions of yen)

Six months ended September 30, 2004 (4/1/04 - 9/30/04)					
	Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
Net sales					
(1) Sales to external customers	235,062	45,136	280,199	-	280,199
(2) Intersegment sales or transfers	529	882	1,411	(1,411)	-
Total	235,592	46,018	281,611	(1,411)	280,199
Operating expenses	217,151	44,260	261,412	(1,488)	259,924
Operating income	18,440	1,758	20,198	76	20,275

(Millions of yen)

Year ended March 31, 2005 (4/1/04 - 3/31/05)					
	Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
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

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

For reference

Consolidated Balance Sheet (Quarterly comparison)

(Millions of yen)

	As of September 30, 2005		As of June 30, 2005		Increase (decrease)
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount
(Assets)	604,260	100.0	625,071	100.0	(20,810)
Current Assets	456,829	75.6	477,867	76.5	(21,038)
Cash and time deposits	126,222		129,433		
Trade notes and accounts receivable	148,878		154,683		
Inventories	147,598		162,443		
Others	34,264		31,413		
Allowance for doubtful accounts	(136)		(106)		
Long-term Assets	147,431	24.4	147,203	23.5	227
Tangible fixed assets	96,620		98,003		(1,382)
Intangible fixed assets	18,072		17,775		297
Investments and other assets	32,738		31,425		1,313
Total Assets	604,260	100.0	625,071	100.0	(20,810)

For reference

Consolidated Balance Sheet (Quarterly comparison)

(Millions of yen)

	As of September 30, 2005		As of June 30, 2005		Increase (decrease)
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount
(Liabilities)	246,908	40.9	281,159	45.0	(34,250)
Current liabilities	168,932	28.0	184,120	29.5	(15,188)
Trade notes and accounts payable	55,019		50,955		
Short-term borrowings	5,771		5,798		
Bonds due within 1 year	24,500		34,500		
Income taxes payable	13,163		7,969		
Customer advances	24,136		38,683		
Accrued employees' bonuses	6,467		3,364		
Accrued warranty expenses	12,893		12,363		
Others	26,980		30,485		
Long-term liabilities	77,975	12.9	97,038	15.5	(19,062)
Straight bonds	35,500		55,500		
Long-term loans	3,000		3,000		
Accrued pension and severance costs	36,819		36,042		
Accrued pension and severance costs for directors	704		699		
Others	1,951		1,796		
(Minority interest)	4,540	0.7	4,369	0.7	171
(Shareholders' equity)	352,811	58.4	339,542	54.3	13,268
Common stock	54,961	9.1	54,961	8.8	-
Capital surplus	78,023	12.9	78,023	12.5	-
Retained earnings	230,364	38.1	219,623	35.1	10,741
Revaluation of investment in securities	3,478	0.6	1,708	0.3	1,770
Foreign currency translation	1,762	0.3	1,275	0.2	487
Treasury stock, at cost	(15,779)	(2.6)	(16,049)	(2.6)	269
Total liabilities, minority interest and shareholders' equity	604,260	100.0	625,071	100.0	(20,810)

For reference

Consolidated Statement of Income (Quarterly comparison)

(Millions of yen)

	Three months ended September 30, 2005		Three months ended June 30, 2005		Increase (decrease)	
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	(%)
Net sales	173,122	100.0	160,016	100.0	13,106	8.2
Cost of sales	130,400	75.3	113,512	70.9	16,888	14.9
Gross profit	42,721	24.7	46,503	29.1	(3,782)	(8.1)
Selling, general & administrative expenses	28,212	16.3	24,770	15.5	3,442	13.9
Operating income (loss)	14,509	8.4	21,733	13.6	(7,224)	(33.2)
Non-operating income	1,090		634			
Non-operating expenses	562		650			
Ordinary income (loss)	15,037	8.7	21,717	13.6	(6,679)	(30.8)
Unusual or infrequent profit	41		863			
Unusual or infrequent loss	588		496			
Income (loss) before income taxes	14,490	8.4	22,083	13.8	(7,593)	(34.4)
Provision for income taxes and enterprise taxes	3,575	2.1	8,793	5.5		
Minority interest	173	0.1	53	0.0		
Net income (loss)	10,741	6.2	13,237	8.3	(2,496)	(18.9)