

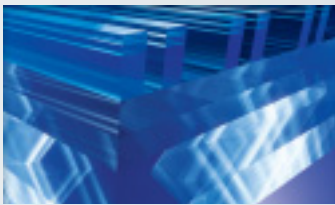
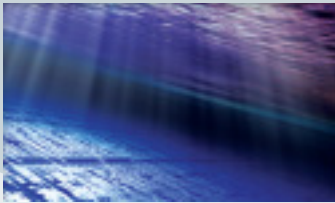
INSPIRATION  INNOVATION

Advanced Technology for Manufacturing

TOKYO ELECTRON LIMITED

Inspiration and innovation. Together, they are an immutable force. The moment we see greatness, we are inspired. Compelled by our very nature to press onward and upward.

At TEL, we respect that force. We embrace it. We foster an atmosphere of creativity, pride and encouragement. When inspiration sparks, innovation is not far behind.



PROFILE

Tokyo Electron Limited (TEL) is a world-leading supplier of semiconductor production equipment (SPE) and flat panel display (FPD) production equipment. We provide a broad lineup of products that offer superior process performance and high productivity and related services to semiconductor and LCD panel manufacturers around the world.

An unwavering commitment to customer satisfaction that dates back to our founding in 1963 has cemented our position as the market leader. Our competitive strength lies in our capability to proactively and precisely identify real customer needs and respond to them with cutting-edge technology and products.

With a global network that spans Japan, the U.S., Europe and Asia, we are opening up new frontiers for digital networks by contributing to enhancing our customers' production lines through untiring dedication to technology innovation.

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Disclaimer Regarding Forward-looking Statements

Matters discussed in this annual report, including forecasts of future business performance of Tokyo Electron, management strategies, beliefs and other statements are based on Tokyo Electron's assumptions in light of information that is currently available. These forward-looking statements involve known or unknown risks, uncertainties and other factors that could cause actual results to differ materially from those referred to in the forward-looking statements.

Factors that have a direct or indirect impact on Tokyo Electron's future performance include, but are not limited to:

- Economic circumstances in Japan and overseas, consumption trends, and large fluctuations in foreign exchange rates
- Changes in semiconductor and FPD markets
- Changes in the demand for products and services manufactured or offered by Tokyo Electron's customers, such as semiconductor manufacturers, FPD manufacturers and electronics makers
- Tokyo Electron's capabilities to continue to develop and provide products and services that respond to rapid technology innovation and changing customer needs in a timely manner

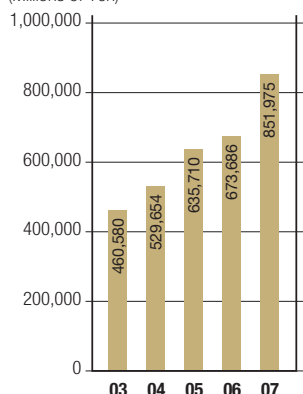
For details, please refer to Business-related and Other Risks on page 42.

CONSOLIDATED FINANCIAL HIGHLIGHTS

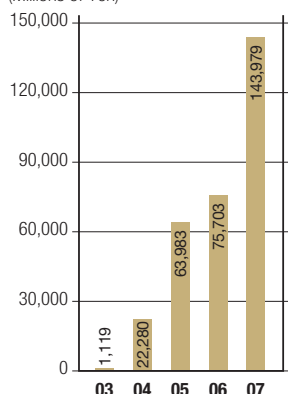
Years ended March 31	Millions of yen					Thousands of U.S. dollars	
	2003	2004	2005	2006	2007	2007	
For the Year:							
Net sales	¥460,580	¥529,654	¥635,710	¥673,686	¥851,975	\$7,217,072	
Operating income	1,119	22,280	63,983	75,703	143,979	1,219,643	
Net income (loss)	(41,554)	8,297	61,601	48,006	91,263	773,087	
ROE	(14.8)	3.1	20.3	13.5	21.8		
At Year-end:							
Total assets	¥524,901	¥561,632	¥644,320	¥663,243	¥770,514	\$6,527,013	
Total net assets (Total shareholders' equity)	252,904	275,800	332,165	376,900	469,811	3,979,762	
Yen							U.S. dollars
Per Share:							
Net income (loss)—Basic	¥ (238.57)	¥ 46.37	¥ 343.63	¥ 267.61	¥ 511.27	\$ 4.33	
Cash dividends	8.00	10.00	45.00	55.00	103.00	0.87	

Notes: 1. U.S. dollar amounts are translated from yen, solely for convenience, at the prevailing exchange rate on 31st March, 2007, of ¥118.05=U.S.\$1.
 2. Effective from fiscal 2005, Tokyo Electron changed its method of revenue recognition upon receiving customer confirmation of product set-up and testing of products for Semiconductor and FPD production equipment. The effect of this change decreased net sales, operating income and income before income taxes by ¥80,956 million, ¥20,541 million and ¥20,563 million, respectively, for fiscal 2005, compared with the corresponding amounts which would have been recorded if the previous method had been applied.
 3. Effective from fiscal 2005, Tokyo Electron changed its method to account for after-sale repair expenses by recording accrued warranty expenses for Semiconductor and FPD production equipment. The effect of this change decreased operating income and income before income taxes by ¥635 million and ¥13,106 million, respectively, for the year ended March 31, 2005, compared with the corresponding amounts which would have been recorded if the previous method had been applied.

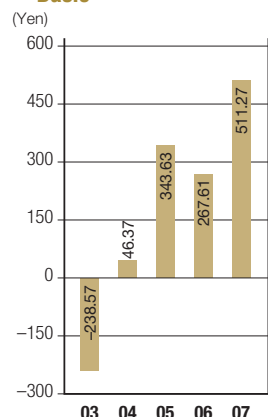
Net Sales
(Millions of Yen)



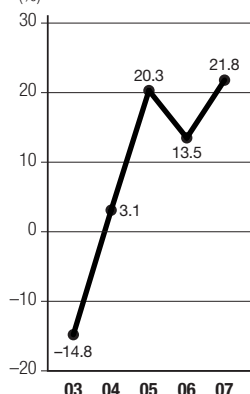
Operating Income
(Millions of Yen)



Net Income (Loss) per Share —Basic
(Yen)



ROE
(%)



Note: Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed in the above notes to consolidated financial highlights.

Record-High Sales and Earnings

	FY2007 results	Year-on-year change
Net sales	852.0 billion yen	Up 26.5%
Operating income	144.0 billion yen	Up 90.2%
Net income	91.3 billion yen	Up 90.1%
Cash dividends per share	103 yen	Up 48 yen
Operating margin	16.9%	Up 5.7 points
Debt-to-equity ratio	8.7%	Down 8.6 points
ROE	21.8%	Up 8.3 points

TO OUR STAKEHOLDERS



Creating *High Corporate Value* by building a company that is full of *Vision and Energy*

Tetsuro Higashi, Chairman & CEO

In fiscal 2007, the year ended March 31, 2007, Tokyo Electron far surpassed initial targets, with net sales of ¥852.0 billion, operating income of ¥144.0 billion and net income of ¥91.3 billion. All of these figures were new record highs for the Company. In accordance with our efforts to return profits to shareholders, we also paid the largest dividends in our history, increasing the dividend by ¥48 from last year to ¥103 per share. We wish to thank you for your continued support.

Over the past year, we made significant strides in improving the quality of the Company. We improved our development capabilities, manufacturing skills, and management efficiency, and as a result, increased operating income by 90.2% compared with fiscal 2006.

We are entering an era in which people around the world can communicate freely with others beyond time and borders—a Wireless Digital Network era. The semiconductor industry and the flat panel display (FPD) industry are drivers of this change, and the technologies that support them are steadily becoming more important, offering companies in this sector strong opportunities for growth. In this context, the manufacturers of semi-

conductors and FPDs—Tokyo Electron's core customers—are shifting their focus to developing basic architecture and software for a new generation of products. In turn, they have come to rely on equipment manufacturers, such as Tokyo Electron, to develop and enhance the process and manufacturing technologies that have a significant bearing on the performance of their semiconductors and FPDs in terms of achieving faster speed, lower power consumption, and reduced environmental impact.

At Tokyo Electron, we are dedicated to becoming the trusted equipment manufacturer of choice for our customers, providing technology to help create a society of the future that reflects the dreams and aspirations of its inhabitants today. Our people will make the difference, and by supporting their development we aim to build a company full of vision and energy. Furthermore, we will continuously return profits, an indicator of our contribution to society, to all our stakeholders—shareholders, customers, employees and society in general.

I would like to thank stakeholders for your continuing support in helping Tokyo Electron to grow, expand, and fulfill our ambitious goals.



Tetsuro Higashi, Chairman & CEO



TO OUR STAKEHOLDERS



Contributing to our customers and society through the *Unwavering Pursuit of Technological Innovation*

Kiyoshi Sato, President & COO

Tokyo Electron is making successful progress in the effort to enhance earnings power. In fiscal 2007, we recorded the strongest earnings performance in Company history. This performance was partly supported by a favorable business environment. However, it was the concerted efforts of our global employees, under the medium-term business plan that began 2 years ago, that enabled Tokyo Electron to exceed its objective of boosting the operating margin to 17% during the latter half of fiscal 2007 (14.9% in the first half, 18.6% in the second half). Our success in enhancing our product planning, development capabilities and total quality management are now being reflected in concrete earnings figures. Furthermore, the reduction of interest-bearing debt has given the Company a more flexible financial position, and prepared a solid foundation for future growth.

The future objectives of the Tokyo Electron Group are as follows:

1. Continued Growth


Tokyo Electron ranks as the world's second-largest manufacturer of semiconductor production equipment (SPE) in terms of sales, but the Company's market share is only 10%. There is still plenty of room for improvement and expansion. Through R&D efforts, the Company will challenge itself to develop new

equipment and new businesses that can support further growth. Our goal isn't only to pursue expansion in terms of the sheer size of the Company. We also aim to drive growth in profits by providing high-performance, high-quality products based on state-of-the-art technology.

2. Addressing Environmental Issues

Today, global warming is one of the most important challenges that we all face. One of the solutions is to find the right balance between conserving energy and maintaining economic growth. At Tokyo Electron, we believe that technology holds the answer. Through diligent efforts to reduce the environmental impact of all Tokyo Electron products, we are introducing new technological solutions that will help customers cut their energy consumption. Looking around the world, we can see materials and components that are truly revolutionary in their ability to reduce energy consumption, but have failed to be commercialized due to technological hurdles and limitations that make mass production difficult. Tokyo Electron is working to develop new types of production equipment that will allow customers to manufacture these products effectively, inexpensively, and in large quantities. This dedication to addressing environmental issues is not only a reflection of a company's responsibility to society; it is also a mission for any company, and for society itself.

As we make steady progress on the strategic plans that underlie Tokyo Electron's medium and long-term growth scenario, I wish to thank all of the Company's stakeholders for your generous and continuing support.



Kiyoshi Sato, President & COO

MANAGEMENT INTERVIEW

Question & Answer

In this section, Chairman Higashi and President Sato are asked about market trends and Tokyo Electron's strategies and actions.

Question 1

In fiscal 2007, Tokyo Electron posted record results. How do you evaluate this performance?

Answer



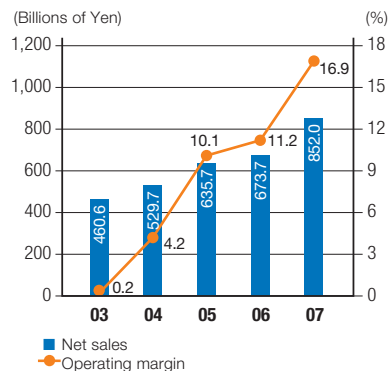
This reflects the benefits of our ongoing efforts to elevate profitability by the entire Tokyo Electron Group.

The figures at each level—net sales of ¥852.0 billion, operating income of ¥144.0 billion and net income of ¥91.3 billion—are record highs for the Company. Although we did benefit from favorable conditions in the business environment, we view these results as a reflection of the overall strength of the Tokyo Electron Group, and the success of our unified efforts to enhance profitability.

Two years ago, at a time when the Company's operating margin had only just recovered to 10%, we embarked on a medium-term business plan which set the goal of elevating operating profitability to 17% over the medium term. This would surpass the Company's previous record high of 16.7%. Raising the operating margin from around 10% to 17% seemed extremely ambitious, but considering the Company's underlying potential, we had confidence that it was an attainable goal. Sharing one goal, the entire group made all the necessary efforts in sales, marketing, services, development and production to execute strategy. As a result, the Company posted an operating margin for fiscal 2007 of 16.9%, and in the second half we recorded a margin of 18.6%. On a six-month basis, at least, we have already surpassed our goal.

Naturally, we were glad to have the opportunity to share this success with shareholders, by raising the annual dividend to a record high of ¥103 per share.

Net Sales and Operating Margin



Note: Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed in the notes to consolidated financial highlights.

Question 2

Answer


Specifically, what steps has Tokyo Electron taken to increase profitability?

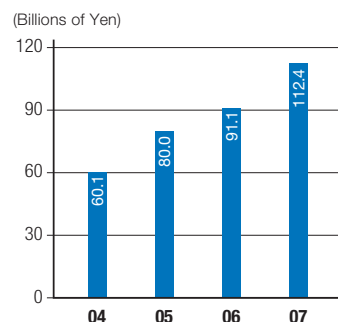
We implemented three specific strategies—creating new, high-value-added products, improving manufacturing efficiency, and expanding post-sales businesses. We have made steady progress in all three areas.

The Company's medium-term management plan, "Innovative Challenge 20," challenged employees and executives to pursue three strategies for improving profitability.

The first involved creating new, high-value-added products. As semiconductor production processes become more sophisticated, customer needs are diversifying. What is important in this context is to introduce models optimized for each market segment based on an understanding of customer markets. We have brought to market some 13 new types of production equipment born from this approach over the past 2 years. Significantly, these new models are now beginning to contribute to profitability.

The second strategy involved improving Tokyo Electron's manufacturing efficiency in order to reduce costs. The most essential feature of production facilities, in this business, is to raise quality. I have repeatedly stressed the importance of "quality enhancement" to our manufacturing team, as I believed that through this concept, design, procurement, and manufacturing technology would certainly improve and consequently cost reductions would follow. This has proven to be true.

The Company's third objective was to expand post-sales businesses. Sales in Tokyo Electron's equipment refurbishment business, in particular, have risen steadily, and as a result we have outperformed the 3-year goal of growing the post-sales businesses to ¥100.0 billion. This business generates good profits, so any sales growth makes a direct contribution to increasing the Company's operating margin.

Post-sales Business


Post-sales business: Refurbishment/Relocation, Contract service, Parts sales

Question 3

Could you tell us more about the Company's efforts to improve manufacturing capabilities? What changes have taken place?

Answer



By reforming product development and design and through activities for reducing wasteful processes, we have improved quality, shortened manufacturing lead times, cut costs and enhanced customer satisfaction.

By examining some quality problems that the Company experienced in the past, we learned that careful management and control of the product development and design processes from the initial stage were an extremely important factor in the manufacturing process. From the upstream processes of product development and design, Tokyo Electron now emphasizes not only a product's functions and performance, but also factors such as reliability, productivity and ease of maintenance. Furthermore, we have gone back to the basics, re-examining every stage of the manufacturing process to identify and quantify any elements of waste or inefficiency, and then looking for ways to eliminate such production losses. These comprehensive efforts, on the factory floor, to reform production processes have contributed to higher quality, shorter manufacturing lead times, reduced costs and high customer satisfaction. Nevertheless, Tokyo Electron is never satisfied with the status quo, and our task in the future is to identify ways to make further improvements to our operations.

Question 4

Once Tokyo Electron has surpassed the interim objectives laid out in the current medium-term management plan, what will you then set your sights on?

Answer



We will implement growth strategies that will allow the Company to become even more profitable when the next peak of the silicon cycle arrives.

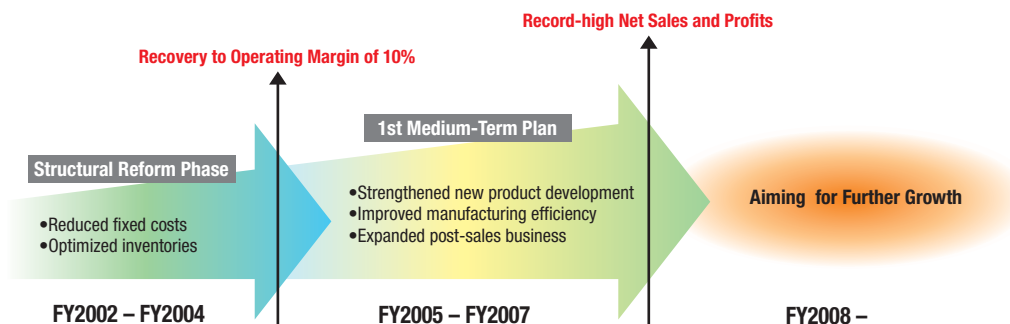
Achievement of a 17% operating margin is merely a signpost on the road to further success. Tokyo Electron wants to develop even greater earnings power and use the extra profits to strengthen products for customers. And of course, this would also mean that we will be able to return more value to shareholders, through strong earnings and higher dividends.

To reach those goals, we must first look for ways to elevate the earnings power of existing products even further. The new products that Tokyo Electron has introduced over the past two years are moving into a volume production phase this year. We must not only seek to reap the returns of our investments in these products, but also work on launching new products in a timely manner.

Second, we must make further improvements to manufacturing efficiency to boost the cost-competitiveness of Tokyo Electron products. Reform efforts over the past two years have yielded steady improvements. But going a step further, we are collaborating with business partners to improve the efficiency of our supply chain and logistics activities. We aim to establish ideal manufacturing sites that can shorten manufacturing lead times and cut costs.

A third theme is increasing profitability through new businesses. In order to further raise profitability, within 10 years we want to establish several new high-value-added businesses which can generate sales of as much as ¥100.0 billion. The business that is currently closest to achieving that sort of success is the production equipment that Tokyo Electron is developing using a Radial Line Slot Antenna (RLSA) plasma source. We are now speeding up efforts to build this business. In addition, last December Tokyo Electron acquired Epion Corporation, a U.S.-based company that is on the cutting edge of Gas Cluster Ion Beam technology. We plan to cultivate this as one of Tokyo Electron's core technologies for the future. In the growing market for Micro Electro-Mechanical Systems (MEMS), meanwhile, the Company has already launched MEMS testers and we are making rapid strides to build this business further.

