

# Financial Review for the Year Ended March 31, 2007



TOKYO ELECTRON LIMITED

Company name:	
URL:	<a href="http://www.tel.com">http://www.tel.com</a>
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
Due date of annual general shareholder's meeting	June 22, 2007
Due date of starting delivery of dividends	June 1, 2007
Due date of submitting of financial statement	June 22, 2007

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

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

## 1. Financial highlights for the year ended March 31, 2007 (4/1/06- 3/31/07)

### (1) Operating results

Note: Percentages indicated changes from previous year.

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended 3/31/07	851,975	26.5	143,978	90.2	143,940	89.5
Year ended 3/31/06	673,686	6.0	75,703	18.3	75,951	15.7

	Net income		Net income per share	Fully diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Millions of yen	%	Yen	Yen	%	%	%
Year ended 3/31/07	91,262	90.1	511.27	509.84	21.8	20.1	16.9
Year ended 3/31/06	48,005	(22.1)	267.61	267.32	13.5	11.6	11.2

Reference:

Profit/loss on equity method:

Year ended 3/31/07:	(1,441) million yen
Year ended 3/31/06:	(402) million yen

### (2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of 3/31/07	770,513	469,810	59.7	2,573.72
As of 3/31/06	663,242	376,900	56.8	2,112.30

Reference:

Equity:

Year ended 3/31, 2007	460,175 million yen
Year ended 3/31, 2006	-

### (3) Consolidated cash flow

	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 3/31/07	54,296	(25,293)	(34,719)	134,389
Year ended 3/31/06	78,853	(10,536)	(43,420)	140,023

### 2. Dividend

	Dividend per share			Total dividend	Payout ratio	Dividend on equity
	Six months ended	Year ended	Total			
(Base date)	Yen	Yen	Yen	Millions of yen	%	%
Year ended 3/31/06	25.0	30.0	55.0	9,801	20.6	2.8
Year ended 3/31/07	42.0	61.0	103.0	18,401	20.1	4.4
Year ended 3/31/08 (Forecast)	57.0	61.0	118.0	-	20.3	-

### 3. Financial forecast for the year ending March 31, 2008 (4/1/07 - 3/31/08)

Note: Percentages for full business year indicated changes from the previous term, and for interim period changes from the previous interim period.

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ending 9/30/07	445,000	13.9	77,000	32.2	79,000	35.7
Year ending 3/31/08	900,000	5.6	160,000	11.1	164,000	13.9

  

	Net income		Net income per share
	Millions of yen	%	Yen
Six months ending 9/30/07	50,000	34.3	279.65
Year ending 3/31/08	104,000	14.0	581.66

### 4. Others

- 1) Important changes in subsidiaries. (Changes on specific subsidiaries with changes in scope of consolidation): None
- 2) Changes in principles, procedures and display of accounting method concerning consolidated statement policies.

(Listed as changes in basis of presentation of consolidated financial statement )

Changes in accounting policies: Yes

Other changes: None

- 3) Number of shares outstanding (common stock)

Number of shares of common issued as of :

March 31, 2007 180,610,911 shares

March 31, 2006 180,610,911 shares

Number of shares of treasury stock

March 31, 2007 1,812,976 shares

March 31, 2006 2,336,475 shares

(Reference) Non-consolidated financial review for the year ended March 31, 2007

1. Financial highlights for the year ended March 31, 2007 (4/1/06 - 3/31/07)

(1) Operating results

Note: Percentages indicated changes from previous term.

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended 3/31/07	720,163	25.9	71,045	87.6	76,664	71.0
Year ended 3/31/06	572,019	6.6	37,861	34.6	44,836	34.9

  

	Net income		Net income per share		Fully diluted net income per share	
	Millions of yen	%	Yen	Yen	Yen	Yen
Year ended 3/31/07	51,699	76.7	289.63	288.81	288.81	288.81
Year ended 3/31/06	29,256	(13.5)	163.02	162.84	162.84	162.84

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of 3/31/07	594,933	327,715	55.0	1,829.61
As of 3/31/06	543,082	285,357	52.5	1,599.46

Reference:

Equity:

Year ended 3/31, 2007 327,130 million yen

Year ended 3/31, 2006 -

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. Consequently, actual operating results may differ substantially from the projections stated in the Financial Review.

## **Operating Results and Financial Conditions**

### **1. Business Environment during the Fiscal Year Ended March 31, 2007**

An overview of the trends in the world economy during the fiscal year indicates that for the U.S. economy, consumer spending and capital investments continued to be brisk despite the slowdown in the housing market in the second half of the year. As for the Asian economy, China maintained a high growth rate backed by strong exports and capital investments, while conditions in South Korea and Taiwan remained favorable. The Japanese economy, meanwhile, continued to recover mainly thanks to active capital investment and increased exports primarily among companies that are performing well.