In addition to the items described above, Tokyo Electron is stepping up environmental initiatives.



Question 5

Tokyo Electron has been working on environment-related technology in the past. What is the Company doing now to step up these efforts?

Answer



Developing environment-related technology is our mission and responsibility as the industry leader.

Early this year, I had the opportunity to participate in an environmental conference, and was able to sense the growing importance that people around the world are placing on issues such as global warming. This renewed my determination to help solve environmental issues through technological innovation.

First of all, by incorporating high-performance semiconductors and displays with high environmental efficiency in electronics products and automobiles, manufacturers can help reduce total energy

consumption. Tokyo Electron's production equipment allows manufacturers to produce these more efficient devices at a low cost, and this helps to encourage the trend towards energy efficiency. In other words, we make a contribution by providing customers with high-performance, highly productive equipment that allows them to make cost-efficient devices, while still making good profits. Furthermore, Tokyo Electron is actively supporting the efforts of companies that are developing power semiconductors and other products that save energy, as well as manufacturers of solar panels and other products that help reduce power consumption.

In addition, Tokyo Electron is improving the energy efficiency of its own semiconductor and FPD production equipment, and developing new products that are even more environmentally friendly. Considering the Company's large market share, our efforts have a very important impact on trends for the industry. In this sense, we bear a heavy responsibility; by taking the lead in efforts to improve environmental efficiency, we can exercise strong influence on the environmental impact of the entire industry.

Question 6

What are your expectations for the future growth of the semiconductor industry, and the semiconductor production equipment industry?

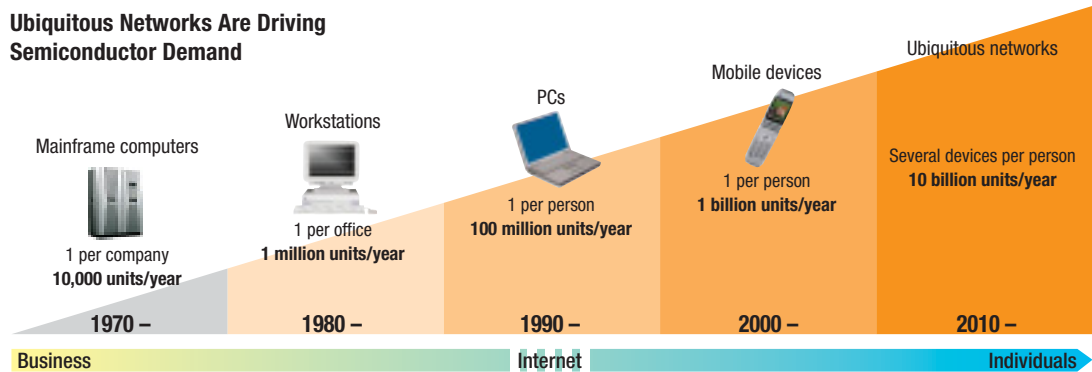
Answer



Semiconductors, and in particular, memory, have become a key component of many consumer products. Therefore, the possibilities for market growth are boundless.

At the moment, new trends are emerging in the semiconductor industry. For example, in the memory segment, where personal computers once solely drove market growth, today high-performance mobile devices and digital consumer products have emerged as another driver of the memory market. The PC is also evolving into a digital consumer product. Also, mobile functions and broadband networks that realize "anywhere, anytime access" are creating new markets for NAND flash memory and DRAM.

Ubiquitous Networks Are Driving Semiconductor Demand



Ubiquitous networks: Enabling access to the Internet and other information networks anytime, anywhere

Furthermore, these trends now mean that semiconductors are being adapted to new uses and services, such as remote health diagnosis, on-line educational programs, and remote security services. Meanwhile, as with developed countries, emerging markets like BRICs, Eastern Europe, Africa, the Middle East and South America are accelerating network building as an essential condition for national growth. With semiconductor demand expanding beyond borders, I believe that the semiconductor production equipment industry is poised for dynamic growth in the years to come.

Question 7

Shipments of production equipment for memory seem to be brisk, but do you have any concerns about a sudden market correction, as in the past, in the future?

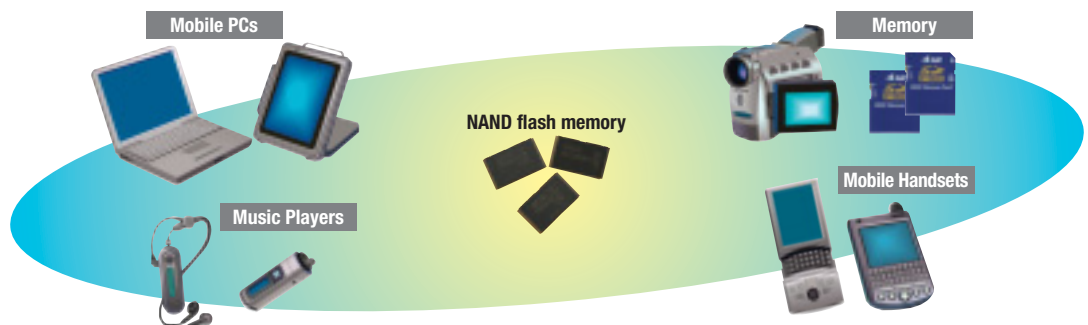
Answer



As semiconductors are finding wider applications, we think that the silicon cycle will grow shorter, and volatility will also become steadily smaller.

Certainly, we think that the current high level of capital investment in memory is partly a reflection of market expectations that Microsoft's launch of *Windows Vista* will increase demand for high-speed, large-capacity DRAM. However, our view is that the "Vista effect" is not the only reason why capital investment is currently very high. Supply factors also come into play. As manufacturers retire 200mm wafer processing equipment from DRAM manufacturing, customers need to acquire cost-effective 300mm processing equipment to partly make up for lost 200mm capacity. For that reason, we think there is little risk that the current surge in investment will create excess production capacity. The PC market, which is still a primary source of demand for DRAM, has not yet reached the market penetration levels that are enjoyed by other consumer products, such as radios and TVs. We think there is plenty of room for market expansion.

Expanding NAND Flash Memory Applications



Meanwhile, as NAND flash memory establishes itself as an ideal storage device for consumer electronics products, we think capital investment will continue to expand based on the large potential for growth in demand. The market for semiconductors continues to widen, and as this continues, the overall market impact of a sudden drop in demand for any one application will steadily become less severe. We expect the silicon cycle to become shorter, and the scale of fluctuation between peaks and valleys to become smaller.

Nevertheless, we cannot control the pace of capital investment by our customers. If sudden market corrections do occur, the stability of Company earnings will depend on how sound our underlying business foundation is. Therefore, we will continue to focus our efforts on building a sound earnings base.

Question 8

It is often said that semiconductor production equipment manufacturers are playing a greater role in semiconductor manufacturing. In what way is this role expanding?

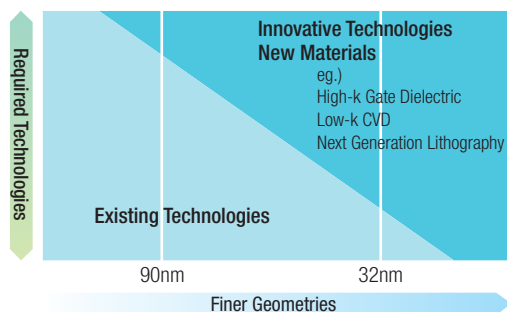
Answer



Equipment manufacturers are becoming deeply involved in efforts to develop semiconductor process technology. Although this is a real challenge for us, it also represents an excellent business opportunity.

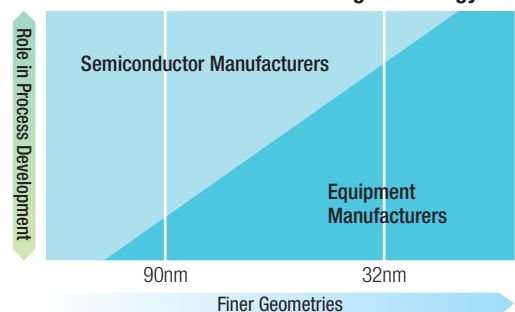
The performance of semiconductors has been improved by reducing geometries and increasing the number of interconnect layers. Since the start of the millennium, however, the types of technology developments that had driven progress in the past reached their limits, and chip manufacturers face high barriers to further progress. In order to address their difficulties, new multilayer interconnect and etching technologies and new materials are being introduced, and equipment makers' involvement in the area of semiconductor process innovation holds the key to achieving new advances.

Existing Technology vs Innovative Technology



1nm= one-billionth of a meter

Growing Role of Equipment Manufacturers in Semiconductor Manufacturing Technology



Particularly since semiconductors came into use in consumer electronics, chipmakers have focused most of their development efforts on product planning, circuit design and software, and consequently they are now increasingly dependent on equipment manufacturers to make the advances in semiconductor process technology. The important thing here is first to fully comprehend the various technological needs expressed by customers, and then crystallize what the real technological needs are and provide solutions for them. Put another way, equipment manufacturers will be required to take the initiative more in proposing process technology. This will demand an even more scientific approach than in the past on the part of SPE manufacturers. But there are only a handful of companies in the world who possess these capabilities—and we are one of them.

As this discussion suggests, the role of a semiconductor production equipment manufacturer is becoming increasingly important. Although this presents us with a major challenge, we think that it also offers tremendous opportunities for future growth.

Question 9

What trends do you foresee in the FPD production equipment industry in coming years?

Answer



Capital investment is entering a cyclical lull in 2007. Over the medium and longer term, however, we expect rising demand for large-screen, flat-panel TVs to revive capital investment.

The market for FPD production equipment surpassed our expectations in 2006, expanding rapidly, but the trend is likely to reverse in 2007—the capital investment environment is expected to remain weak throughout the year. However, this is merely a short-term lull. We expect capital investment to rebound in 2008 and beyond.

Global demand for television sets is estimated at around 190 million units a year. LCD TVs are steadily expanding their share of this market, but last year total shipments amounted to just 45 million units. That suggests that there is still tremendous potential for market growth.

At present, countries around the world are shifting from analog to digital broadcasting technology and we expect that LCD TVs will be in strong demand as people upgrade to new digital TVs. Furthermore, whereas people used to have only one TV in the house, flatter screens have made it easier to put one in every room. Many people now have one in the living room, one in the den, one in the bedroom and one in the kitchen. The era of one TV for every family member is coming closer. Naturally, this trend will stimulate demand further.

We expect to see continued waves of demand for capital investment and ongoing growth, at least for the time being.

Question 10

Could you give us your thoughts on the return of profits to shareholders?

Answer



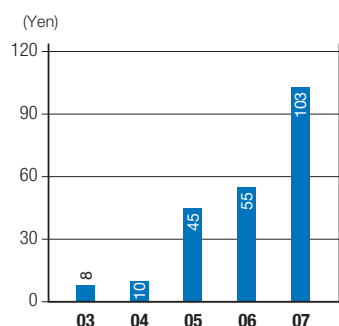
To make possible more attractive returns of profits to shareholders, we will continue to make investments for growth. We will also look at the appropriate allocation of capital through a balance sheet management approach.

Tokyo Electron's basic policy on shareholder returns is to continue linking dividends to consolidated net income. We are implementing a dividend policy that aims for a consolidated payout ratio of 20%. In fiscal 2007, the Company paid a dividend of ¥103 per share—the highest level in our history.

However, we are not content with that and hope to reward shareholders even more for their support.

Tokyo Electron has pursued cash flow management as an important theme in recent years. As a result, we have seen a marked improvement in our ability as a company to continuously generate cash. Because the markets where we are active are expected to experience considerable growth going forward, we intend to use this cash to make investments for the development of new technologies and in other ways to drive growth. There will therefore be no change in our policy of putting top priority on raising corporate value over the medium and long terms in this way. That said, we will think about how best to allocate the cash we generate. We think that it is important to adopt a flexible capital structure policy, one that balances three goals: investing for growth, strengthening our financial foundations and returning profits to shareholders. Together with these measures, we are determined that we will continuously work hard to provide more shareholder return in the future.

Cash Dividends per Share



Question 11

Is it true that the Company has adopted a unique compensation system to increase corporate value?

Answer



Yes, our compensation system—not only for directors and executive officers, but also for ordinary employees—links pay directly to the Company's earnings performance.

Tokyo Electron has adopted an earnings-linked dividend policy which rewards shareholders by paying dividends equal to 20% of consolidated net income. For people on the operations side, a similar system linked to earnings performance incentivizes them.

The “annual bonus” portion of compensation for the Company’s directors and executive officers is directly linked to earnings results. The upper limit on these bonuses is set at 3% of consolidated net income. About one-third of those bonuses are paid in the form of stock options (warrants with an exercise price of ¥1, and a restricted period of three years). Therefore, if the Company’s share price rises, executives receive higher compensation than if they received the bonuses in cash, but if the share price falls, their compensation is less than it would have been if the entire bonus was paid in cash. In other words, the Company’s executives bear the same risks—both positive and negative—as the shareholders. Tokyo Electron’s stock options are not based on job title, but rather, are solely a reflection of profit results.

In fiscal 2007, we also introduced a compensation system for employees which is directly linked to consolidated operating income. Employee bonuses are paid out based on earnings results (set at 15% of operating income, before bonuses). This means that all three of the Company’s major stakeholder groups—shareholders, executives and employees alike—have a common goal. All benefit from efforts to boost earnings and enhance corporate value.

Question 12

What kind of company does Tokyo Electron aim to become?

Answer



We want to create a company that is full of vision and energy, an organization in which all stakeholders can realize their goals through their involvement with Tokyo Electron.

Tokyo Electron wants to provide high value to all of its stakeholders. First of all, we are dedicated to developing new products and technologies that provide high value to customers, and also benefit society in general. The technical hurdles to meeting customer needs grow higher with each passing year, but by developing and manufacturing equipment that offers superior reliability and productivity, we are pursuing full customer satisfaction.

The most essential element in Tokyo Electron’s business success is people, our employees, and our basic personnel policy reflects this belief. In order to cultivate the abilities of employees, and maximize their contributions over the medium and long term, we have established TEL University. At TEL University we aim to foster employees who have ambition, are open-minded, and possess a risk-taking spirit that is not constrained by fear of failure. We believe that this initiative will help us to become the industry leader in growth potential and earnings capacity. By developing vision and energy within our company, we hope to offer shareholders, and all stakeholders globally, an opportunity to share in our success and realize their goals. This is the type of company we aim to be.

FEATURE

CLEAN TRACK™ LITHIUS Pro™

Born of Challenging the Limits

Role of Coater/Developer

Finer geometries are essential to realizing a high level of IC integration. Playing a central role in achieving finer design rules is the lithography process. This process is performed by exposure equipment (stepper/scanner), which projects circuit patterns onto the wafer that is coated and developed with photoresist (photosensitizing agent) by a coater/developer.

Coater/developers, along with exposure equipment, must accommodate a diverse range of customer demands, and therefore require sophisticated coating and processing technologies alongside high reliability.

Creation of CLEAN TRACK™ LITHIUS Pro™

We formally announced the CLEAN TRACK™ LITHIUS Pro™ at Semicon Japan 2006, held in December 2006, to the surprise of many customers.

The reason is that the CLEAN TRACK™ LITHIUS Pro™ builds on the cutting-edge functions and advanced processes of the existing CLEAN TRACK™ LITHIUS™ to not only boost throughput by 30% but also to reduce the footprint by 25% and improve the productivity per footprint by 75%. These attributes are clearly tied to higher productivity for customers.

The existing CLEAN TRACK™ LITHIUS™ already achieves high productivity and processing stability, underpinning a market sales share of 80%. It is only natural therefore that the announcement of the CLEAN TRACK™ LITHIUS Pro™, with its even greater capabilities, was met with great surprise.

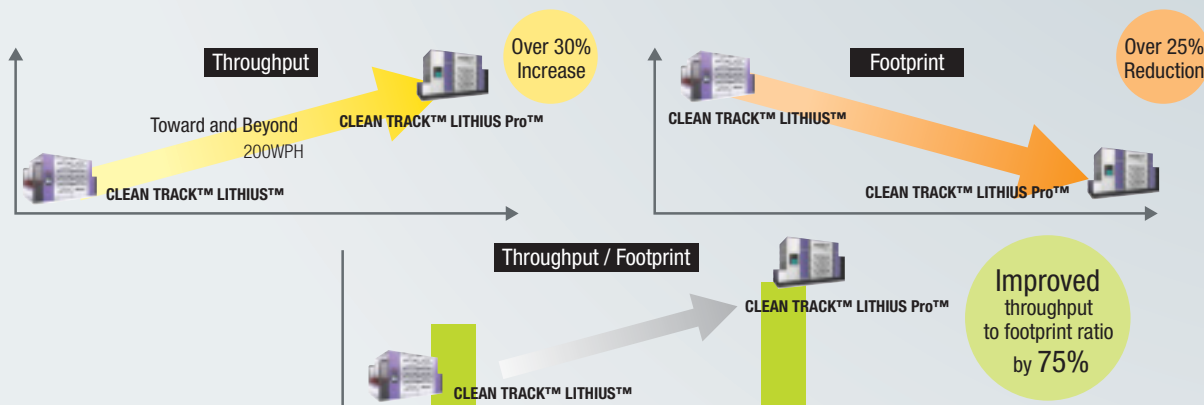
Actually, immediately after the start of mass shipments of CLEAN TRACK™ LITHIUS™, we were already making steady headway on the development of next-generation equipment,

the CLEAN TRACK™ LITHIUS Pro™. The reason is that, amid a shift toward expanding production volume per machine, it had become apparent that customers were seeking improved performance from coater/developers; the development of high-end exposure equipment was already progressing in response to this need. With market competition escalating, the ability to constantly respond to the market ahead of rivals is essential. This sense of urgency served as the impetus for the development of the CLEAN TRACK™ LITHIUS Pro™.

Indefatigable Research, Then on to the Next Challenge

First, in trying to reduce the footprint, we cut the unit area by 25% over the existing level. Next, we developed a wafer transport system that increased throughput by 30%. By overcoming the seemingly contradictory issue of reducing the footprint while increasing throughput, we boosted the productivity per footprint by 75%, which is clearly tied to greater productivity for customers. We also increased reliability while also enhancing maintainability, including equipment adjustments. The CLEAN TRACK™ LITHIUS Pro™ is designed to enable adjustments for time-related changes in equipment operations without having to involve an engineer, thus maximizing the period of production contribution. Moreover, the equipment is repeatedly load tested to ensure the highest possible levels of stability and reliability.

As such, the CLEAN TRACK™ LITHIUS Pro™ was born in anticipation of customer needs, and is the crystallization of the indefatigable pursuit of product and technology development by project members from sales, marketing, development, and manufacturing units.





CLEAN TRACK™ LITHIUS Pro™

Hikaru Ito: Former VP & Deputy General Manager, SPE-1 Division and General Manager, CLEAN TRACK BU



(From June 2007, Corporate Director, Senior VP & Deputy General Manager, SPE-2 Division and General Manager, Etch Systems BU)

Aggressively Addressing Market Needs Ahead of the Competition

Given the changes in the market in recent years, requests to increase equipment reliability and productivity will surely exceed previous levels. To meet user needs in this kind of era, we decided to implement a model change, and achieved unparalleled development speed.

During the project, the key focus was the creation of a concept that conformed to the desires of users. Consequently, in the initial phase of development, there were many long and repeated discussions about what specifica-

tions would be selected and what should be dropped, which brought the concept into focus. Productivity is increasing in exposure equipment, but machine down-time even for an instant causes damage to the customer. Thus, achieving even greater reliability became our mission.

Born of this process, the CLEAN TRACK™ LITHIUS Pro™, is an extremely compact yet highly productive product.

Not content with an 80% share of this market, we will pursue further improvements in our technology development capabilities and manufacturing technology capabilities to launch new products in the global market in a timely manner.

Masami Akimoto: Senior VP & General Manager, Development



A Challenge-Oriented Mindset Produces More Highly Skilled and Motivated Employees

The drive to doggedly pursue a theme and an unshakable will are essential to developing market-leading products. For this, we pursued this project behind closed doors, including the use of a special room for development. In the initial phase, 15 development engineers were involved, and 30 were involved at the prototype stage, which is an exceedingly small number of people. I believe that the shared mentality among this group increased motivation and sped up the pace of development.

In the development process, one of the primary focuses was increasing quality. Because it is not feasible to improve quality substantially once mass production has begun, we

pursued a design concept from the early development stage of minimizing the frequency of problems as well as repair time after coming on line. As a result, I think we were able to deliver equipment that offers enhanced reliability and that contributes to greater productivity for customers.

We learned that people who are prepared to take up the challenge of making the impossible possible will grow and even become leaders. TEL Values* are fostered through participation in projects, not through mere words alone.

* TEL Values are aimed at sustaining the Company's progress and dynamism. They validate the TEL-way, which is the driving force behind the Company's growth and a set of fixed ideals to be passed on.

TOKYO ELECTRON AT A GLANCE

Summary of Business

Semiconductor Production Equipment

Tokyo Electron supplies a wide range of semiconductor production equipment (SPE) and provides outstanding service support to the world's manufacturers of semiconductor devices. Tokyo Electron's products and technologies support high productivity and diverse customer needs and are thus indispensable in the manufacture of increasingly sophisticated semiconductors.

Tokyo Electron develops, manufactures and sells on a global basis coaters/developers, plasma etch systems, thermal processing systems, single wafer deposition systems and surface preparation systems that are essential for wafer processing processes, as well as wafer probers used in testing processes. Many of the Company's products command top global market shares.

FPD Production Equipment

Tokyo Electron supplies flat-panel display (FPD) production equipment that is used to manufacture displays for PCs, LCD TVs and other electronic devices to LCD panel manufacturers along with technical support. Specifically, Tokyo Electron develops, manufactures and sells FPD coater/developers and FPD plasma etch/ash systems. The size of substrates handled by this equipment is increasing by the year along with the growing popularity of large-screen LCD TVs. With its outstanding products and service support, Tokyo Electron is able to respond to customer needs for high quality and lower cost.

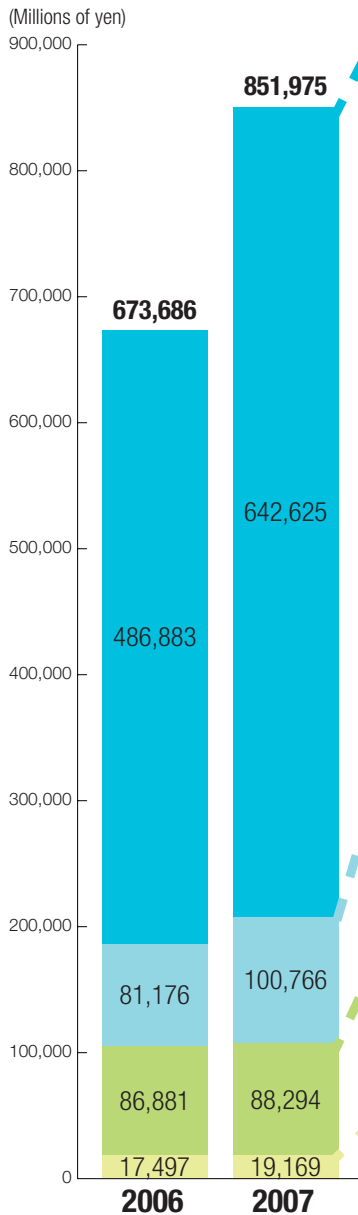
Electronic Components

In this segment, Tokyo Electron Device Limited (TED) is developing a new business paradigm consisting of two functions. One is as a distributor of a wide array of sophisticated electronic components from around the world. The other is a "development business," whereby TED provides optimal solutions to customers, from the first stage of planning to design, development and manufacturing, taking advantage of its strong product development and marketing capabilities.

Computer Network

Tokyo Electron delivers business solutions for the broadband era with a wide assortment of superior network-related and other products that cater to the needs of the time. Backed by a worldwide marketing organization that enables the Company to stay abreast of the latest technological developments around the globe, Tokyo Electron provides integrated solutions from product introduction to support.

Net Sales



Besides the aforementioned businesses, the Company recorded sales in the Others business of ¥1,121 million in fiscal 2007, compared with ¥1,249 million in fiscal 2006.

Main Products

Share of Net Sales

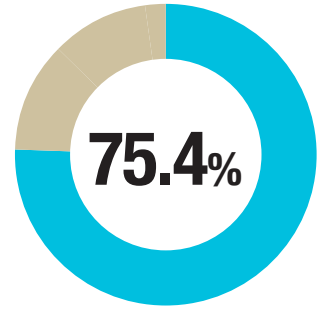
- Coater/Developer
- Spin-on Dielectric Coater
- Plasma Etch System
Dielectric Etch System, Silicon Etch System
- Thermal Processing System
- Single Wafer Deposition System
CVD System, Plasma Processing System
- Surface Preparation System
Auto Wet Station, Single Wafer Cleaning System, Pre-clean System, Scrubber System
- Wafer Prober
- Imported Products



Coater/Developer
CLEAN TRACK™ LITHIUS Pro™



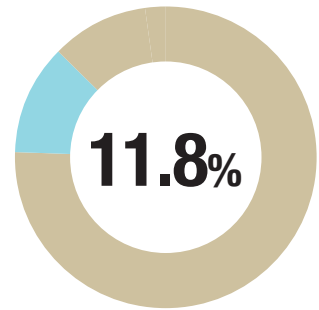
Thermal Processing System
TELINDY™



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



FPD Plasma Etch/Ash System
Impressio™



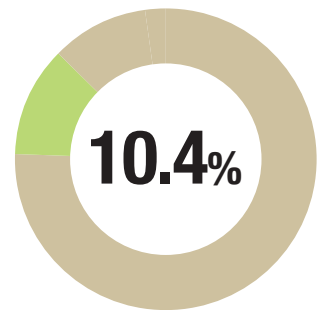
- Semiconductor Products
- Board Computer Products
- Other Electronic Components



Tokyo Electron Device Limited
inrevium™



Xilinx, Inc.



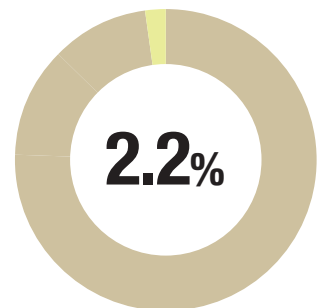
- Business Network & Security Solutions
- Storage Area Network Solutions
- Middleware/Software Solutions



F5 Networks, Inc.



Brocade Communications Systems, Inc.



REVIEW OF OPERATIONS

Semiconductor Production Equipment

Fiscal 2007 Review

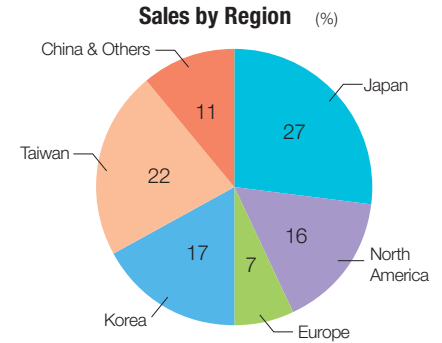
Division net sales were ¥642.6 billion, up 32.0% year on year.

The past fiscal year saw significant interest in our products from semiconductor manufacturers due to rising demand for memory devices for PCs, mobile phones and other digital consumer electronics. With expectations of higher demand for PCs due to the launch of Microsoft's new operating system, *Windows Vista™*, and for semiconductors to support increasingly sophisticated mobile devices and other applications, semiconductor manufacturers increased capital expenditures, mainly for DRAM and NAND flash memory. This division sought to capitalize on these trends with the launch of a stream of new products. The result of these efforts was higher sales, particularly of mainstay products.

By equipment type, backed by strong capital investment by semiconductor memory manufacturers, particularly in Asia, sales of coater/developers, etch systems, thermal processing systems, CVD systems and cleaning systems recorded large increase in sales. By model, Tokyo Electron saw sales growth of CLEAN TRACK™ LITHIUS™, a coater/developer compatible with next-generation design rule technologies, new TELINDY™ thermal processing systems, EXPEDIUS™ automated wet stations, and Telius™, a plasma etch system equipped with an SCCM™ –JI etch chamber.

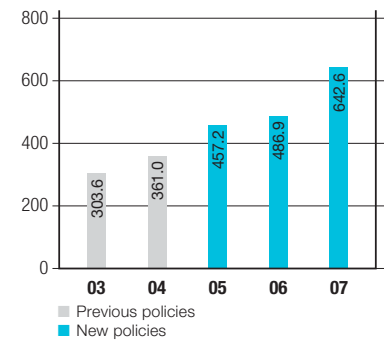
New Products Released in FY2007

Coater/Developer		CLEAN TRACK™ LITHIUS Pro™
Plasma Etch System		Dielectric Etch Tactras™ Vigus™
Thermal Processing System		Thermal PECVD TELINDY™ IRad™
Single Wafer CVD		Trias™ LT Ti/TiN
Surface Preparation System		Auto Wet Station EXPEDIUS™+
Wafer Prober		Precio™



Semiconductor Production Equipment Sales

(Billions of Yen)



- Notes: 1. Since fiscal 2005, sales of FPD production equipment have been shown separately from SPE Division sales, in which they were previously included. In the above graph, SPE sales for fiscal 2004 and prior years exclude FPD production equipment sales on a non-consolidated basis for the convenience of readers. (These figures are unaudited.)
2. Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed in the notes to consolidated financial highlights.

FPD Production Equipment

Fiscal 2007 Review

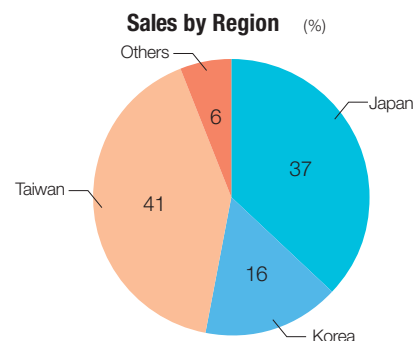
Sales in this division were ¥100.8 billion, up 24.1% year on year.

During the past year, LCD panel manufacturers increased investment to develop state-of-the-art display panels and ramp up production capacity in response to the rapid uptake of LCD TVs by ordinary consumers, which is being driven by the shift to digital broadcasting and high-definition (HDTV) broadcasts.

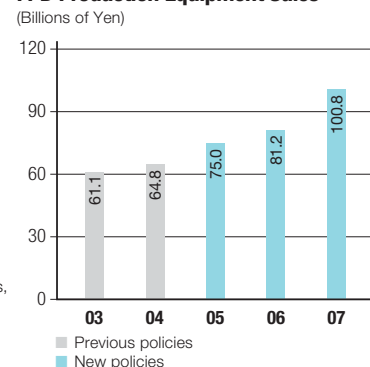
Responding to this operating environment, Tokyo Electron engaged in product development and sales activities designed to stay abreast of market trends and cater to customer needs. In fiscal 2007, for example, the Company introduced *Exceliner™*, an FPD coater/developers. This new product is designed to process eighth-generation large glass substrates and follows the launch of *Impressio™*, an FPD plasma etch/ash system. As a result of prevailing market conditions and Tokyo Electron's response, sales eclipsed initial forecasts to reach a record high in this division.

As a result of prevailing market conditions and Tokyo Electron's response, sales in this division reached a record high, with contribution of sales growth mainly in Japan.

Notes: 1. Since fiscal 2005, sales of FPD production equipment have been shown separately from SPE Division sales, in which they were previously included. In the right graph, FPD production equipment sales for fiscal 2004 and prior years are on a non-consolidated basis, while those from fiscal 2005 are on a consolidated basis.
2. Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed in the notes to consolidated financial highlights.



FPD Production Equipment Sales



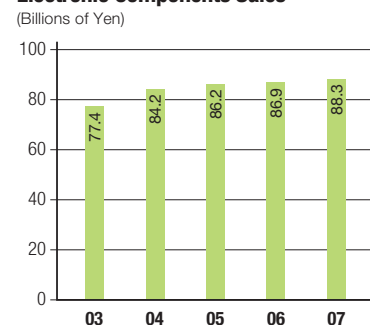
Electronic Components

Fiscal 2007 Overview

Sales in this division were ¥88.3 billion, 1.6% higher year on year.

In semiconductor products, the main line in this division, the Company reported firm sales of custom ICs for medical equipment and memory ICs for cell phone base stations, as client companies increased capital expenditures. Sales of dedicated ICs for use in multifunction printers were also higher. In software, sales of operating systems for POS terminals were healthy, as were sales of other electronic components such as switching power supplies, LCDs, and panel PCs for other industrial equipment.

Electronic Components Sales



Computer Network

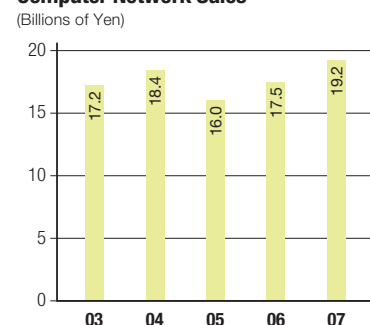
Fiscal 2007 Overview

Division sales were ¥19.2 billion, an increase of 9.6% compared to the previous fiscal year.

Sales of network and storage equipment were strong, driven by buoyant capital investment by companies seeking to enhance corporate internal control and personal information security. Sales of IT-related software and maintenance services also grew.

This business has been handled by Tokyo Electron Device Limited, since October 2006.

Computer Network Sales



RESEARCH AND DEVELOPMENT

The objectives of Tokyo Electron’s group-wide R&D efforts are to further enhance the Company’s competitiveness in the core businesses of semiconductor and FPD production equipment, and to develop the new products and businesses that will support the Company’s further growth in years to come.

Broad research themes for semiconductor production equipment

Semiconductor manufacturers, our customers, require production equipment that allows them to achieve finer geometries, higher speed, lower power consumption and higher productivity. SPE manufacturers are playing an increasingly important role in supporting semiconductor manufacturers in this regard. We believe Tokyo Electron’s competitiveness is based on our capability to provide production equipment that can realize the process performance customers require. Thus, Tokyo Electron collaborates closely with customers in developing new production equipment.

Accelerating R&D efforts to develop new businesses that can support future growth

In addition to efforts to enhance existing products, Tokyo Electron is also developing new products and businesses that can contribute to future growth from a medium- to long-term perspective.

One example is the Company’s work on a new type of plasma source known as Radial Line Slot Antenna (RLSA) for use in film deposition and etching processes of semiconductor manufacturing. In June 2007, the Company established Tokyo Electron Technology Development Institute, Inc., in order to accelerate efforts to commercialize this technology. In December 2006, Tokyo Electron acquired U.S.-based company Epion Corporation (now TEL Epion, Inc.), which boasts a unique low-energy ion control technology known as Gas Cluster Ion Beam. Tokyo Electron plans to cultivate these as the Company’s core technologies, and expects them to foster new innovation in semiconductor production.