The electronics industry, in which the Company operates, continued to be strong as exemplified by the growth in demand for digital home appliances such as large flat-panel TVs, as well as the spread of mobile phones and PCs in the emerging economies.

### **2. Overview of Profits and Losses during the Fiscal Year Ended March 31, 2007**

In this business environment, as in the overview of operations by business segment described below, the Company continued to actively sell the most advanced and sophisticated technological products. As a result, consolidated financial results for the fiscal year far exceeded initial plans, setting a new record for net sales, operating income, operating margin, and net income. Profits and losses for the fiscal year are as described below.

Consolidated net sales for the fiscal year surpassed the previous fiscal year by 26.5%, reaching 851,975 million yen. By region, net sales of semiconductor production equipment in Japan, South Korea, and Taiwan were strong. Net sales of FPD production equipment in Japan, Taiwan, and other Asian regions also continued to be brisk. As a result, domestic net sales rose by 19.5% compared to the previous fiscal year, to 313,816 million yen, and overseas net sales soared by 30.9%, to 538,159 million yen. Overseas net sales accounted for 63.2% of consolidated net sales. Orders received during the fiscal year increased 35.4% over the previous fiscal year, to 977,246 million yen, and the consolidated order backlog at the end of the fiscal year increased by 34.7%, to 486,273 million yen.

Cost of sales for the fiscal year grew by 19.7% compared to the previous fiscal year, to 579,325 million yen. Gross profit soared by 43.7% over the previous fiscal year, to 272,649 million yen. As a result, gross profit margin rose 3.8 percentage points, to 32.0%.

Selling, general and administrative (SG&A) expenses were 128,670 million yen, an increase of 12.8% from the previous fiscal year, and the ratio of SG&A expenses to net sales was 15.1%, versus 17.0% in the previous fiscal year.

Consequently, operating income surged by 90.2% over the previous fiscal year, to 143,978 million yen. With non-operating income of 4,908 million yen added and non-operating expenses of 4,946 million yen subtracted, ordinary income soared by 89.5% compared to the previous fiscal year, to 143,940 million yen. Margins also improved, with operating margin rising 5.7 percentage points, to 16.9%, and ordinary profit margin growing 5.6 percentage points, to 16.9%.

During the fiscal year, the Company posted an extraordinary profit of 473 million yen while it reported an extraordinary loss of 623 million yen in the previous fiscal year.

Income before income taxes for the fiscal year increased by 91.7% compared to the previous fiscal year, to 144,414 million yen. Net income registered a substantial increase, soaring by 90.1% compared to the previous fiscal year, to 91,262 million yen.

As a result, net income per share was 511.27 yen, versus 267.61 yen in the previous fiscal year.

### **3. Overview of Operations during the Fiscal Year Ended March 31, 2007 by Business Segment**

#### **(1) Industrial Electronic Equipment Business**

Due to brisk sales of semiconductor production equipment and FPD production equipment, which are the Company's key products, net sales from external customers in this segment during the fiscal year was 744,512 million yen.

##### **(a) Semiconductor production equipment**

Chiefly backed by the spread of digital home appliances and the growth in worldwide demand for mobile phones and PCs, demand for semiconductor memory, including DRAM and flash memory used in these electronic devices, remained strong. With the launch of the new Windows Vista™ operating system for PCs, and due to expectations for growing demand for semiconductors as digital home appliances and mobile equipment offer higher functions, semiconductor memory manufacturers stepped up their investment in plants and

equipment. In this environment, the Company received a greater number of inquiries about its production equipment, and consolidated net sales for this segment during the fiscal year grew by 32.0% compared to the previous fiscal year, to 642,625 million yen.

In terms of trends by equipment type, backed by semiconductor memory manufacturers' strong appetite for capital investments, sales of major products, including coater/developer systems, etch systems, thermal processing systems, CVD systems, cleaning systems, and wafer probers, all achieved high growth. In addition, the Company introduced into the market such new products as CLEAN TRACK™ LITHIUS Pro™, a new high-productivity resist coater/developer system; Tactras™ Vigus™, an etch system with a new type of chamber; a new lineup for TELINDY™, the high-productivity thermal processing system; a new lineup for 45nm next generation contact applications added to Trias™ metal CVD system; EXPEDIUS™+, a new high-productivity cleaning system; and Precio™, a new next-generation wafer prober.

(b) FPD production equipment

Flat-panel TVs, including LCD TVs, are spreading rapidly, in conjunction with the shift to digital and high-definition broadcasting and the lower prices of the TVs. LCD panel manufacturers in Asian countries, including Japan, made capital investments to develop sophisticated, cutting-edge large display panels and to strengthen their supply capabilities. Given this situation, the Company worked to develop and market products that met market trends and needs in the FPD production equipment segment. For example, following its dry etch system Impressio™, it launched the coater/developer system Exceliner™ as a new system for the 8th generation large glass substrate. As a result, consolidated net sales for the segment during the fiscal year rose by 24.1% compared to the previous fiscal year, to 100,766 million yen.

(c) Other

Consolidated net sales for this segment during the fiscal year fell by 10.3% compared to the previous fiscal year, to 1,120 million yen.

**(2) Electronic Components and Computer Networks Business**

The Company, positioning the industrial equipment sector as a priority strategic market, has striven to sell high-value-added products, including custom ICs and general-purpose ICs (analog ICs), which require high-level technical support. It has also concentrated on increasing the orders received for consigned design services and developing products for

industrial equipment in order to ensure greater sales of products under its own Inrevium brand. In addition, computer network-related business, including sales of and maintenance service for network equipment, storage systems, and IT-related software, grew. Tokyo Electron Device Hong Kong Ltd., the Company's consolidated subsidiary, opened a new operational base in Singapore to continue providing more substantial support to Japanese customers, which had production centers overseas.

As a result, net sales from external customers in this segment during the fiscal year were 107,462 million yen.

Starting from the second half of the fiscal year, "Computer Networks," which previously were classified in the "Industrial Electronic Equipment" segment, are included in the "Electronic Components and Computer Networks" (former "Electronic Components") segment. Net sales for the fiscal year are indicated based on the new classification. With this change, there is no segment-by-segment comparison of net sales for the fiscal year with those for the previous year.

(For reference)  
Consolidated

(Millions of yen)

	First		Second		Full Year	Year ended March 31, 2006		
	1Q	2Q	Half	3Q			4Q	Half
Net Sales	179,205	211,357	390,562	210,093	251,318	461,412	851,975	673,686
Industrial Electronic Equipment	155,152	181,907	337,060	185,094	222,358	407,452	744,512	586,805
Semiconductor Production Equipment	125,925	157,980	283,905	158,828	199,891	358,719	642,625	486,882
Japan	33,226	44,615	77,842	47,017	50,871	97,889	175,731	142,173
U.S.	27,931	25,252	53,184	21,513	30,915	52,429	105,613	93,272
Europe	13,774	10,863	24,638	12,217	11,108	23,325	47,963	45,044
Korea	18,024	23,149	41,173	23,165	41,829	64,995	106,168	66,948
Taiwan	26,066	36,337	62,404	36,347	43,042	79,390	141,794	108,314
China	3,806	10,487	14,293	8,982	6,374	15,356	29,650	10,830
S.E.Asia	3,093	7,275	10,369	9,582	15,750	25,333	35,702	20,299
F P D Production Equipment	28,932	23,636	52,568	26,023	22,173	48,197	100,766	81,176
Computer Networks	-	-	-	-	-	-	-	17,497
Other	294	290	585	242	293	535	1,120	1,248
Electronic Components & Computer Networks	24,052	29,450	53,502	24,999	28,960	53,960	107,462	86,880
Electronic Components	21,042	24,011	45,054	21,141	22,098	43,239	88,293	86,880
Computer Networks	3,009	5,438	8,448	3,857	6,862	10,720	19,168	-
Operating Income	25,864	32,376	58,240	42,904	42,833	85,737	143,978	75,703
Ordinary Income	26,739	31,465	58,204	42,116	43,620	85,736	143,940	75,951
Net Income	16,282	20,942	37,225	26,987	27,050	54,037	91,262	48,005

(Note)

1. Offset elimination has been carried out on the dealing between segments.
2. Starting from the second half of the current fiscal year, "Computer Networks," which previously were included in the "Industrial Electronic Equipment" segment, are incorporated into the "Electronic Components and Computer Networks"

segment. In line with these changes, net sales for six months ended September 30, 2006 are indicated in the table above according to the new segmentation.