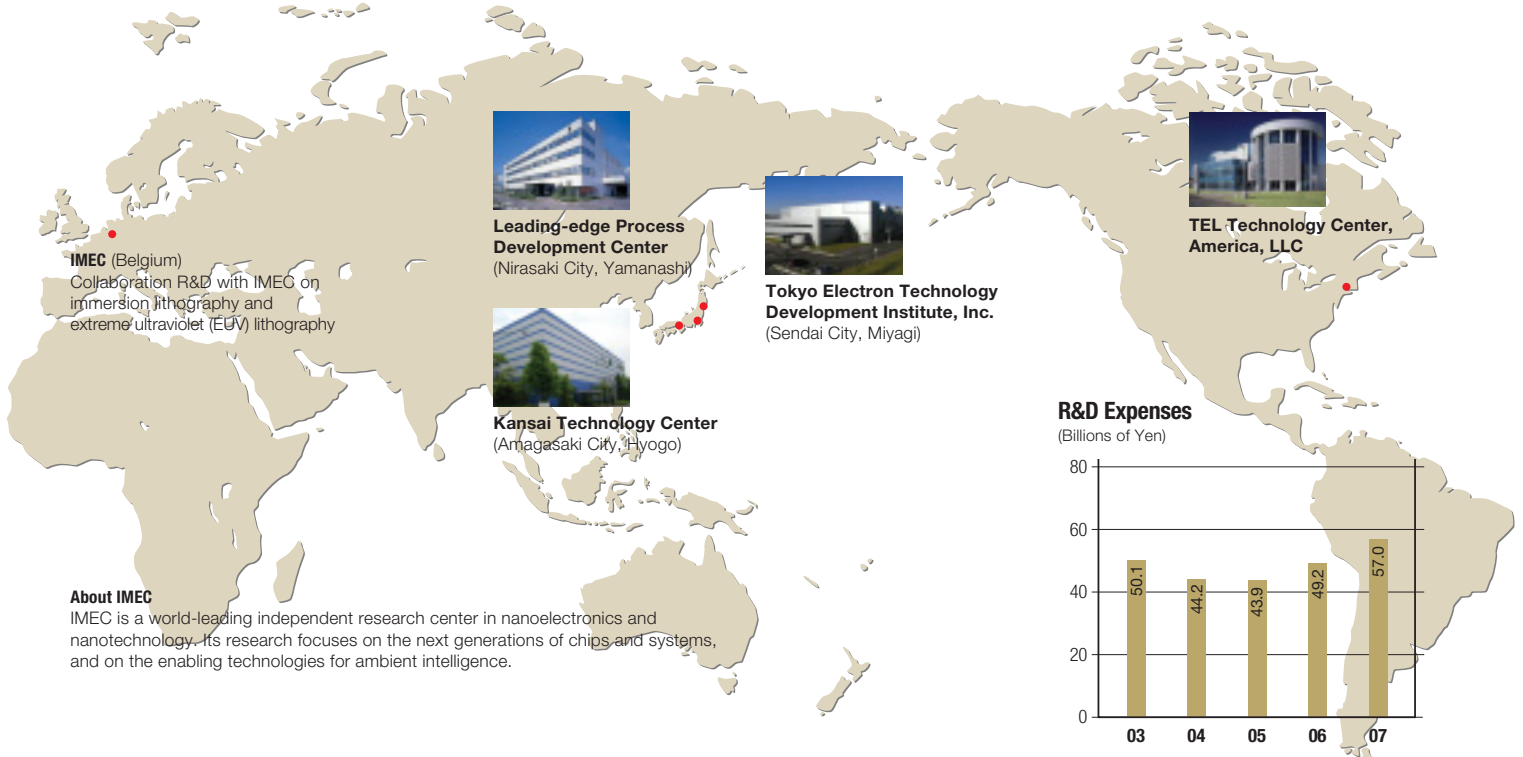
In addition, the Company is continuing to make advances in the field of Micro Electro-Mechanical Systems (MEMS), as part of its efforts to develop future technologies.

Promoting more effective R&D via consortia and ties with industry and academia

The scope of research and development that Tokyo Electron needs to address is expanding.

In order to make these research efforts more effective, Tokyo Electron has been working in collaboration with universities, and making active efforts in industry consortia as well as projects that include manufacturers and academic institutions.

Accelerating R&D to Drive Growth



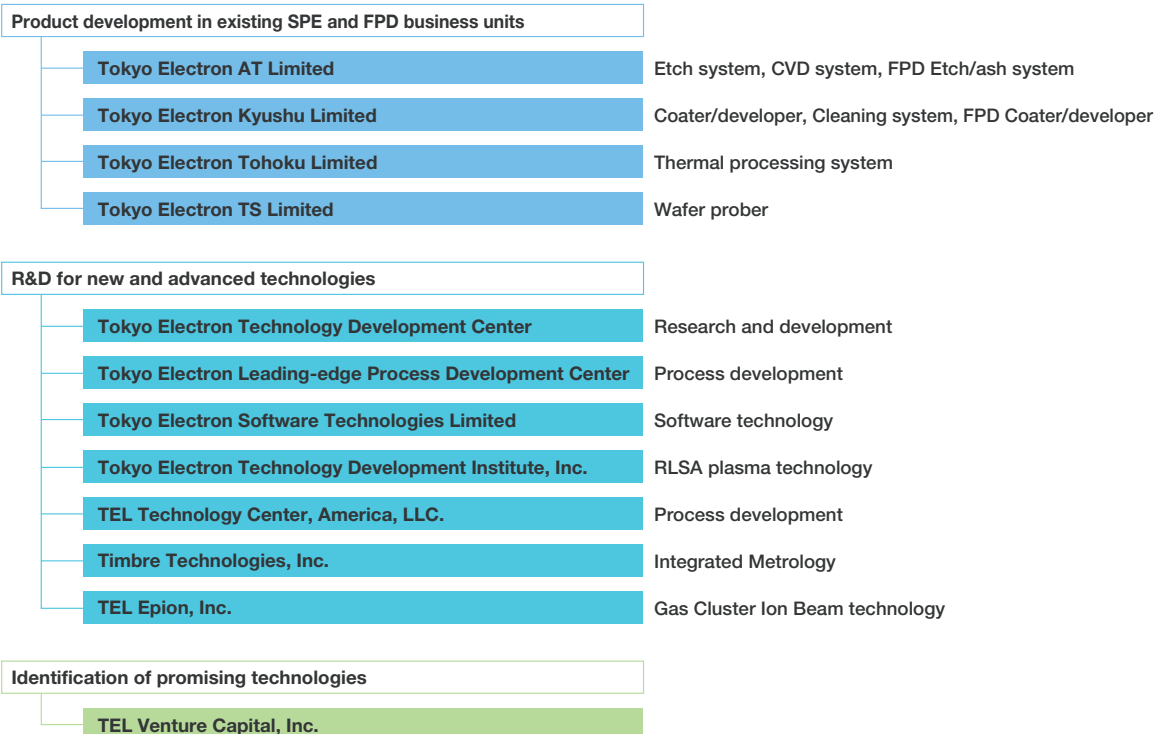
In Japan, one example is the semiconductor industry's MIRAI project (Millennium Research for Advanced Information Technology). Overseas, Tokyo Electron is participating in the International SEMATECH project, in the United States; the Albany NanoTech project, promoted by the New York State Government; as well as collaborating with IMEC in Belgium. In February 2007, the Company became a new member of the Semiconductor Research Corporation (SRC), a semiconductor research consortium which unites leading semiconductor-related manufacturers with world-class universities.

Unearthing the world's most promising technologies

Tokyo Electron's growth strategy, over the longer term, calls for the Company to "pursue new innovations" and "create and develop new businesses." The Company is supplementing its own in-house research activities with efforts to identify, evaluate and utilize promising technologies developed outside the Company. In July 2006, Tokyo Electron established TEL Venture Capital, Inc. to identify, evaluate and utilize promising new technologies on a global scale. TEL Venture Capital is based in California's Silicon Valley, which is home to many start-ups and venture capital firms.



Tokyo Electron's R&D Framework (As of June 2007)



CORPORATE GOVERNANCE

Tokyo Electron maintains a management philosophy that puts emphasis on maximizing corporate value and enhancing shareholder satisfaction. To this end, the Company is striving to enhance corporate governance by building an optimal corporate governance structure and managing it effectively. Efforts in this regard are founded on three basic principles.

Tokyo Electron's Basic Principles of Corporate Governance

1. Ensure the transparency and soundness of business operations
2. Facilitate quick decision-making and the efficient execution of business operations
3. Disclose information in a timely and suitable manner

The Corporate Governance Framework

Tokyo Electron uses the statutory auditor system, and has also adopted the executive officer system to separate the business execution function from the board of directors.

The Board of Directors

The board of directors consists of 13 directors, two of whom are external directors. During fiscal 2007, the board of directors met on 14 occasions. In order to ensure that the Company can respond quickly to changing business conditions, and to more clearly define management accountability, the term of office for directors is set at one year.

The board of directors has two committees: the Compensation Committee and the Nomination Committee, whose activities are intended to improve corporate governance. The Compensation Committee proposes the remuneration to be paid to the Chairman & CEO and the President & COO to the board of directors for approval. The Nomination Committee selects candidates for

directorships for submission to the annual shareholders' meeting, as well as candidates for CEO, which it submits to the board of directors for approval. Each of these committees is composed of members of the board of directors, excluding the Chairman & CEO and the President & COO.

The Board of Statutory Auditors

The Company has four statutory auditors, two of whom are outside auditors. The statutory auditors not only attend meetings of the board of directors and other important business meetings, they also conduct operations audits, accounting audits and risk evaluation, in addition to auditing the performance of duties by directors. During fiscal 2007, the board of statutory auditors met five times.

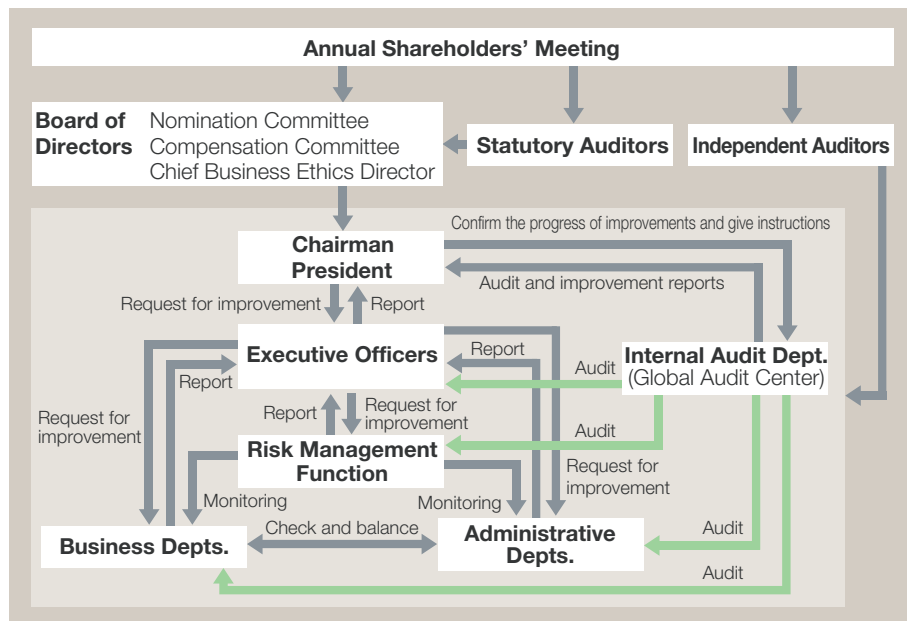
The Executive Officer System

In order to further clarify the roles of the board of directors and executives in charge of business operations, Tokyo Electron adopted the executive officer system in April 2003. This system promotes fast decision-making and the quick establishment and execution of business strategies.

Internal Controls and Risk Management

In order to enhance corporate value and ensure that all business activities are carried out responsibly, in the interests of all stakeholders, Tokyo Electron is taking steps to strengthen its internal control systems, and make them more effective. The Company is implementing specific activities based on the basic policy for internal control systems established in May 2006. It is also making progress on a project to develop a system of internal control over financial reporting which is based on the Financial Instruments and Exchange Law.

Diagram of the Corporate Governance, Internal Control System and Risk Management System



Internal Audit Department (Global Audit Center)

The Global Audit Center oversees the internal auditing activities of Tokyo Electron and its corporate group. The Center is responsible for auditing the business activities of domestic and overseas bases of the Group, as well as their compliance and systems, and evaluating the effectiveness of internal control systems. When necessary, the Global Audit Center also provides guidance to operating divisions. The Center reports the results of its audits to Company management on a regular basis, and organizes meetings to report its findings and exchange information with the statutory auditors.

Risk Management Function

The General Affairs Department is responsible for crisis management, including measures involving business risk and operational risk, as well as for establishing the necessary internal regulations for managing each risk category and activities for training and raising employees' awareness of risk management. These internal regulations include compliance standards, risk management regulations, rules governing the handling of personal information, standards for managing documents, guidelines for the timely disclosure of important information, and rules to prevent insider trading.

Coordination Between Statutory Auditors and Internal Audit Department

The Global Audit Center, which is responsible for internal auditing activities, makes regular reports to Company management on the results of its audits, and holds periodic meetings (25 times a year) to report its findings and exchange information with the statutory auditors.

Coordination Between Statutory Auditors and Independent Auditors

Tokyo Electron has engaged KPMG AZSA & Co. as its independent auditor. The Company provides the independent auditor with all required information and data to ensure that it can conduct its audits efficiently and effectively.

The statutory auditors obtain reports from KPMG AZSA & Co. describing a summary of audit plans during the fiscal year. They also receive opinions for the half-year and annual audits of the financial statements.

Compliance Framework

Trust is the cornerstone of Tokyo Electron's business foundation. The fundamental requirements for maintaining trust are rigorous conformity to ethical standards and compliance with the law, by individual employees and by each of our organizations.

The Group maintains high standards of ethics and a clear awareness of compliance, placing the utmost priority on compliance with laws, regulations and international business standards in all of its corporate activities.

Ethical Standards, Ethics Committee and Chief Business Ethics Director

Recognizing the need to establish uniform standards to govern all of its global business activities, in 1998, the Company formulated the "Tokyo Electron Code of Ethics," which concretely describes the Company's basic views on ethics. The same year, the Company established the Ethics Committee, which is responsible for promoting business ethics awareness, and appointed a Chief Business Ethics Director to supervise these efforts.

In June 2007, the Tokyo Electron Code of Ethics was rewritten to make it easier to understand, and to reflect the changing ethical norms of the current era.

Compliance Regulations

In 2004, the Company established compliance regulations based on its ethical standards. These regulations are intended to ensure that all individuals who take part in business activities for the Group clearly understand the pertinent laws, regulations, international standards and internal company rules, and continuously apply these rules in all of their activities.

Compliance Education for Employees

Information on compliance issues is available to employees via the Company intranet. The Company also conducts web-based training programs for employees, and takes other steps to promote broad awareness of compliance.

Internal Reporting System: hotline

In the event that an employee becomes aware of any activity which may violate laws, regulations or principles of business ethics, the Company operates an internal reporting system (hotline) that employees may use to report their concerns. Strict confidentiality is maintained to protect the whistleblower, and ensure that they are not subject to any disadvantage or repercussions.

Protection of Personal Information

Following the full introduction of Japan's personal information protection law, the Company formulated a basic directive and regulations to protect personal information. The Company conducts training programs to educate employees on how to handle such information, and to ensure that the rules and policies are widely understood. The Company uses software to monitor any personal information stored on PCs provided to employees in Japan, and has installed servers exclusively for storing personal information, among other actions.

Remuneration for Directors, Executive Officers and Statutory Auditors

The Company and its subsidiaries (excluding listed companies) have introduced incentive systems, such as business results-based remuneration, and stock options linked to share prices. Effective from fiscal 2006, the Company revised its executive remuneration system to link remuneration more closely to financial performance and shareholder value and also improve management transparency and its competitive strength.

New Remuneration System for Executives

1. The remuneration for Company directors and executive officers is composed of two elements: a fixed monthly salary, and an annual bonus which is linked to earnings performance.
2. The total amount of performance-linked remuneration (annual bonuses) for directors and executive officers of the Group is set

at a maximum of 3% of consolidated net income. This remuneration is split between cash bonuses and stock-based remuneration (stock options), at a ratio of roughly two to one. The stock-based remuneration takes the form of new stock warrant contracts with an exercise price of one yen per share. This is because current securities and exchange regulations make it difficult to introduce and implement direct share issuance, or the sort of transfer-restricted shares that are used in countries such as the United States. The restricted period on exercising stock options is set at three years.

3. The earnings-linked remuneration (annual bonuses) of external directors does not include stock options.
4. In order to ensure that statutory auditors maintain full independence from management pressures, the compensation of statutory auditors consists of a fixed monthly salary only.
5. Retirement allowances for directors, statutory auditors and executive officers were abolished at the end of fiscal 2005, as part of the revisions to Tokyo Electron's remuneration system for executives.

Performance-linked remuneration comprises a relatively large share of executives' total remuneration. Tokyo Electron thinks that this will give executives a strong incentive to improve the Company's earnings performance and elevate the share price, since they share in both the benefits and the risks experienced by shareholders.

Disclosure of the Individual Compensation of Representative Directors

In order to increase transparency and reflect shareholders' interests, Tokyo Electron discloses the remuneration paid to each representative director (Chairman & CEO and President & COO), as well as the aggregate remuneration paid to directors and statutory auditors, in its business report, which is sent to shareholders along with the Notice of Annual General Meeting of Shareholders.

Disclosure Policy

Tokyo Electron is committed to disclosing information about the Company in a fair, prompt and accurate manner, to ensure that all stakeholders, including shareholders and other investors, can obtain an accurate, in-depth understanding of the Company and its activities, and evaluate the Company's corporate value appropriately. The Company also solicits feedback from its stakeholders as part of its information disclosure activities, and uses the feedback as a point of reference to guide corporate management.

Information Disclosure Standards

Tokyo Electron complies fully with the Securities and Exchange Law, and the rules on timely disclosure established by the Tokyo Stock Exchange.

Furthermore, even when the information is not subject to regulations on timely disclosure, the Company discloses the information proactively, in a fair, prompt and accurate manner if

the information is deemed useful in providing stakeholders with an accurate understanding of the Company.

Disclosure Practices

If it is subject to the rules on timely disclosure (material information), Tokyo Electron will release the information simultaneously in a press release, and via the Tokyo Stock Exchange's "Timely Disclosure Network" (TDnet), and will post the information on its website as soon as possible, following the official announcement.

Even when it does not fall into the category of "material information," the Company will voluntarily disclose information which may be of interest to stakeholders, in a fair, accurate, and easy-to-understand manner, either on its website or in printed form, through various means of communication.

Tokyo Electron conducts meetings to discuss its financial results with securities analysts and investors; these meetings are also open to members of the press. The company makes audio and video recordings of its fiscal year-end and mid-term financial results meetings, and posts these recordings on the Company's website. All of the documents distributed at its quarterly financial results meetings are also posted on the website.

To ensure that foreign investors have fair and equal access to the information, in principle, the Company strives to disclose all information simultaneously in Japanese and English. However, due to the time required for translation, there may be cases where the posting of English information to the website is delayed slightly.

IR Spokespersons

To ensure that information is accurate and disclosure is fair, the Company's major investor relations activities will be undertaken by official IR spokespersons—either the CEO, the COO, the IR director, or representatives of the IR department. In principle, information on the Company shall not be provided to the press, or to persons connected with the securities market, by any executive or employee of Tokyo Electron acting alone other than official IR spokespersons. When necessary, IR spokespersons may formally appoint other executives or employees to speak on their behalf.

Shareholder Measures

Tokyo Electron mails a "Notice of Annual General Meeting of Shareholders" to shareholders more than three weeks in advance of the meeting, as one of its measures to vitalize these meetings and to promote smooth and efficient voting. It also sets the date of the Company's meeting to avoid days on which many such meetings are concentrated. Shareholders are also free to cast their votes via the Internet. Tokyo Electron also participates in the web-based voting platform for institutional investors operated by Investor Communications Japan Inc. (ICJ). To supplement the above shareholder meeting-related initiatives, Tokyo Electron's website carries notices, resolutions and presentation materials of shareholders' meetings. An English version of the "Notice of Annual General Meeting of Shareholders" is also provided.

BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVE OFFICERS

(As of June 22, 2007)

Board of Directors



Tetsuro Higashi
Chairman & CEO



Tetsuo Tsuneishi²
Vice Chairman of the Board



Kiyoshi Sato
President & COO



Haruo Iwatsu²
Executive Vice President



Mamoru Hara¹
Corporate Director



Masao Kubodera
Corporate Director



Yuichi Honda^{1,3}
Corporate Director



Hirofumi Kitayama²
Corporate Director



Hiroshi Takenaka
Corporate Director



Kenji Washino²
Corporate Director



Hikaru Ito¹
Corporate Director



Hiroshi Inoue^{*}
Corporate Director/
President, Tokyo
Broadcasting System, Inc.



Yasuhiro Tsunemi^{1,*}
Corporate Director

Statutory Auditors



Takeo Tanaka
Statutory Auditor



Mitsutaka Yoshida
Statutory Auditor



Togo Tajika^{*}
Statutory Auditor



Hiroshi Maeda^{*}
Statutory Auditor/
Nishimura & Partners

Notes:

1. Member of Compensation Committee

2. Member of Nomination Committee

3. Chief Business Ethics Director

^{*} External director, external statutory auditor

Executive Officers

Chairman & CEO

Tetsuro Higashi

Vice Chairman of the Board

Tetsuo Tsuneishi

IR, Legal, Intellectual Property,
Customer Relations

President & COO

Kiyoshi Sato

Executive Vice President

Haruo Iwatsu

General Manager, Development &
Manufacturing

Senior Vice Presidents

Hirofumi Kitayama

General Manager, Manufacturing (Quality)
and General Manager, SPE-3 Division

Takashi Ito

Deputy General Manager, SPE-1 Division,
and General Manager, Clean Track BU

Kenji Washino

Deputy General Manager, SPE-2 Division,
and General Manager, Single Wafer
Deposition BU

Hikaru Ito

Deputy General Manager, SPE-2 Division,
and General Manager, Etch Systems BU

Hiroshi Takenaka

Deputy General Manager, SPE-3 Division,
and General Manager, Thermal Processing
Systems BU

Hiroki Takebuchi

Corporate Strategic Planning,
HR Development Center

Mitsuru Onozato

General Manager, FPD Division

Masami Akimoto

General Manager, Development

Vice Presidents

Yoshiteru Harada

General Manager, Administration

Yoshikazu Nunokawa

General Manager, HR/Finance

Masaaki Hata

Deputy General Manager, SPE-1 Division,
and General Manager, Surface Preparation
Systems BU

Shunro Nagasawa

Deputy General Manager, SPE-4 Division,
and General Manager, Test Systems BU

Hideyuki Tsutsumi

General Manager, Sales & Services, Japan

Yasuyuki Kuriki

General Manager, Sales & Services, Korea

Chiaki Yamaguchi

General Manager, Sales & Services, Asia

Jinzaburo Sakamoto

Deputy General Manager, Sales &
Services Division (Global Services),
and General Manager, Post Sales

Kiyoshi Sunohara

General Manager, Marketing

Yoshinori Inoue

General Manager, MEMS

Shigetoshi Hosaka

General Manager, Technology &
Development Center, Leading-edge
Process Development Center

BU: Business Unit

ENVIRONMENTAL, HEALTH AND SAFETY ACTIVITIES

Tokyo Electron's corporate values include placing the highest priority on people's health and safety and taking the global environment into account when conducting business activities.

Fundamental Policy

Tokyo Electron positions environmental, health and safety activities as one of its most important management issues to achieve sustained corporate growth and continued development of society. With that in mind, Tokyo Electron is committed to reducing environmental loads across its activities, and to ensuring absolute safety in the Company's business premises and in those of its customers.

Tokyo Electron embodied these commitments in "TEL's Credo and Principles on Environmental Preservation" and "TEL's Safety and Health Credo and Principles" formulated in 1998. The former statement was reviewed and revised in May 2006 in light of the direction the business is taking and the Company's evolving approach to these issues. The recent revisions clarify a road map for environmental protection measures in product development; they mandate evaluation of environmental issues in the design, manufacture and utilization of our products, and disclosure of information to stakeholders through the publication of environmental and other reports.

EHS Management

Since 1997, Tokyo Electron has developed and implemented environmental management systems based on ISO 14001 standards, mainly for manufacturing operations, and obtained such certification.

Adoption of Environmental Accounting

Tokyo Electron has introduced an environmental accounting system that quantifies the cost of its activities in respect of environmental protection, and uses this as the basis for developing corporate action policies. For more information on achievements in fiscal 2007, please see the "Environmental and Social Report 2007" to be released in October 2007.

Product-related Environmental Initiatives

Proactive Environmentally Conscious Product Design

As clearly set forth in our revised TEL's Credo and Principles on Environmental Preservation, Tokyo Electron believes that promotion of product designs sensitive to the environment is vital. Tokyo Electron has positioned promotion of energy conservation in its

products, and reduction and replacement of hazardous chemicals in its products as priority issues.

1. Energy Conservation During Equipment Use

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

1. Reduce energy consumption of the equipment
2. Reduce energy consumption of peripheral devices
3. Use equipment in ways that conserve energy
4. Reduce energy consumption of the clean room
5. Overall clean room management (planned and appropriate operation)

Tokyo Electron played a central role in developing the SEMI S23 Guide for Conservation of Energy, Utilities and Materials Used by Semiconductor Manufacturing Equipment that was adopted as the global standard by the semiconductor industry. Tokyo Electron assesses the energy consumption of its products in accordance with these guidelines.

2. Hazardous Substances in Products

Growing out of the concern that hazardous substances in parts and materials could affect the environment and the ecological system, regulations restricting the use of such substances in automotive and electrical products are being tightened throughout the world. In July 2006, for example, the RoHS^{*1} directive came into force in Europe. Having determined that its semiconductor production equipment could be exempt from these directives as they fall within the definition of "large-scale stationary industrial tools," Tokyo Electron has prepared a written statement to that effect. Regarding the China RoHS directive^{*2} issued in March 2007, Tokyo Electron has achieved complete compliance. Tokyo Electron Group is acting in advance of regulatory requirements and has established the Chemical Substance Measures Team to share necessary information. The team comprises representatives of manufacturing divisions. In addition, Tokyo Electron Group is seeking active cooperation from suppliers, and investigating substances contained in products and finding and promoting substitutes. In fiscal 2007, Tokyo Electron Group formulated a schedule for the complete elimination of six substances specified by the RoHS directive.

*1 Restriction of the Use of Certain Hazardous Substances in electrical and electronic equipment

*2 The official name of the Chinese version of RoHS is Measures to Control Pollution From Electronic Information Products

ISO-14001-Certified Plants and Offices

Company/plant	Plant	Certification date	Certification number
Tokyo Electron AT Limited Tokyo Electron PS Limited	Sagami Plant	December 10, 1997	1110-1997-AE-KOB-RvA
Tokyo Electron Tohoku Limited	Tohoku Plant	February 19, 1998	1118-1998-AE-KOB-RvA
Tokyo Electron Kyushu Limited	Kumamoto/Koshi/Ozu/Saga plants	March 26, 1998	1120-1998-AE-KOB-RvA
Tokyo Electron AT Limited	Yamanashi Plant (Fuji/Hosaka area)	May 15, 1998	1124-1998-AE-KOB-RvA
	Miyagi Plant	March 1, 2005	01245-2005-AE-KOB-RvA
Tokyo Electron Device Limited	Yokohama Office	July 14, 2004	EC04J0144

Health and Safety Activities

Tokyo Electron promotes health and safety in all of its operations. This includes giving top priority to the health and safety of our employees and customers, and designing products with safety in mind. TEL's Safety and Health Credo and Principles clearly state that all employees are responsible for being constantly aware of health and safety considerations in all their business activities.

Continuing on from fiscal 2006 when the Company held safety training programs for top management, in fiscal 2007 the Company ran safety training for middle management. Targeted at department managers, section heads, group leaders and other mid-level management personnel, this training included discussion of case studies. The Company also introduced a training technique called team resource management (TRM) for on-site leaders. The goal of this training is to get workers to appreciate that communication and teamwork, which people usually do not pay much attention to, is actually extremely important and difficult to achieve.

Communicating With Stakeholders

Tokyo Electron Group actively promotes communication with all stakeholders. To develop environmental, health and safety initiatives, we believe that it is vital to share information as much as possible with all parties related to our business activities and to receive feedback.

One example is efforts to give back to local communities. Our philosophy states, "We place the highest priority on gaining the trust and acceptance of customers, suppliers, investors, and communities around the world" and "We therefore strive to be a faithful and cooperative member of the communities and nations where we do business." In line with this philosophy, we engage in activities to contribute to society and build relationships of trust with governments and local communities around our facilities. These activities are conducted not just in Japan but also abroad.

For further details, see "Environmental and Social Report 2007" (to be published in October 2007).

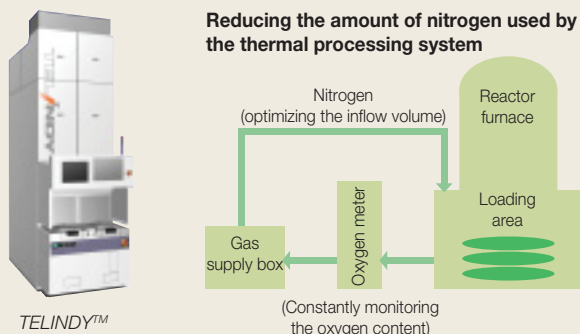
URL: <http://www.tel.com/eng/citizenship/ehsreport.htm>



TOPICS

Reducing Nitrogen Used by Thermal Processing Systems

In the loading area of the thermal processing system, where wafers are loaded for input into the reactor furnace, the oxygen content is kept at a low level by injecting nitrogen to prevent the surface of the wafer from oxidizing naturally. In the previous model, the inflow volume of nitrogen was kept at a certain level, but for TELINDY™, we have made it possible to constantly monitor the oxygen content in the loading area to control it, and so we can optimize the inflow volume of nitrogen according to the oxygen content at each of the wafer



processing stages. This has enabled us to reduce the use of nitrogen by approximately 60% compared with the amount used by the previous model.

Tokyo Electron Kyushu Plants Trees to Protect the Watershed

In March 2007, Tokyo Electron Kyushu planted trees on Mt. Tawara in Aso to create a forest to protect the watershed. Based on a 5-year plan, this was the second time trees have been planted by the company. Many Tokyo Electron Kyushu employees and family members participated.



Tokyo Electron Kyushu employees and family members plant trees on Mt. Tawara, Aso.

Later, after the hard work was over, participants enjoyed a barbecue and the children present took part in a quiz to test and foster their knowledge of environmental issues.

INTELLECTUAL PROPERTY REPORT

Process and mechatronic technologies used in the manufacture of semiconductors and flat panel displays represent Tokyo Electron's core technologies. Tokyo Electron devotes considerable resources to developing technologies that bolster the competitiveness of its products. Since the fiscal year ended March 31, 2006, as measures to raise profitability, Tokyo Electron has been promoting three themes: (1) launching new products imbuing high added value, (2) raising manufacturing capabilities, and (3) expanding post-sales businesses. Protecting the intellectual property rights of independently developed proprietary technologies and products is vital in this context to ensure the smooth growth of businesses.

The integration of our intellectual property strategy with our technological and product strategies is thus important to realizing maximum benefits from development efforts.

Recently, Tokyo Electron has been developing technologies in cooperation with semiconductor manufacturers, its customers. Amid this development, the areas to be protected by intellectual property rights are diversifying. Tokyo Electron actively files patent applications for protecting intellectual properties such as software technologies, process management technologies for multiple manufacturing equipment and other technologies.

Policies on Acquiring and Managing Intellectual Property, Managing Trade Secrets and Preventing Technology Leakage

Tokyo Electron has a set of internal rules that define the management of its intellectual property. These rules were revised based on the purport of the Revised Patent Law that came into force two years ago. Under these rules, Tokyo Electron provides incentives for inventors and creators within Tokyo Electron. We make lump-sum payments at the time of submission of applications for patents, utility model rights, designs and other property rights. Bonuses are also given as incentives if such creations are implemented at Tokyo Electron or licensed to third parties. We have also established an incentive scheme, including awards to motivate inventors and creators.

Management of trade secrets is handled according to Tokyo Electron's "Internal Rules on Managing Technology and Marketing Information" and "Manual for Managing Technology and Marketing Information." The provisions of these measures are approximately equivalent to those of the government's "Policies Regarding Managing Trade Secrets" and "Policies Regarding the Prevention of Technology Leakage" (both issued by the Ministry of Economy, Trade and Industry). Furthermore, to raise the effectiveness of trade secret management, Tokyo Electron runs an in-house training program and ensures that it monitors the subsequent status of trade secret handling.

By promoting greater cooperation with the materials and procurement divisions, Tokyo Electron is strengthening measures against imitation and pirated technologies at the component level. Furthermore, outside of Japan, Tokyo Electron is strengthening tie-ups with local law offices in the U.S. and in Asia and actively conducting other activities to counter imitation and pirated products. These include cooperating with Japan's Ministry of

Economy, Trade and Industry, Japan External Trade Organization, Japan Intellectual Property Association and other organizations, and participating in various activities.

Status of Intellectual Property Application

The graph in this section shows historical data on the number of patent applications filed worldwide by Tokyo Electron up to the end of March 2007. Tokyo Electron is reviewing its strategy regarding the country of application, including Japan, from the standpoint of key manufacturing bases and the markets of its operating divisions. In particular, in addition to the recent emphasis on filing applications in the U.S., Tokyo Electron is also stressing the need to file applications in China, South Korea, Taiwan and other countries as a countermeasure against imitation and pirated products, mainly in East Asia.

Contribution of License-related Activities

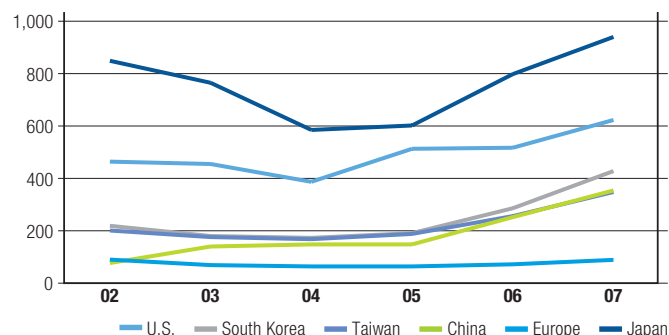
In developing and implementing our intellectual property rights strategy, we do not see intellectual property rights acquired by filing applications and securing rights for proprietary products and development technologies as a source of income from licensing to other companies. Rather we view this as a method of differentiating our own products and bolstering our competitive advantages.

Semiconductor and FPD production technologies are becoming increasingly advanced and sophisticated. To effectively develop new products incorporating leading-edge technologies, and bring them to market as quickly as possible, it is essential to utilize all available intellectual properties. Tokyo Electron places high value on introducing cutting-edge technology and constantly enhancing the efficiency of research and development, and on quickly launching new products. We also respect the intellectual property rights of others, just as we do our own, and effectively use them through licensing.

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

Number of Patent Applications

(Applications)



FINANCIAL SECTION

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CONSOLIDATED ELEVEN-YEAR SUMMARY

Tokyo Electron Limited and Subsidiaries
Years ended March 31

	Thousands of U.S. dollars			
	2007	2007	2006	2005
Net sales ¹	\$7,217,072	¥ 851,975	¥ 673,686	¥ 635,710
Semiconductor production equipment	5,443,671	642,625	486,883	457,191
FPD production equipment	853,592	100,766	81,176	75,038
Computer network	162,380	19,169	17,497	15,966
Electronic components	747,936	88,294	86,881	86,249
Other	9,493	1,121	1,249	1,266
Operating income (loss)	1,219,643	143,979	75,703	63,983
Income (loss) before income taxes	1,223,333	144,414	75,328	55,775
Net income (loss)	773,087	91,263	48,006	61,601
Domestic sales	2,658,334	313,816	262,532	232,678
Overseas sales	4,558,738	538,159	411,154	403,032
Depreciation and amortization ⁷	159,427	18,820	19,170	21,463
Capital expenditures ²	229,808	27,129	13,335	9,876
R&D expenses	482,522	56,962	49,182	43,889
Total assets	6,527,013	770,514	663,243	644,320
Total net assets (Total shareholders' equity)	3,979,762	469,811	376,900	332,165
Number of employees		9,528	8,901	8,864
	U.S. dollars			
Net income (loss) per share of common stock: ³				
Basic	\$ 4.33	¥ 511.27	¥ 267.61	¥ 343.63
Diluted ⁴	4.32	509.84	267.32	343.54
Net assets per share of common stock	21.80	2,573.72	2,112.30	1,863.28
Cash dividends per share of common stock				
Actual	0.87	103.00	55.00	45.00
Adjusted ⁵	0.87	103.00	55.00	45.00
Number of shares outstanding (thousands)		180,611	180,611	180,611
Number of shareholders		41,289	46,272	60,857
ROE		21.8	13.5	20.3
Operating margin		16.9	11.2	10.1
Equity ratio		59.7	56.8	51.6
Asset turnover (times)		1.20	1.03	1.05
	U.S. dollars			
Net sales per employee	\$ 757,459	¥ 89,418	¥ 75,687	¥ 71,718

1 Until fiscal 2004, the FPD (Flat Panel Display) division had been included in Semiconductor production equipment. The Computer systems division was renamed the Computer network division on April 1, 2000.

2 Capital expenditures before fiscal 1999 represent the gross increase in property, plant and equipment, intangible assets and other depreciable assets. Capital expenditures after 2000 only represent the gross increase in property, plant and equipment.

3 Per share amounts before the year ended March 1998 have been restated to reflect a 1.1-for-1 stock split.

From fiscal 2003, the Company applied "Accounting Standards Regarding Net Income per Share (Business Accounting Standards No. 2)" and "Practical Guidelines for Applying Accounting Standards Regarding Net Income per Share (Practical Guidelines for Applying Accounting Standards No. 4)" released by the Accounting Standards Board of Japan (ASBJ).