#### **4. Projected Operating Results for the Next Fiscal Year Ending March 31, 2008**

During the next fiscal year ending March 31, 2008, semiconductor-related capital investments are expected to grow, backed by the medium-term growth in demand for semiconductors. Given these circumstances, the Company will continue to make efforts to achieve greater operational efficiency and lower costs in order to increase profitability. Financial forecasts for the next fiscal year are as follows:

<b>Consolidated</b>			(Billions of yen, Y/Y change)			
			Interim		Full Year	
Net Sales	Industrial Electronic Equipment	Semiconductor Production Equipment	354.0	24.7%	730.0	13.6%
		FPD Production Equipment	40.0	-23.9%	60.0	-40.5%
		Other	0.5	-14.6%	1.0	-10.8%
		Total	394.5	17.0%	791.0	6.2%
	Electronic Components & Computer Networks	50.5	-5.6%	109.0	1.4%	
	Total	445.0	13.9%	900.0	5.6%	
Operating Income			77.0	32.2%	160.0	11.1%
Ordinary Income			79.0	35.7%	164.0	13.9%
Net Income			50.0	34.3%	104.0	14.0%

(Note)

Starting from the second half of the current fiscal year, "Computer Networks," which previously were included in the "Industrial Electronic Equipment" segment, are incorporated into the "Electronic Components and Computer Networks" segment. In line with these changes, Y/Y changes are calculated in the table above according to the new segmentation.

## **5. Financial Conditions and Cash Flow**

### **(1) Financial Conditions**

Current assets as of the end of the fiscal year grew by 92,875 million yen compared to the end of the previous fiscal year, to 610,363 million yen. Major factors included an increase in trade notes and accounts receivable of 59,650 million yen, as well as an increase in inventories of 31,094 million yen.

Due to the acquisition of buildings and land, as well as other factors, tangible fixed assets rose by 10,191 million yen, to 104,930 million yen.

Intangible fixed assets increased by 2,689 million yen compared to the previous fiscal year, to 19,399 million yen.

Investments and other assets grew by 1,514 million yen, to 35,821 million yen.

Total assets at the end of the fiscal year increased by 107,270 million yen over the previous fiscal year, to 770,513 million yen.

Current liabilities were 24,694 million yen greater than the previous fiscal year, at 226,321 million yen. Major factors included an increase in trade notes and accounts payable of 18,021 million yen, an increase in income tax payable of 22,762 million yen, an increase in accrued employees' bonuses of 3,900 million yen, a decrease in customer advances of 11,853 million yen, a decrease due to the redemption of the tenth issue of unsecured corporate bonds worth 20,000 million yen and the fourth issue of unsecured corporate bonds with subscription rights worth 4,500 million yen, and an increase due to the transfer of the fifth issue of unsecured corporate bonds with subscription rights worth 5,500 million yen from long-term liabilities to current liabilities because they will mature within one year.

Long-term liabilities fell by 5,145 million yen, to 74,848 million yen, mainly due to the fact that the fifth issue of unsecured corporate bonds with subscription rights worth 5,500 million yen was transferred to current liabilities because they will mature within one year.

Shareholders' equity was 449,166 million yen as a result of an increase due to the reported 91,262 million yen in net income, a decrease due to the distribution of 12,843 million yen in surplus earnings, and other factors.

Net assets obtained by adding valuation and conversion differences, subscription rights, and

minority shareholders' interests to shareholders' equity were 469,810 million yen, and the equity ratio was 59.7%.

## (2) Cash Flow

Cash flow from operating activities during the fiscal year was 24,556 million yen lower than the previous fiscal year, at 54,296 million yen. Major positive factors included income before income taxes of 144,414 million yen, depreciation and amortization of 18,820 million yen, and an increase in accounts payable of 17,236 million yen. Major negative factors included an increase in accounts receivable of 58,352 million yen, an increase in inventories of 31,584 million yen, a decrease in customer advances of 12,459 million yen, and the payment of income taxes of 37,785 million yen.

Cash flow from investing activities was 25,293 million yen, mainly due to capital investments.

Cash flow from financing activities was 34,719 million yen, mainly due to the redemption of the tenth issue of unsecured corporate bonds worth 20,000 million yen and the fourth issue of unsecured corporate bonds with subscription rights worth 4,500 million yen, as well as the payment of dividends of 12,843 million yen.

As a result, the balance of cash and cash equivalents at the end of the fiscal year was 134,389 million, a decrease of 5,634 million yen from the 140,023 million yen reported at the end of the previous fiscal year.

The trends in cash flow indicators are shown below.

	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2007
Equity ratio (%)	56.8	59.7
Equity ratio at market value (%)	218.3	191.2
Debt redemption period (number of years)	0.8	0.7
Interest coverage ratio	106.73	119.90

Equity ratio:  $(\text{Equity} / \text{Total assets}) \times 100$

Equity ratio at market value:  $(\text{Market capitalization} / \text{Total assets}) \times 100$

Debt redemption period:  $\text{Interest-bearing debt} / \text{Cash flow from operating activities}$

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

\* All indicators are calculated using financial 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 flow. 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 flow.

## **6. Basic Policy for Profit Allocation and Payment of Dividends for Current and Next Fiscal Years**

The dividend policy of the Company has been to link dividend payments to business performance and revenue on an ongoing basis. Its basic policy for returning profits to shareholders is to maintain a payout ratio of around 20% based on consolidated net income for the current fiscal year.

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

Based on the basic profit allocation policy described above, taking into consideration its performance for the current fiscal year and the shareholder-focused policy, the Company will pay a dividend of 61 yen per share at the end of the fiscal year ended March 31, 2007 (103 yen for the whole year if the interim dividend of 42 yen is included—48 yen more than for the previous fiscal year). As a result, the payout ratio based on consolidated financial results is 20.1%.

For the next fiscal year ending March 31, 2008, based on the outlook described above, the Company plans to pay a dividend of 118 yen per share for the whole year (57 yen for interim dividends and 61 yen for year-end dividends). The consolidated payout ratio is expected to be 20.3%.

## **7. 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 head-count, 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 financial 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.

## **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. Management Tasks**

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 after-sales technical support. It has also contributed to worldwide growth of the semiconductor-related industries as a market leader.

In conjunction with the development of an information-driven society, semiconductor and FPD products, which had been traditionally used mainly in PCs and mobile phones, are being applied to virtually all electronic products, and they can now be seen in every aspect of day-to-day life. These products have begun to come into wide use in BRIC nations (Brazil, Russia, India, and China), as well as in East Europe, the Near and Middle East, South America, Africa, and other regions.

The demand for equipment manufacturers among device manufacturers, which are the Company's customers, have diversified more than ever to include not only equipment supply and after-sales support but also process development and other operations. It has become important to continue releasing production equipment that incorporates differentiation technology capable of displaying a high level of process and mass-production performance. Meanwhile, as new equipment manufacturers start to enter the market in Asian regions, including South Korea, which is a major center of semiconductor production, a new phase of competition is expected to emerge in the industry in the future.

Under these circumstances, the Company recognizes it as a major management task to respond flexibly and precisely to rapid changes in market and customer needs and to the business environment, while strengthening its management foundation and increasing net sales and profitability.

In order to cope with these tasks, the Company continued to bolster its technology development in major product categories during the fiscal year and to introduce new high-value-added products in each market segment. Meanwhile, all business units made a united effort to improve product quality. In the future, in addition to these measures, the Company aims to further increase profitability and growth potential by strengthening research and development capabilities to develop new businesses and manufacturing capabilities, such as improving productivity.

In terms of financial aspects, the Company will make a continued effort to collect accounts receivable as promptly as possible and keep inventories at appropriate levels, thus building a solid foundation for future growth through the optimization of cash flow.

# Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2006		As of March 31, 2007		Increase (Decrease)	
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount	(%)
<b>(Assets)</b>	663,242	100.0	770,513	100.0	107,270	16.2
<b>Current Assets</b>	517,487	78.0	610,363	79.2	92,875	17.9
Cash and cash equivalents	140,023		134,389			
Trade notes and accounts receivable	169,038		228,688			
Inventories	163,745		194,840			
Deferred income taxes	21,356		28,325			
Others	23,488		24,245			
Allowance for doubtful accounts	(164)		(127)			
<b>Long-term Assets</b>	145,755	22.0	160,150	20.8	14,395	9.9
<b>Tangible fixed assets</b>	94,738	14.3	104,930	13.6	10,191	10.8
Buildings and structures	48,075		52,935			
Machinery and carriers	19,535		18,263			
Tools, furniture and fixtures	6,762		7,174			
Land	18,149		20,495			
Construction in progress	2,215		6,061			
<b>Intangible fixed assets</b>	16,709	2.5	19,399	2.5	2,689	16.1
Consolidating adjustments	8,000		-			
Goodwill	-		6,400			
Others	8,708		12,998			
<b>Investments and other assets</b>	34,307	5.2	35,821	4.7	1,514	4.4
Investment securities	14,860		14,642			
Deferred income taxes	13,174		13,691			
Others	6,646		7,784			
Allowance for doubtful accounts	(374)		(297)			
<b>Total Assets</b>	663,242	100.0	770,513	100.0	107,270	16.2

# Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2006		As of March 31, 2007		Increase (decrease)	
	Amount	Compo- sition (%)	Amount	Compo- sition (%)	Amount	(%)
<b>(Liabilities)</b>	281,621	42.5	300,702	39.0	19,081	6.8
<b>Current liabilities</b>	201,627	30.4	225,854	29.3	24,227	12.0
Trade notes and accounts payable	65,816		83,837			
Bonds due within 1 year	24,500		5,500			
Income taxes payable	22,895		45,657			
Customer advances	33,810		21,956			
Accrued employees' bonuses	10,230		14,131			
Accrued warranty expenses	12,219		14,114			
Others	32,154		40,658			
<b>Long-term liabilities</b>	79,993	12.1	74,848	9.7	(5,145)	(6.4)
Straight bonds	35,500		30,000			
Accrued pension and severance costs	38,034		40,018			
Accrued pension and severance costs for directors	716		666			
Others	5,742		4,162			
<b>(Minority interest)</b>	4,721	0.7	-	-	-	-
<b>(Shareholders' equity)</b>	376,900	56.8	-	-	-	-
<b>Common stock</b>	54,961	8.3	-	-	-	-
<b>Capital surplus</b>	78,078	11.8	-	-	-	-
<b>Retained earnings</b>	249,938	37.7	-	-	-	-
<b>Valuation difference on available-for-sale securities</b>	5,117	0.7	-	-	-	-
<b>Translation adjustments</b>	3,921	0.6	-	-	-	-
<b>Treasury stock, at cost</b>	(15,116)	(2.3)	-	-	-	-
<b>Total liabilities, minority interest and shareholders' equity</b>	663,242	100.0	-	-	-	-
<b>(Net assets)</b>	-	-	469,810	61.0	-	-
<b>Owners' equity</b>	-	-	449,166	58.3	-	-
Common stock	-	-	54,961		-	-
Capital surplus	-	-	78,346		-	-
Retained earnings	-	-	328,026		-	-
Treasury Stock	-	-	(12,167)		-	-
<b>Valuation and translation adjustments</b>	-	-	11,008	1.4	-	-
Valuation difference on available-for-sale securities	-	-	5,853		-	-
Deferred gains or losses on hedges	-	-	(177)		-	-
Translation adjustments	-	-	5,332		-	-
<b>Subscription rights to shares</b>	-	-	584	0.1	-	-
<b>Minority interests</b>	-	-	9,051	1.2	-	-
<b>Total Liabilities and net assets</b>	-	-	770,513	100.0	-	-

# Consolidated Statement of Income

(Millions of yen)

	Year ended March 31, 2006		Year ended March 31, 2007		Increase (decrease)	
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	(%)
Net sales	673,686	100.0	851,975	100.0	178,289	26.5
Cost of sales	483,954	71.8	579,325	68.0	95,371	19.7
<b>Gross profit</b>	189,731	28.2	272,649	32.0	82,917	43.7
Selling, general & administrative expenses	114,028	17.0	128,670	15.1	14,641	12.8
<b>Operating income</b>	75,703	11.2	143,978	16.9	68,275	90.2
Non-operating income						
Interest income	421		819			
Dividend income	81		90			
Revenue from development grants	1,536		2,640			
Others	1,549		1,357			
Non-operating expenses						
Interest expenses	686		420			
Foreign currency translation loss	1,675		3,374			
Loss on equity method	402		585			
Others	575		565			
<b>Ordinary income</b>	75,951	11.3	143,940	16.9	67,989	89.5
Unusual or infrequent profit						
Gain on prior year adjustment	855		-			
Gain on sale of fixed assets	286		416			
Gain on sale of investments in securities	-		1,225			
Gain on sale of stocks of consolidated companies	-		528			
Gain on reversal of subscription rights to shares	-		526			
Others	-		24			
Unusual or infrequent loss						
Loss on proceeds or disposal of fixed assets	719		834			
Loss on impairment	418		-			
Loss on correction of prior period contracts	286		-			
Loss on restructuring operations	214		-			
Loss on equity method	-		856			
Others	125		557			
<b>Income before income taxes</b>	75,328	11.2	144,414	17.0	69,086	91.7
Provision for income taxes and enterprise taxes	29,190	4.3	60,132	7.1	30,942	106.0
Deferred income taxes	(2,352)	(0.3)	(7,534)	(0.9)	(5,182)	-
Minority interest	484	0.1	553	0.1	68	14.2
<b>Net income</b>	48,005	7.1	91,262	10.7	43,257	90.1

# Consolidated Statement of Retained Earnings

(Millions of yen)

	Year ended March 31, 2006
	Amount
<b>(Capital surplus)</b>	
<b>Capital surplus at the beginning of the period</b>	78,023
<b>Increase in capital surplus</b>	55
Gain on disposal of treasury stock	55
<b>Capital surplus at the end of the period</b>	78,078
<b>(Retained earnings)</b>	
<b>Retained earnings at the beginning of the period</b>	212,093
<b>Increase in retained earnings</b>	48,005
Net income	48,005
<b>Decrease in retained earnings</b>	10,161
Cash dividends	9,795
Bonuses to directors and statutory auditors	349
Decrease due to increment of consolidated companies	16
<b>Retained earnings at the end of the period</b>	249,938