4 Dilution is not assumed for the years ended March 2003, 2002 and 1999.

5 Effective from fiscal 2005, Tokyo Electron changed its method of revenue recognition upon receiving customer confirmation of product set-up and testing of products for Semiconductor and FPD production equipment. The effect of this change decreased net sales, operating income and income before income taxes by ¥80,956 million, ¥20,541 million and ¥20,563 million, respectively, for fiscal 2005, compared with the corresponding amounts which would have been recorded if the previous method had been applied.

6 Effective from fiscal 2005, Tokyo Electron changed its method to account for after-sale repair expenses by recording accrued warranty expenses for Semiconductor and FPD production equipment. The effect of this change decreased operating income and income before income taxes by ¥635 million and ¥13,106 million, respectively, for the year ended March 31, 2005, compared with the corresponding amounts which would have been recorded if the previous method had been applied.

7 Amortization of goodwill is not included in depreciation and amortization.

Millions of yen

2004	2003	2002	2001	2000	1999	1998	1997
¥ 529,654	¥ 460,580	¥ 417,825	¥ 723,880	¥ 440,729	¥ 313,820	¥ 455,585	¥ 432,785
425,747	364,689	325,715	619,001	355,103	242,240	380,184	355,877
—	—	—	—	—	—	—	—
18,448	17,193	17,031	14,054	12,357	12,878	15,262	14,408
84,229	77,380	73,658	89,211	72,051	57,734	60,139	62,500
1,230	1,318	1,421	1,614	1,218	968	—	—
22,280	1,119	(18,310)	121,086	35,816	6,383	63,296	60,389
14,936	(23,010)	(22,919)	99,132	29,689	6,038	62,834	60,487
8,297	(41,554)	(19,938)	62,012	19,848	1,866	30,009	29,975
242,318	190,513	186,516	299,272	183,987	149,838	230,550	256,808
287,336	270,067	231,309	424,608	256,742	163,982	225,035	175,977
24,963	27,374	26,294	21,679	19,446	17,921	12,652	10,167
11,007	12,359	30,946	49,403	18,999	23,478	33,302	18,456
44,150	50,123	53,827	52,911	37,135	26,842	26,813	20,988
561,632	524,901	556,915	729,511	499,499	414,903	493,600	387,077
275,800	252,904	307,579	333,281	273,603	257,716	261,009	207,476
8,870	10,053	10,171	10,236	8,946	7,835	7,287	6,277

Yen

¥ 46.37	¥ (238.57)	¥ (113.85)	¥ 353.76	¥ 113.53	¥ 10.70	¥ 174.68	¥ 181.97
45.78	—	—	344.75	110.64	10.70	168.43	172.74
1,543.73	1,456.23	1,756.73	1,901.38	1,560.27	1,477.93	1,495.20	1,381.47
10.00	8.00	8.00	38.00	14.00	12.00	30.00	28.00
10.00	8.00	8.00	38.00	14.00	12.00	30.00	25.45
180,611	175,698	175,691	175,691	175,660	174,624	174,569	150,189
60,873	49,259	37,116	42,781	7,147	8,576	9,562	11,097

Percent

3.1	(14.8)	(6.2)	20.4	7.5	0.7	12.8	15.4
4.2	0.2	(4.4)	16.7	8.1	2.0	13.9	14.0
49.1	48.2	55.2	45.7	54.8	62.1	52.9	53.6
0.97	0.85	0.65	1.18	0.96	0.69	1.03	1.10

Thousands of yen

¥ 59,713	¥ 45,815	¥ 41,080	¥ 70,719	¥ 49,265	¥ 40,054	¥ 62,520	¥ 68,948
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FINANCIAL REVIEW

Financial results in this section refer to the Company's performance for fiscal 2007, the year ended March 31, 2007. Percentage comparisons refer to year-on-year changes from fiscal 2006.

The Company adopted the following revised accounting standards and business segment.

- Effective from fiscal 2005, the policy for revenue recognition of semiconductor and FPD production equipment was changed from the time of shipment of products to, in principle, the time of confirmation of set-up and testing of products. The effect of this change decreased net sales, operating income and income before income taxes by ¥80,956 million, ¥20,541 million and ¥20,563 million, respectively, for fiscal 2005, compared with the corresponding amounts which would have been recorded if the previous method had been applied.
- Effective from fiscal 2005, the accounting treatment of after-sale repair expenses incurred during the warranty period for semiconductor and FPD production equipment was changed. In the past, the Company charged such expenses to income as incurred. Effective from the fiscal year ended March 31, 2005, the Company provides accrued warranty expenses for estimated expenses, calculated on the basis of after-sale repair expenses incurred in the past. The effect of this change decreased operating income and income before income taxes by ¥635 million and ¥13,106 million, respectively, for the year ended March 31, 2005, compared with the corresponding amounts which would have been recorded if the previous method had been applied.
- On October 1, 2006, Tokyo Electron's computer networks division was transferred to Tokyo Electron Device Limited. Accordingly, sales from computer networks, which formerly had been included in the industrial electronic equipment segment, are now included as part of the electronic components and computer networks segment (formerly the electronic components segment), effective from fiscal 2007.

Sales and Income

Operating Environment

During the fiscal year ended March 31, 2007, the US economy was affected by a housing slump during the latter half of the year, but consumer spending and capital investment remained firm. In Asia, strong exports and brisk capital investment supported high economic growth in China, while both South Korea and Taiwan also registered favorable results. In Japan, meanwhile, the economy continued to recover on the back of aggressive capital investment and increased exports, mainly driven by good performing companies.

In the electronics industry, in which the Company participates, rising demand for digital consumer electronics, such as large flat-panel TVs, as well as rising market penetration for mobile phones and PCs in emerging economies, created a healthy business environment. These trends prompted manufacturers of semiconductors and flat-panel displays to invest aggressively in new plant and equipment.

	2003	2004	2005	2006	(Millions of Yen) 2007
Net sales	¥460,580	¥529,654	¥635,710	¥673,686	¥851,975
Gross profit	134,040	140,155	175,913	189,732	272,649
Gross profit margin	29.1%	26.5%	27.7%	28.2%	¥32.0%
Selling, general and administrative expenses	132,921	117,875	111,930	114,029	128,670
Operating income	1,119	22,280	63,983	75,703	143,979
Operating margin	0.2%	4.2%	10.1%	11.2%	16.9%
Income (loss) before income taxes	(23,010)	14,936	55,775	75,328	144,414
Net income (loss)	(41,554)	8,297	61,601	48,006	91,263

Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed in this financial review.

Sales

Consolidated net sales grew 26.5% year on year, to a new record high of ¥852.0 billion, supported by rapid growth in sales of semiconductor and FPD production equipment. By region, sales of semiconductor production equipment grew sharply in Japan, South Korea and Taiwan, while sales in other regions were steady. Sales of FPD production equipment were driven primarily by demand from Japan and Taiwan. As a result, net sales in Japan rose 19.5% year on year, to ¥313.8 billion, while overseas net sales increased by 30.9%, to ¥538.2 billion. Overseas net sales increased as a share of consolidated net sales, to 63.2% compared with 61.0% in fiscal 2006.

Meanwhile, consolidated orders received increased by 35.4% year on year, to ¥977.2 billion, and the consolidated order backlog at the end of fiscal 2007 rose 34.7%, to ¥486.3 billion. Both figures were historical records.

Gross Profit, SG&A Expenses and Operating Income

The cost of sales increased by 19.7% year on year, to ¥579.3 billion, and gross profit jumped 43.7%, to ¥272.6 billion. The gross profit margin improved by 3.8 percentage points, to 32.0%, the result mainly of the launch of new products, which pushed up average unit prices, a decline in warranty expenses and after-warranty expenses, and improvements to production efficiency which lowered the cost of sales.

Selling, general and administrative (SG&A) expenses increased by 12.8% year on year, to ¥128.7 billion, but the ratio of SG&A expenses to net sales improved to 15.1%, compared with 17.0% in fiscal 2006. R&D expenses, which are included in general and administrative expenses, rose by ¥7.8 billion, to ¥57.0 billion and were the major reason for the increase in SG&A expenses.

As a result, operating income grew 90.2% year on year, to ¥144.0 billion. The operating margin improved by 5.7 percentage points, to 16.9%. Both of these figures were new record highs for the Company.

Research and Development

R&D expenses, as noted earlier, rose 15.8% year on year, to ¥57.0 billion.

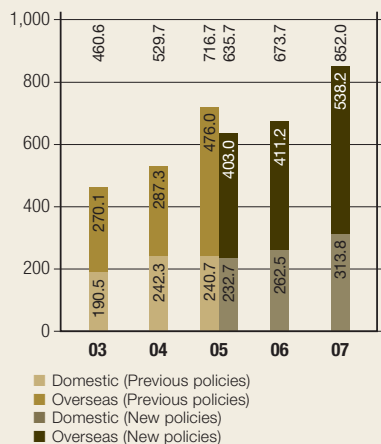
In semiconductor production equipment, R&D efforts focused on the development of new technologies and products that respond to rising market demands, not only for equipment that responds to finer designs rules of semiconductor devices, but also for responses to new materials for realizing higher speeds and lower power consumption. As a result of ongoing R&D efforts, the Company launched new semiconductor production equipment in all six product categories. In FPD production equipment, the focus remained on the development of equipment designed for large glass substrates.

Another important R&D theme was lowering the environmental load of production equipment based on their individual characteristics. A certain portion of the R&D budget is allocated for this purpose.

In addition to R&D spending to develop new technologies and products in existing areas of operation, the Company also invested in creating new businesses derived from its core technologies such as applying RLSA plasma source, which has superior features, to equipment, and MEMS-related equipment.

Domestic and Overseas Sales

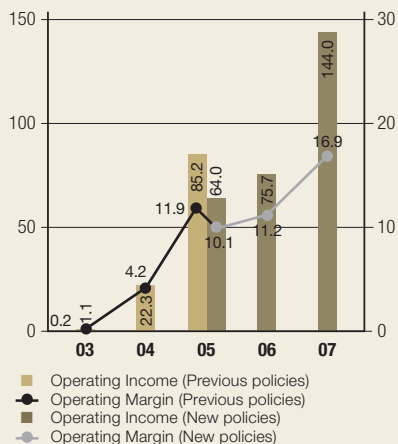
(Billions of Yen)



Operating Income and Operating Margin

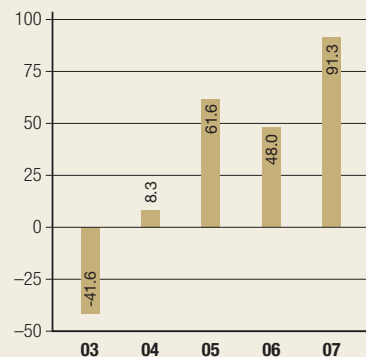
(Billions of Yen)

(%)



Net Income (Loss)

(Billions of Yen)



Other Income (Expenses) and Net Income

As was the case in the previous fiscal year, there were no major extraordinary gains or losses. In fiscal 2007, net non-operating income was ¥0.4 billion, compared with net non-operating expenses of ¥0.4 billion in fiscal 2006. As a result, income before income taxes rose 91.7% year on year, to ¥144.4 billion.

Net income grew 90.1% year on year, to ¥91.3 billion, a record for the Company. Net income per share increased from ¥267.61 in the previous fiscal year, to ¥511.27 in fiscal 2007.

Dividend Policy and Dividend

The fundamental policy regarding return of profit to shareholders is to pay dividends linked to business performance and backed by earnings. Since fiscal 2006, the Company has applied a new dividend policy that aims at a payout ratio of 20% of consolidated net income. On this basis, the Company increased the cash dividend per share by ¥48, to ¥103 per share. On a consolidated basis, this represented a dividend payout ratio of 20.1%.

Performance by Segment

Industrial Electronic Equipment Segment

Segment sales (including intersegment sales) rose 30.7% year on year in fiscal 2007, to ¥746.9 billion. Segment operating income grew 96.2%, to ¥140.4 billion, and the operating margin improved by 6.3 percentage points, to 18.8%.

Semiconductor Production Equipment

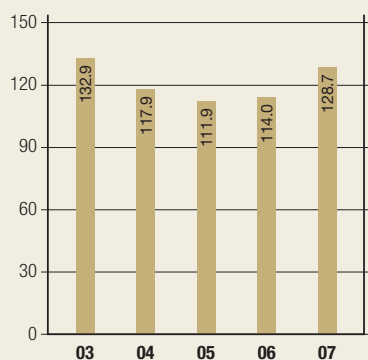
Sales to external customers in fiscal 2007 increased 32.0% year on year, to ¥642.6 billion.

Increased market penetration for digital consumer electronics and increasing global demand for mobile phones and PCs boosted demand for DRAM, flash memory and other semiconductor memory used in these devices. The launch of Microsoft's new PC operating system, *Windows Vista™*, and expectations for growing demand for semiconductors due to the increasing functionality of digital consumer electronics and mobile equipment led semiconductor memory manufacturers to step up investment in production equipment. This favorable business environment stimulated inquiries for production equipment.

By equipment type, backed by strong capital investment by semiconductor memory manufacturers, particularly in Asia, sales of coater/developers, etch systems, thermal processing systems, CVD systems and cleaning systems recorded large increases in sales. By model, Tokyo Electron saw sales growth of *CLEAN TRACK™ LITHIUS™*, a coater/developer compatible with next-generation design rule technologies, new *TELINDY™* thermal processing systems, *EXPEDIUS™* automated wet stations, and *Telius™*, a plasma etch system equipped with an *SCCM™-JI* etch chamber.

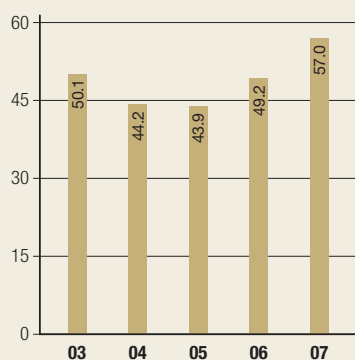
Selling, General and Administrative Expenses

(Billions of Yen)



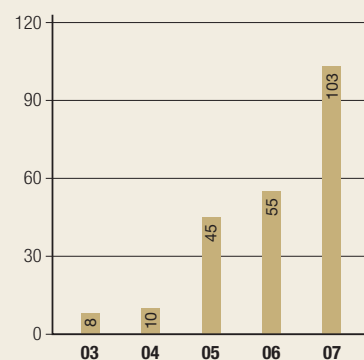
R&D Expenses

(Billions of Yen)



Cash Dividend per Share

(Yen)



In terms of wafer diameter, 89% of sales were for 300mm wafer plants and 11% of sales were for 200mm wafer plants.

Division orders rose 60.1% year on year, to ¥800.4 billion, and the order backlog at the end of fiscal 2007 grew 63.3% compared with the end of the previous fiscal year, to ¥407.0 billion.

FPD Production Equipment

Sales to external customers rose 24.1% year on year, to ¥100.8 billion. LCD TVs and other flat-panel TVs are seeing rapidly increasing demand stimulated by the shift to digital broadcasting technology and high-definition (HDTV) broadcasts, as well as falling unit prices. In response, LCD panel manufacturers in Japan and other parts of Asia made investments to develop high-performance, large-screen display panels and to increase production capacity. In light of these circumstances, the Company worked to develop and market products that address market trends and needs. In fiscal 2007, the Company introduced *Exceliner*TM FPD coater/developers designed to process eighth-generation large glass substrates, following in the footsteps of *Impressio*TM FPD etch/ash system.

Although sales were brisk, the supply-demand balance for LCD panels began to weaken in the latter half of fiscal 2007, causing orders to drop off. Division orders received declined by 41.0% year on year, to ¥66.9 billion, and the order backlog fell 34.2%, to ¥65.2 billion at the end of fiscal 2007.

Others

Other sales consist primarily of in-house services, such as insurance and travel services. Sales in this segment declined by 10.3% year on year, to ¥1.1 billion.

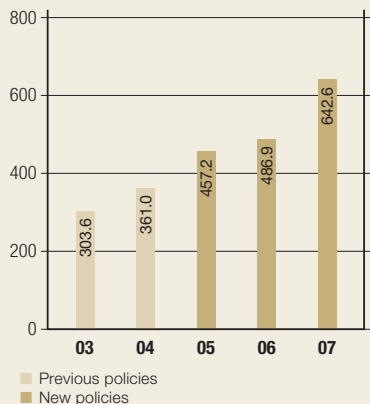
Electronic Components and Computer Networks (Tokyo Electron Device Limited)

Net sales in this segment, including intersegment sales, amounted to ¥108.7 billion. Operating income declined by 5.1%, to ¥4.0 billion, and the operating margin declined 0.3 percentage points, to 3.7%.

On October 1, 2006, Tokyo Electron's computer networks division was transferred to Tokyo Electron Device Limited. Accordingly, sales from computer networks, which formerly had been included in the industrial electronic equipment segment, are now included as part of the electronic components and computer networks segment (formerly the electronic components segment), effective from fiscal 2007.

Semiconductor Production Equipment Sales

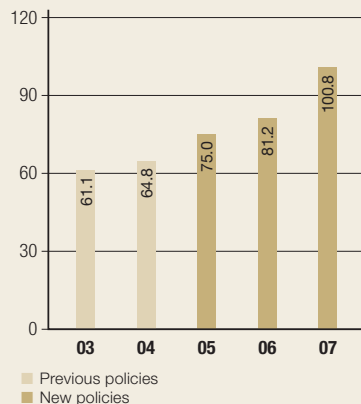
(Billions of Yen)



Notes: 1. Since fiscal 2005, sales of FPD production equipment have been shown separately from SPE Division sales, in which they were previously included. In the left graph, SPE sales for fiscal 2004 and prior years exclude FPD production equipment sales on a non-consolidated basis for the convenience of readers. (These figures are unaudited.)
2. Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed in this financial review.

FPD Production Equipment Sales

(Billions of Yen)



Notes: 1. Since fiscal 2005, sales of FPD production equipment have been shown separately from SPE Division sales, in which they were previously included. In the left graph, FPD production equipment sales for fiscal 2004 and prior years are on a non-consolidated basis, while those from fiscal 2005 are on a consolidated basis.
2. Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed in this financial review.