# Consolidated Statements of Net Assets

(Millions of yen)

4/1/06-3/31/07

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance 3/31/06	54,961	78,078	249,938	(15,116)	367,861
Net increase/decrease during the term under the review					
Cash dividends			(12,843)		(12,843)
Bonuses to directors and statutory auditors			(331)		(331)
Net income			91,262		91,262
Repurchases of treasury stocks				(64)	(64)
Disposal of treasury stocks		267		3,013	3,281
Net increase/decrease during the term					
Total increase/decrease during the term under the review	-	267	78,088	2,949	81,305
Balance 3/31/07	54,961	78,346	328,026	(12,167)	449,166

	Valuation and Translation Adjustments				Subscription rights to shares	Minority interests	Total Net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustment	Total			
Balance 3/31/06	5,117	-	3,921	9,038	1,013	4,721	382,635
Net increase/decrease during the term under the review							
Cash dividends							(12,843)
Bonuses to directors and statutory auditors							(331)
Net income							91,262
Repurchases of treasury stocks							(64)
Disposal of treasury stocks							3,281
Net increase/decrease during the term	735	(177)	1,411	1,969	(429)	4,329	5,869
Total increase/decrease during the term under the review	735	(177)	1,411	1,969	(429)	4,329	87,175
Balance 3/31/07	5,853	(177)	5,332	11,008	584	9,051	469,810

# Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2006	Year ended March 31, 2007	Increase (decrease)
	Amount	Amount	Amount
<b>I Cash flow from operating activities</b>			
Income before income taxes	75,328	144,414	69,086
Depreciation and amortization	19,170	18,820	(349)
Loss on impairment	418	-	(418)
Amortization of consolidating adjustments	1,600	-	(1,600)
Amortization of goodwill	-	1,974	1,974
Increase in accrued pension and severance costs (decrease)	2,372	1,975	(396)
Increase in accrued employees' bonuses (decrease)	1,586	3,900	2,314
Increase in accrued warranty expenses (decrease)	(985)	1,613	2,599
Interest and dividend revenue	(503)	(910)	(406)
Interest expenses	686	420	(266)
Foreign currency translation loss (gain)	299	519	220
Loss on equity method	402	1,441	1,038
Gain on prior year adjustment	(855)	-	855
Loss on sale of fixed assets (gain)	(224)	(302)	(77)
Loss on disposal of fixed assets	658	719	61
Loss on sale of investment securities (gain)	8	(1,225)	(1,234)
Gain on sales of stocks of consolidated companies	-	(528)	(528)
Gain on reversal of subscription rights to shares	-	(526)	(526)
Decrease in trade notes and accounts receivable (increase)	5,144	(58,352)	(63,496)
Decrease in inventories (increase)	(5,467)	(31,584)	(26,117)
Increase in accounts payable (decrease)	6,743	17,236	10,493
Decrease in prepaid consumption tax (increase)	2,656	(1,774)	(4,431)
Increase in customer advances (decrease)	(9,504)	(12,459)	(2,954)
Others	(919)	6,309	7,229
Subtotal	98,614	91,681	(6,932)
Receipts from interest and dividends	502	853	350
Interest paid	(738)	(452)	285
Income taxes paid	(19,524)	(37,785)	(18,260)
Net cash generated by operating activities	78,853	54,296	(24,556)
<b>II Cash flow from investing activities</b>			
Payment into time deposits	-	(30,000)	(30,000)
Proceeds from time deposits	-	30,000	30,000
Payment for purchase of tangible fixed assets	(8,600)	(25,153)	(16,552)
Proceeds from sale of tangible fixed assets	1,279	1,068	(210)
Payment for acquisition of intangible fixed assets	(2,610)	(2,462)	148
Proceeds from sale of investment securities	36	2,460	2,424
Payment for acquisition of consolidated companies	-	(4,524)	(4,524)
Proceeds from sales of stocks of consolidated companies	-	4,168	4,168
Loans to third parties	(506)	(388)	118
Others	(134)	(462)	(327)
Net cash used in investing activities	(10,536)	(25,293)	(14,756)
<b>III Cash flow from financing activities</b>			
Net increase in short-term borrowings (decrease)	1,037	(404)	(1,441)
Repayment of long-term borrowings	(5,475)	-	5,475
Redemption of straight bonds	(30,000)	(24,500)	5,500
Net decrease in treasury stock (increase)	981	3,216	2,235
Dividends paid	(9,795)	(12,843)	(3,047)
Others	(168)	(188)	(20)
Net cash generated by financing activities	(43,420)	(34,719)	8,701
<b>IV Foreign currency translation difference in cash and cash equivalents</b>	(340)	81	422
<b>V Net increase in cash and cash equivalents (decrease)</b>	24,555	(5,634)	(30,189)
<b>VI Cash and cash equivalents at the beginning of the period</b>	115,420	140,023	24,603
<b>VII Cash and cash equivalents at the beginning of the period of newly consolidated companies</b>	48	-	(48)
<b>VIII Cash and cash equivalents at the end of the period</b>	140,023	134,389	(5,634)