Electronic Components

Sales to external customers rose 1.6% year on year in fiscal 2007, to ¥88.3 billion. The main strategic market for domestic operations is the industrial equipment industry, and sales focus on custom ICs, general-purpose (analog) ICs and other high value-added products that require advanced technical support. Meanwhile, the Company concentrated on increasing orders for contract design services and developing products for industrial equipment to increase sales of Tokyo Electron Device's *inrevium* brand products. Overseas, consolidated subsidiary Tokyo Electron Device Hong Kong Limited opened a new base in Singapore in order to provide better support to Japanese customers who have production facilities abroad.

Computer Networks

Sales to external customers rose 9.6% year on year in fiscal 2007, to ¥19.2 billion. Demand from corporations for products that can enhance security and internal control have led to a surge in capital investment, which elevated sales of network and storage equipment.

The computer networks business and electronic components business have common customers. Also, both businesses are engaged in distribution businesses that handle state-of-the-art products mainly of overseas suppliers. Therefore, Tokyo Electron transferred the computer networks operation to Tokyo Electron Device, in order to capture greater synergies, expand the scale of the distribution business and raise earnings.

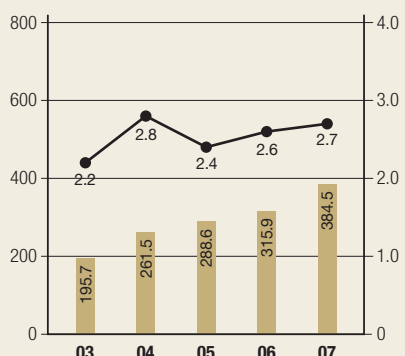
Business Segment Information

Millions of yen

	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
2007:					
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	¥744,512	¥107,463	¥851,975	¥ -	¥851,975
(2) Intersegment sales or transfers	2,382	1,247	3,629	(3,629)	-
Total	746,894	108,710	855,604	(3,629)	851,975
Operating expenses	606,540	104,740	711,280	(3,283)	707,996
Operating income	140,354	3,970	144,324	(346)	143,979
2. Assets, depreciation and amortization expenses and capital expenditure					
Assets	¥728,236	¥ 46,730	¥774,966	¥(4,452)	¥770,514
Depreciation and amortization expenses	20,061	360	20,421	-	20,421
Capital expenditure, including intangible and other assets	34,795	274	35,069	-	35,069

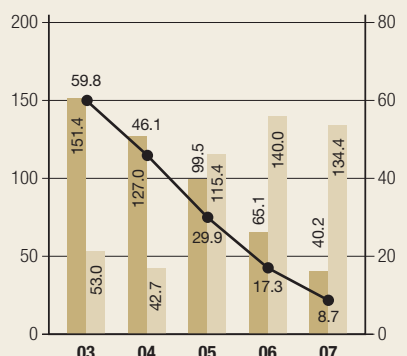
Working Capital and Current Ratio

(Billions of Yen) (Times)



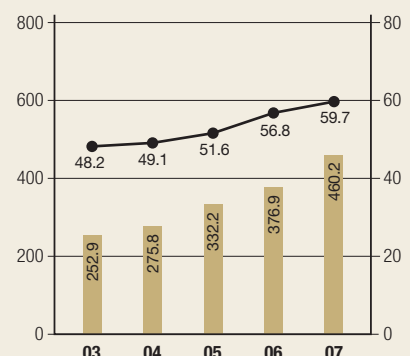
Interest-Bearing Debt, Cash and Cash Equivalents, D/E Ratio

(Billions of Yen) (%)



Equity and Equity Ratio

(Billions of Yen) (%)



Financial Position and Cash Flows

Assets, Liabilities and Net Assets

At March 31, 2007, total assets stood at ¥770.5 billion, an increase of ¥107.3 billion from the end of March 2006. Current assets increased by ¥92.9 billion, to ¥610.4 billion. This partly reflected an increase in trade notes and accounts receivable of ¥59.7 billion due to higher sales. In addition, the surge in orders during the second half caused inventories to increase by ¥31.1 billion.

Net property, plant and equipment rose ¥10.2 billion year on year, to ¥104.9 billion, mainly reflecting the purchase of buildings and land.

Investments and other assets rose ¥4.2 billion, to ¥55.2 billion. A major factor was the acquisition of U.S.-based Epion Corporation (at a cost of ¥4.5 billion), which increased intangible assets.

Total liabilities increased by ¥20.1 billion, to ¥300.7 billion. Rising orders, and the associated increase in procurement, caused trade notes and accounts payable to increase by ¥21.0 billion, to ¥96.8 billion. In addition, the increase in taxable income produced a ¥22.8 billion year-on-year rise in income taxes payable, to ¥45.7 billion. Total interest-bearing debt, which includes short term borrowings, the current portion of corporate bonds, long-term debt and corporate bonds, was ¥40.2 billion. This reflected the redemption of ¥20.0 billion in unsecured straight bonds, as well as ¥4.5 billion in unsecured bonds with warrants. The debt-to-equity ratio (interest-bearing debt / equity) consequently improved to 8.7%, compared with 17.3% at the end of fiscal 2006.

Total net assets was bolstered by the strong earnings posted in fiscal 2007, with retained earnings rising by ¥78.1 billion year on year. Net assets thus increased by ¥87.2 billion, to ¥469.8 billion at the fiscal year-end. As a result, the equity ratio rose 2.9 percentage points, to 59.7%, and return on equity (ROE) improved by 8.3 percentage points year on year, to 21.8%.

Capital Expenditures*1 and Depreciation and Amortization*2

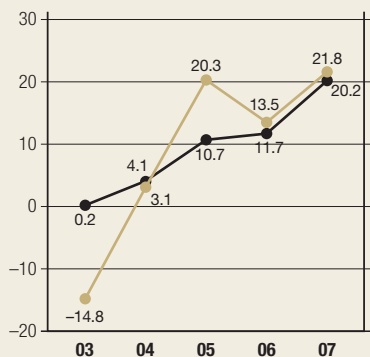
Capital expenditures increased by 103.4% to ¥27.1 billion. Major capital expenditure items included the purchase of land and buildings for a new research and development center in Sendai, Miyagi Prefecture; expansion work on the Company's production facility in Matsushima, Miyagi Prefecture; and the construction of a new office building at the Company's South Korean subsidiary. In addition, the Company acquired new capital equipment to help enhance research and development. Depreciation and amortization expenses declined 1.8% year on year, to ¥18.8 billion.

*1 Capital expenditures only represent the gross increase in property, plant and equipment.

*2 Depreciation and amortization does not include amortization of goodwill.

ROE and ROA

(%)



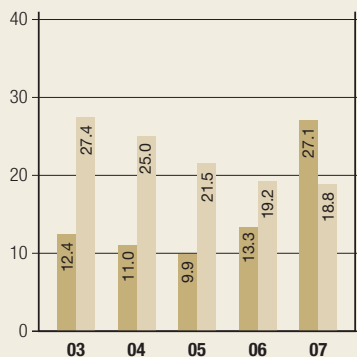
■ Return on equity ratio (ROE)

● Return on assets ratio (ROA)

ROA=(Operating income+Interest and dividend income)/
Average total assetsx100

Capital Expenditures and Depreciation and Amortization

(Billions of Yen)

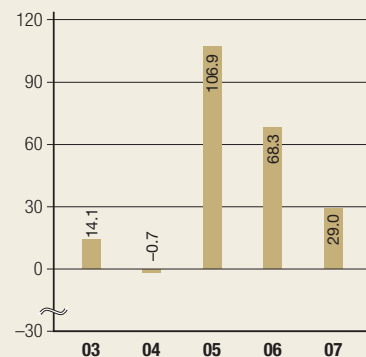


■ Capital Expenditures

■ Depreciation and Amortization

Free Cash Flows

(Billions of Yen)



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

Cash Flows

Cash flow from operating activities in fiscal 2007 was ¥54.3 billion, ¥24.6 billion less than in fiscal 2006. The main sources of cash were ¥144.4 billion from income before income taxes, depreciation and amortization of ¥18.8 billion and a ¥17.2 billion increase in trade notes and accounts payable. The main uses of cash, meanwhile, included a ¥58.4 billion increase in trade notes and accounts receivable, a ¥31.6 billion increase in inventories, a ¥12.5 billion decline in customer advances, and ¥37.8 billion for the payment of income taxes.

Investing activities used net cash of ¥25.3 billion, ¥14.8 billion more than in fiscal 2006. The main use of cash was ¥25.2 billion for the purchase of property, plant and equipment intended to promote the Company's future growth. The acquisition of U.S.-based Epion Corporation used a further ¥4.5 billion in cash. On the other hand, in order to improve the liquidity of Tokyo Electron Devices' shares, the Company generated ¥4.2 billion in cash by selling some shares in this subsidiary, which is listed on the Second Section of the Tokyo Stock Exchange.

Financing activities used net cash of ¥34.7 billion, ¥8.7 billion less than the outflow in fiscal 2006. The Company used ¥20.0 billion in cash to redeem its unsecured straight bond issue #10, and ¥4.5 billion to redeem its #4 issue of unsecured bonds with warrants. The Company also used ¥12.8 billion in cash to pay dividends.

As a result, the balance of cash and cash equivalents declined by ¥5.6 billion year on year, to ¥134.4 billion at the end of March 2007.

Business-related and Other Risks

The following are possible risks that may have an impact on Tokyo Electron's business performance, stock price, or financial position.

(1) Impact of Fluctuating Foreign Exchange Rates

Success in the development of overseas operations has increased the share of sales generated overseas. As a rule, Tokyo Electron conducts export transactions on a yen basis to avert exposure to foreign currency risks. However, some exports are denominated in foreign currencies. In these cases, Tokyo Electron hedges foreign currency risk by using a forward foreign exchange contract when an order is received or by other means. However, foreign exchange rate risks can arise from fluctuations in prices due to sudden foreign exchange movements, which could have an indirect adverse effect on Tokyo Electron's business performance.

(2) Impact From Research and Development

Through ongoing and proactive R&D investment and activities in cutting-edge technologies—miniaturization, vacuum, plasma, thermal-processing, coating/developing, cleaning, wafer-transfer and clean technologies—Tokyo Electron has created advanced technologies. At the same time, by quickly bringing to market new products incorporating these technologies, Tokyo Electron has successfully captured a high market share in each of the product fields it has entered and generated a high profit margin. However, delays in the launch of new products and other factors could adversely affect Tokyo Electron's business performance.

(3) Impact From Changes in the Semiconductor Market

Tokyo Electron has achieved a high profit margin by concentrating resources in high-tech fields, including semiconductor production equipment, where technological innovation is rapid but Tokyo Electron can effectively use its strengths. Although technological change is responsible for the semiconductor market's rapid growth, Tokyo Electron has actively undertaken structural reforms to be able to generate profits under any circumstances, such as when the market contracts temporarily due to imbalance of supply and demand. However, order cancellations, excess capacity and personnel and increased inventories resulting from an unexpectedly large market contraction could adversely affect Tokyo Electron's business performance.

(4) Impact From Concentration of Transactions on Particular Customers

Tokyo Electron has been successful at increasing transactions with the leading semiconductor manufacturers worldwide, including those in Japan, through the provision of products featuring outstanding, cutting-edge technology and of services offering a high level of customer satisfaction. However, Tokyo Electron's sales may from time to time be temporarily concentrated on particular customers due to the timing of large capital investments of major semiconductor manufacturers. The resulting escalation in sales competition could adversely affect Tokyo Electron's business performance.

(5) Safety-related Impacts

Tokyo Electron's basic philosophy is to always bear in mind safety and health in the execution of business activities, including development, manufacturing, sales, services and management. In accordance with this philosophy, Tokyo Electron works actively and continuously to improve the safety of its products and to eliminate any harmful impact on health. However, harm to customers, order cancellations or other circumstances resulting from safety problems or other problems related to Tokyo Electron's products could adversely affect Tokyo Electron's business performance.

(6) Impact From Quality Issues

Tokyo Electron actively develops outstanding, cutting-edge technologies for incorporation in new products that are brought quickly to market. At the same time, Tokyo Electron works to establish a quality assurance system, efforts that include obtaining ISO 9001 certification, as well as to establish a world-class service system. These actions have resulted in a large number of customers adopting Tokyo Electron's products. However, because Tokyo Electron's products are based on cutting-edge technologies, and due to other factors, many of the technologies developed are in unfamiliar fields. The occurrence of unforeseen defects or other issues could adversely affect Tokyo Electron's business performance.

(7) Impact of Intellectual Property Rights

In order to distinguish its products and make them more competitive, Tokyo Electron has promoted its R&D strategy for the early development of cutting-edge technologies together with its business and intellectual property strategies. This approach has enabled Tokyo Electron to obtain sole possession of many proprietary technologies that have been instrumental to Tokyo Electron's ability to capture a high market share and generate high profit margins in each of its product fields. However, Tokyo Electron's products incorporate and optimize many of these proprietary cutting-edge technologies. There may be cases, whereby avoiding the use of third-party technologies and intellectual property rights, Tokyo Electron's business performance could be adversely affected.

(8) Other Risks

Tokyo Electron is actively involved in reforming the corporate structure so that it can generate profits even when markets contract. These reforms have entailed creating new high-growth, high-return businesses and pursuing higher earnings from existing businesses. At the same time, Tokyo Electron has promoted activities to preserve the environment and worked to restructure its compliance and risk management systems. However, as long as it conducts business activities, as with peer companies or companies in different industries, Tokyo Electron is subject to the effect of many other factors. These include the world and regional economic environments, natural disasters, war, terrorism, unavoidable occurrences (such as infectious diseases), financial or stock markets, government or other regulations, supply systems of suppliers, market conditions for products and real estate, the ability to recruit personnel in Japan and overseas, competition over standardization, and loss of key personnel. Any of these factors could adversely affect Tokyo Electron's business performance.

CONSOLIDATED BALANCE SHEETS

Tokyo Electron Limited and Subsidiaries
March 31, 2007 and 2006

ASSETS

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current assets:			
Cash and cash equivalents	¥134,390	¥140,024	\$1,138,414
Trade notes and accounts receivable	228,688	169,038	1,937,220
Allowance for doubtful accounts	(127)	(165)	(1,077)
Inventories	194,840	163,746	1,650,490
Deferred income taxes	28,326	21,356	239,947
Prepaid expenses and other current assets	24,246	23,489	205,385
Total current assets	610,363	517,488	5,170,379
Property, plant and equipment:			
Land	20,495	18,150	173,618
Buildings	121,318	112,225	1,027,685
Machinery and equipment	96,547	94,764	817,846
Construction in progress	6,062	2,216	51,349
Total property, plant and equipment	244,422	227,355	2,070,498
Less: Accumulated depreciation	139,492	132,617	1,181,637
Net property, plant and equipment	104,930	94,738	888,861
Investments and other assets:			
Investment securities	14,643	14,860	124,040
Deferred income taxes	13,691	13,175	115,977
Intangible assets	19,400	16,710	164,330
Other assets	7,487	6,272	63,426
Total investments and other assets	55,221	51,017	467,773
Total assets	¥770,514	¥663,243	\$6,527,013

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current liabilities:			
Short-term borrowings	¥ 1,712	¥ 2,100	\$ 14,506
Current portion of long-term debt	8,500	24,500	72,003
Trade notes and accounts payable	96,847	75,842	820,388
Customer advances	21,957	33,811	185,995
Income taxes payable	45,657	22,895	386,762
Accrued employees' bonuses	14,131	10,231	119,704
Accrued warranty expenses	14,114	12,219	119,560
Accrued expenses and other current liabilities	22,937	19,015	194,296
Total current liabilities	225,855	200,613	1,913,214
Long-term debt, less current portion	30,000	38,500	254,130
Accrued pension and severance costs	40,686	38,751	344,649
Other liabilities	4,162	2,743	35,258
Total liabilities	300,703	280,607	2,547,251
Contingent liabilities			
Net assets:			
Shareholders' equity			
Common stock	54,961	54,961	465,576
Authorized: 300,000,000 shares			
Issued: 180,610,911 shares as of March 31, 2007 and 2006			
Capital surplus	78,347	78,079	663,674
Retained earnings	328,027	249,938	2,778,708
Treasury stock, at cost	(12,168)	(15,117)	(103,073)
1,812,976 and 2,336,475 shares as of			
March 31, 2007 and 2006, respectively			
Valuation and translation adjustments			
Unrealized gains on securities	5,853	5,118	49,582
Deferred gains or losses on hedges	(177)	—	(1,502)
Foreign currency translation adjustments	5,333	3,921	45,175
Share subscription rights	584	1,014	4,949
Minority interests	9,051	4,722	76,673
Total net assets	469,811	382,636	3,979,762
Total liabilities and net assets	¥770,514	¥663,243	\$6,527,013

CONSOLIDATED STATEMENTS OF INCOME

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net sales	¥ 851,975	¥ 673,686	\$7,217,072
Cost of sales	579,326	483,954	4,907,462
Gross profit	272,649	189,732	2,309,610
Selling, general and administrative expenses	128,670	114,029	1,089,967
Operating income	143,979	75,703	1,219,643
Other income (expenses):			
Interest and dividend income	910	504	7,712
Interest expenses	(421)	(687)	(3,564)
Revenue from development grants	2,640	1,537	22,365
Foreign exchange losses	(3,373)	(1,676)	(28,581)
Gain on refund for foreign indirect taxes	—	855	—
Loss on impairment of fixed assets	—	(419)	—
Gain on sale of investment securities	1,225	—	10,381
Gain on sale of shares of consolidated subsidiary	528	—	4,475
Equity in loss of affiliated company	(1,442)	(403)	(12,212)
Gain on reversal of forfeited warrants	526	—	4,458
Loss on disposal of property, plant and equipment	(834)	(658)	(7,066)
Other, net	676	572	5,722
Income before income taxes	144,414	75,328	1,223,333
Income taxes:			
Current	60,132	29,189	509,380
Deferred	(7,535)	(2,352)	(63,825)
Minority interests	554	485	4,691
Net income	¥ 91,263	¥ 48,006	\$ 773,087
Per share of common stock:			
		Yen	U.S. dollars
Net income — basic	¥ 511.27	¥ 267.61	\$ 4.33
Net income — diluted	509.84	267.32	4.32
Net assets	2,573.72	2,112.30	21.80
Cash dividends	103.00	55.00	0.87