## Segment Information

Information by business segment

(Millions of yen)

Year ended March 31, 2006 (4/1/05 - 3/31/06)					
	Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
Net sales					
(1) Sales to external customers	586,805	86,880	673,686	-	673,686
(2) Intersegment sales or transfers	1,003	1,409	2,412	(2,412)	-
Total	587,809	88,290	676,099	(2,412)	673,686
Operating expenses	515,240	85,189	600,430	(2,447)	597,983
Operating income	72,568	3,100	75,668	34	75,703
2. Assets, depreciation expenses, loss on impairment and capital expenditure					
Assets	626,838	37,088	663,927	(684)	663,242
Depreciation expenses	20,512	257	20,770	-	20,770
Loss on impairment	418	-	418	-	418
Capital expenditure	16,223	143	16,366	-	16,366

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. Depreciation expenses and capital expenditure include long-term prepaid expenses and its depreciation.

(Millions of yen)

Year ended March 31, 2007 (4/1/06 - 3/31/07)					
	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
Net sales					
(1) Sales to external customers	744,512	107,462	851,975	-	851,975
(2) Intersegment sales or transfers	2,381	1,247	3,628	(3,628)	-
Total	746,893	108,709	855,603	(3,628)	851,975
Operating expenses	606,539	104,739	711,279	(3,282)	707,996
Operating income	140,354	3,969	144,324	(345)	143,978
2. Assets, depreciation expenses and capital expenditure					
Assets	728,236	46,729	774,966	(4,452)	770,513
Depreciation expenses	20,060	360	20,420	-	20,420
Capital expenditure	34,795	274	35,069	-	35,069

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

3. Depreciation expenses and capital expenditure include long-term prepaid expenses and its depreciation.

4. Effective October 1, 2006, TEL's Computer Networks Division was spun off and taken over by its consolidated subsidiary, Tokyo Electron Device Limited.

With this takeover, the segmentation of operations in the TEL Group was reviewed according to their actual status, including their characteristics and management systems. As a result, starting from the second half of the current fiscal year, the company included "computer systems and networks," which were previously incorporated in the "industrial electronic equipment" segment, in the "electronic components" segment. The company also changed the name of the "electronic components" segment to "electronic components and computer networks".

For the year ended March 31, 2007 (4/1/06 - 3/31/07), operations are indicated according to the new method of segmentation. For the year ended March 31, 2006 (4/1/05 - 3/31/06), they are indicated according to the old method of segmentation.

## Segment Information

Information by geographic segment

(Millions of yen)

Year ended March 31, 2007 (4/1/05 - 3/31/06)					
	Japan	Other regions	Total	Eliminations and corporate	Consolidated
Net sales					
(1) Sales to external customers	602,564	71,121	673,686	-	673,686
(2) Intersegment sales or transfers	61,442	43,811	105,253	(105,253)	-
Total	664,007	114,933	778,940	(105,253)	673,686
Operating expenses	588,933	107,639	696,572	(98,589)	597,983
Operating income	75,073	7,293	82,367	(6,664)	75,703
2. Assets	636,559	85,729	722,288	(59,045)	663,242

Note: 1. National and regional categories are determined on the basis of geographic proximity.

2. Main countries and territories in other regions: U.S., Europe, South Korea

(Millions of yen)

Year ended March 31, 2007 (4/1/06 - 3/31/07)					
	Japan	Other regions	Total	Eliminations and corporate	Consolidated
Net sales					
(1) Sales to external customers	749,281	102,693	851,975	-	851,975
(2) Intersegment sales or transfers	69,936	48,525	118,461	(118,461)	-
Total	819,218	151,219	970,437	(118,461)	851,975
Operating expenses	683,388	140,782	824,171	(116,174)	707,996
Operating income	135,829	10,436	146,266	(2,287)	143,978
2. Assets	740,969	95,182	836,152	(65,638)	770,513

Note: 1. National and regional categories are determined on the basis of geographic proximity.

2. Main countries and territories in other regions: U.S., Europe, South Korea