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen										
	Shareholders' equity				Valuation and translation adjustments						Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Share subscription rights	Minority interests		
Balance as of March 31, 2005	¥54,961	¥78,023	¥212,094	¥(16,043)	¥2,133	¥ -	¥ 997	¥1,043	¥4,411	¥337,619	
Cash dividends	-	-	(9,796)	-	-	-	-	-	-	(9,796)	
Bonuses to directors	-	-	(349)	-	-	-	-	-	-	(349)	
Net income	-	-	48,006	-	-	-	-	-	-	48,006	
Repurchase of treasury stocks	-	-	-	(39)	-	-	-	-	-	(39)	
Disposal of treasury stocks	-	56	-	965	-	-	-	-	-	1,021	
Other, net	-	-	(17)	-	2,985	-	2,924	(29)	311	6,174	
Balance as of March 31, 2006	¥54,961	¥78,079	¥249,938	¥(15,117)	¥5,118	¥ -	¥3,921	¥1,014	¥4,722	¥382,636	
Cash dividends	-	-	(12,843)	-	-	-	-	-	-	(12,843)	
Bonuses to directors	-	-	(331)	-	-	-	-	-	-	(331)	
Net income	-	-	91,263	-	-	-	-	-	-	91,263	
Repurchase of treasury stocks	-	-	-	(64)	-	-	-	-	-	(64)	
Disposal of treasury stocks	-	268	-	3,013	-	-	-	-	-	3,281	
Sale of shares of consolidated subsidiary and others	-	-	-	-	-	-	-	-	4,329	4,329	
Other, net	-	-	-	-	735	(177)	1,412	(430)	-	1,540	
Balance as of March 31, 2007	¥54,961	¥78,347	¥328,027	¥(12,168)	¥5,853	¥(177)	¥5,333	¥ 584	¥9,051	¥469,811	

	Thousand of U.S. dollars										
	Shareholders' equity				Valuation and translation adjustments						Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Share subscription rights	Minority interests		
Balance as of March 31, 2006	\$465,576	\$661,405	\$2,117,222	\$(128,054)	\$43,351	\$ -	\$33,217	\$ 8,587	\$39,998	\$3,241,302	
Cash dividends	-	-	(108,795)	-	-	-	-	-	-	(108,795)	
Bonuses to directors	-	-	(2,806)	-	-	-	-	-	-	(2,806)	
Net income	-	-	773,087	-	-	-	-	-	-	773,087	
Repurchase of treasury stocks	-	-	-	(544)	-	-	-	-	-	(544)	
Disposal of treasury stocks	-	2,269	-	25,525	-	-	-	-	-	27,794	
Sale of shares of consolidated subsidiary and others	-	-	-	-	-	-	-	-	36,675	36,675	
Other, net	-	-	-	-	6,231	(1,502)	11,958	(3,638)	-	13,049	
Balance as of March 31, 2007	\$465,576	\$663,674	\$2,778,708	\$(103,073)	\$49,582	\$(1,502)	\$45,175	\$ 4,949	\$76,673	\$3,979,762	

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes	¥144,414	¥ 75,328	\$1,223,333
Depreciation and amortization	18,820	19,170	159,427
Amortization of goodwill	1,974	1,600	16,725
Loss on impairment of fixed assets	–	419	–
Increase in accrued pension and severance costs	1,926	2,340	16,315
Increase in accrued employees' bonuses	3,900	1,587	33,039
Increase (decrease) in accrued warranty expenses	1,614	(985)	13,672
Interest expenses	421	687	3,564
Gain on refund for foreign indirect taxes	–	(855)	–
Gain on sale of investment securities	(1,225)	–	(10,381)
Gain on sale of shares of consolidated subsidiary	(528)	–	(4,475)
Equity in loss of affiliated company	1,442	403	12,212
Gain on reversal of forfeited warrants	(526)	–	(4,458)
Loss on disposal of property, plant and equipment	834	658	7,066
(Increase) decrease in trade notes and accounts receivable	(58,352)	5,144	(494,301)
Increase in inventories	(31,585)	(5,467)	(267,556)
(Increase) decrease in prepaid consumption tax	(1,775)	2,657	(15,033)
Increase in trade notes and accounts payable	17,236	6,743	146,006
Decrease in customer advances	(12,459)	(9,505)	(105,541)
Other, net	5,551	(1,309)	47,023
Subtotal	91,682	98,615	776,637
Receipts from interest and dividends	853	503	7,229
Interest paid	(453)	(739)	(3,836)
Income taxes paid	(37,785)	(19,525)	(320,081)
Net cash provided by operating activities	54,297	78,854	459,949
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment	(25,154)	(8,601)	(213,078)
Proceeds from sale of property, plant and equipment	1,069	1,280	9,054
Payment for acquisition of intangible assets	(2,462)	(2,611)	(20,860)
Payment for acquisition of consolidated subsidiary, net of cash acquired	(4,524)	–	(38,325)
Proceeds from sale of shares in consolidated subsidiary	4,169	–	35,311
Proceeds from sale of investment securities	2,460	36	20,841
Other, net	(851)	(641)	(7,202)
Net cash used in investing activities	(25,293)	(10,537)	(214,259)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	(404)	1,037	(3,424)
Repayment of long-term debt	–	(5,476)	–
Redemption of unsecured bonds	(24,500)	(30,000)	(207,539)
Decrease in treasury stock, net	3,217	982	27,250
Dividends paid	(12,843)	(9,796)	(108,795)
Other, net	(189)	(167)	(1,599)
Net cash used in financing activities	(34,719)	(43,420)	(294,107)
Effect of exchange rate changes on cash and cash equivalents	81	(341)	690
Net increase (decrease) in cash and cash equivalents	(5,634)	24,556	(47,727)
Cash and cash equivalents at beginning of year	140,024	115,420	1,186,141
Effect of newly consolidated subsidiary	–	48	–
Cash and cash equivalents at end of year	¥134,390	¥140,024	\$1,138,414

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tokyo Electron Limited and Subsidiaries

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Tokyo Electron Limited (hereinafter "the Company") and its subsidiaries (hereinafter collectively referred to as "Tokyo Electron") have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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

The accompanying consolidated financial statements have been restructured and translated into English from the statutory Japanese language consolidated financial statements. Some supplementary information included in the statutory Japanese language consolidated financial statements, which is not required for fair presentation, is not presented in the accompanying consolidated financial statements.

U.S. dollar amounts included herein are solely for the convenience of readers and are presented at the rate of ¥118.05 to \$1.00, the approximate rate as of March 31, 2007. The translation should not be construed as a representation that the Japanese yen amounts shown could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 30 subsidiaries.

The investments in affiliates in which the Company's ownership is 20% to 50% are accounted for by the equity method.

All significant inter-company accounts, transactions and unrealized profits or losses have been eliminated in consolidation.

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

(b) Foreign currency translation

All assets and liabilities denominated in foreign currencies are translated into Japanese yen at the year-end rates, except for those hedged by forward exchange contracts, which are translated at the contracted rates.

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

The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the rates of exchange in effect at the balance sheet date, except for shareholders' equity accounts, which are translated at the historical rates. Revenue and expense accounts of foreign subsidiaries are translated at average rates of exchange in effect during the year. Resulting translation adjustments are presented in net assets as a component of valuation and translation adjustments and minority interests in the consolidated financial statements.

(c) Investment securities

Tokyo Electron is required to examine the intent of holding each security and classify those securities as trading securities, held-to-maturity debt securities or other securities. Tokyo Electron has no trading or held-to-maturity debt securities. Other securities with market prices are valued at fair market value prevailing at the balance sheet date. The differences between the book and market prices of other securities, net of applicable income taxes, are presented in net assets as a component of valuation and translation adjustments. Other securities without market value are valued at cost using the weighted average method.

The cost of sold securities is calculated using the weighted average method.

(d) Inventories

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

(e) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of buildings, machinery and equipment of the Company and its domestic subsidiaries is computed under the declining balance method, except for buildings acquired subsequent to March 31, 1998 which were depreciated under the straight-line method based on the estimated useful lives of assets. The straight-line method is mainly applied by its foreign subsidiaries over the estimated useful lives of assets.

Estimated useful lives of property, plant and equipment are as follows:

Buildings	2 to 60 years
Machinery and equipment	2 to 17 years

(f) Intangible assets

Intangible assets, which primarily comprise of capitalized costs for computer software and goodwill, are amortized by the straight-line method over their estimated useful lives. Capitalized costs for computer software for internal use are amortized over a period of two to five years. Goodwill is evaluated on an individual basis and amortized over a period not exceeding 20 years.

(g) Impairment of fixed assets

Tokyo Electron evaluates the carrying value of fixed assets to be held for use in the business.

If the carrying value of a fixed asset is impaired, a loss is recognized based on the amount by which the carrying value exceeds its recoverable amount, higher of the net selling price or the value in use of the assets, which are determined using the fair value less disposal costs and the total amount of discounted cash flows generated from the continuing use of the individual assets or the asset group and the disposal of these assets, respectively.

The Company adopted "Accounting Standard for Impairment of Fixed Assets", issued by the Business Accounting Deliberation Council and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standard Board of Japan), effective from the fiscal year beginning April 1, 2005.

As a result of this change, loss on impairment of fixed assets amounting to ¥419 million was recognized for the year ended March 31, 2006, and therefore income before income taxes decreased by the same amount as compared with before the change.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debts with respect to ordinary receivables, and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(i) Accrued pension and severance costs

The Company and its domestic subsidiaries provide an accrual for employees' pension and severance costs based on the projected benefit obligation and pension assets on the account settlement date. Prior service costs are charged to income on a straight-line basis, beginning from the fiscal year in which they are incurred, over a fixed number of years (four years) within the average remaining years of service of employees when the differences occur.

Actuarial differences are charged to income on a straight-line basis, beginning from the fiscal year after they are recognized, over a fixed number of years (four years) within the average remaining years of service of employees when the differences occur.

The provision for accrued pension and severance costs for directors and statutory auditors of the Company and its domestic subsidiaries is calculated in accordance with internal regulations.

The Company and certain domestic subsidiaries decided to discontinue the severance pay for directors and statutory auditors after April 1, 2005, and at the general shareholders' meetings in June 2005, it was resolved that the severance pay for their directors and statutory auditors until March 31, 2005 would be paid at the termination of their service and decision of payment amount for each director and statutory auditor was delegated to board meeting of directors and statutory auditors, respectively. As discussed in note 10, the accruals for the severance costs for directors and statutory auditors were included in accrued pension and severance costs in the consolidated balance sheets.

(j) Accrued warranty expenses

Tokyo Electron's products are generally subject to warranty, and Tokyo Electron accrues such estimated costs when product revenue is recognized. To prepare for future repairs during warranty periods, estimated after-sale repair expenses over the warranty period are accrued based on the historical ratio of actual repair expenses to corresponding sales.

(k) Leases

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases), except for leases that have transfer of ownership condition to the lessee at the end of the lease which are accounting for as finance leases.

(l) Derivatives and hedge accounting

The Company and a domestic subsidiary make use of derivatives in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates. The amount of derivatives is limited to the extent of foreign currency assets, liabilities and actual orders, and the Company and the domestic subsidiary do not trade in derivatives for speculative purposes.

Derivatives are carried at fair value with changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for hedge accounting. As described in note 3 (a), unrealized gains or losses on hedging derivatives, net of taxes as of March 31, 2007 are reported in net assets as a component of valuation and translation adjustments in accordance with newly adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" effective from the year ended March 31, 2007. Unrealized gains or losses on hedging derivatives as of March 31, 2006 were deferred as the assets or liabilities without considering the related income tax effects in accordance with presentation rule and accounting standards which had been effective until the year ended March 31, 2006. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(m) Income taxes

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

(n) Revenue recognition

Revenue from Semiconductor and FPD (Flat Panel Display) production equipment is principally recognized at the time of the confirmation of set-up

and testing of products. Revenue from such equipment not requiring substantial installation is recognized at the time of shipment. Revenue from other products, such as electronic components, is recognized at the time of shipment. Service revenue from maintenance is recognized ratably over the term of the maintenance contract.

(o) Per share information

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

The Company applies "Accounting Standards Regarding Net Income per Share (Business Accounting Standards No. 2)" and "Practical Guidelines for Applying Accounting Standards Regarding Net Income per Share (Practical Guidelines for Applying Accounting Standards No. 4)" released by the Accounting Standards Board of Japan.

Dividends per share have been presented on an accrual basis and include, in each fiscal year ended March 31, dividends approved or to be approved after March 31 but applicable to the year then ended.

(p) Research and development expenses

Research and development expenses are charged to income as incurred, and amounted to ¥56,962 million (\$482,522 thousand) and ¥49,182 million for the years ended March 31, 2007 and 2006, respectively.

(q) Accounting standard for statement of changes in net assets

Effective from the year ended March 31, 2007, the Company and its domestic subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No.9 issued by the Accounting Standards Board of Japan on December 27, 2005).

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with these standards.

(r) Cash equivalents

For purposes of the consolidated statements of cash flows, Tokyo Electron considers all highly-liquid instruments purchased with original maturities of three months or less to be cash equivalents.

(s) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements to conform with the presentation used for the year ended March 31, 2007. As described in note 3 (a), the consolidated balance sheet for 2006 has been modified to conform to the new presentation rules of 2007. Also, as described in note 2 (q), in lieu of the consolidated statement of shareholders' equity for the year ended March 31, 2006, the Company prepared the consolidated statements of changes in net assets for 2006 as well as that for 2007.

3. Changes in Accounting Policies

(a) Accounting standard for presentation of net assets on the balance sheet

Effective from the year ended March 31, 2007, the Company and its domestic subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises of three sections; assets, liabilities and net assets.

Under the New Accounting Standards, the following items are required to be presented differently at March 31, 2007 compared to March 31, 2006. Unrealized gains or losses on hedging derivatives, net of taxes are included in net assets. Under the previous presentation rules, unrealized gains or losses on hedging derivatives were included in the assets or liabilities without considering the related income tax effects. Share subscription rights and minority interests are required to be included in net assets to conform to the New Accounting Standards. Under the previous presentation rules, companies were required to present share subscription rights and minority interests in liabilities and between the non-current liabilities and the shareholders' equity, respectively.

The consolidated balance sheet as of March 31, 2006 has been restated to conform to the 2007 presentation. As a result, share subscription rights and minority interests amounting to ¥1,014 million and ¥4,722 million, respectively, are included in net assets as of March 31, 2006. On the other hand, unrealized gains and losses on hedging derivatives amounting to ¥689 million and ¥441 million, respectively, as of March 31, 2006 are included in accrued expenses and other current liabilities, and prepaid expenses and other current assets, respectively, without considering the related income tax effects in accordance with the previous accounting method.

The adoption of the New Accounting Standards had no impact on the consolidated statement of income for the year ended March 31, 2007. Also, the amount corresponding to total net assets as of March 31, 2007 and 2006 under previous standards were ¥460,353 million (\$3,899,642 thousand) and ¥376,900 million, respectively.

(b) Accounting standard for business combination

Effective from the year ended March 31, 2007, "Accounting Standard for Business Combination" issued by the Business Accounting Standards Board of Japan has been adopted. The change had no significant impact on consolidated financial statements.

(c) Accounting standard for decrease of treasury stock and legal reserve

Effective from the year ended March 31, 2007, "Accounting Standard for Decrease of Treasury Stock and Legal Reserve" issued by the Accounting Standards Board of Japan has been adopted. The change had no impact on consolidated financial statements.

(d) Accounting standard for stock option

Effective from year ended March 31, 2007, "Accounting Standard for Stock Option" issued by the Accounting Standards Board of Japan has been adopted. Upon adoption, operating income and income before income taxes decreased by ¥118 million (\$996 thousand) compared to the amount that would have been recorded under the previous accounting standards.

(e) Accounting standard for director's bonus

Effective from the year ended March 31, 2007, "Accounting Standard for Director's Bonus" issued by the Accounting Standards Board of Japan has been adopted. Upon adoption, operating income and income before income taxes decreased by ¥652 million (\$5,519 thousand) compared to the amount that would have been recorded under the previous accounting standards.

(f) Change in business segment classification

As of October 1, 2006, the Company's computer systems and networks business was transferred to its subsidiary, Tokyo Electron Device Limited. The computer systems and networks business which was previously classified as part of "Industrial electronic equipment" segment was reclassified to "Electronic components" segment, which was renamed to "Electronic components and computer networks" segment, to more appropriately present the business segments in line with similarities types of products and operations.

Business segment information for the year ended March 31, 2006, is reclassified in accordance with the classification for the year ended March 31, 2007.

4. Acquisition

Tokyo Electron U.S. Holdings, Inc., a wholly-owned subsidiary of the Company, acquired all the shares of Epion Corporation (renamed TEL Epion, Inc.) in the amount of ¥4,526 million (\$38,341 thousand) on December 19, 2006 (see note 17). The acquisition was accounted for using purchase method in accordance with U.S. generally accepted accounting standards. Negative goodwill generated from the acquisition was deducted from the intangible assets related to the acquired developed technology. The intangible assets, net amount of ¥4,985 million (\$42,221 thousand), have been amortized over ten years.

5. Investment Securities

Investment securities, which solely comprise of other securities, as of March 31, 2007 and 2006 are as follows:

2007	Millions of yen	
	Cost	Carrying value
Securities with market prices		
Equity securities	¥4,517	¥14,338
Other (Note)	114	120
Securities without market value		
Unlisted stock	2,015	183
Other	21	21
Total	¥6,667	¥14,662

2006	Millions of yen	
	Cost	Carrying value
Securities with market prices		
Equity securities	¥5,348	¥13,940
Other	114	119
Securities without market value		
Unlisted stock	1,708	778
Other	23	23
Total	¥7,193	¥14,860

2007	Thousands of U.S. dollars	
	Cost	Carrying value
Securities with market prices		
Equity securities	\$38,263	\$121,461
Other (Note)	963	1,019
Securities without market value		
Unlisted stock	17,070	1,551
Other	179	179
Total	\$56,475	\$124,210

Note: Bond investment trust of ¥19 million (\$170 thousand) classified as prepaid expenses and other current assets as of March 31, 2007 is included in the above.

Gross realized gains and losses on sales of other securities are ¥1,244 million (\$10,549 thousand) and ¥19 million (\$168 thousand), respectively, for the year ended March 31, 2007.

6. Inventories

Inventories as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished products	¥102,515	¥ 95,564	\$ 868,404
Work in process, raw materials and supplies	92,325	68,182	782,086
Total	¥194,840	¥163,746	\$1,650,490

7. Impairment of Fixed Assets

For the fixed asset impairment test, the Company generally groups fixed assets used for normal operations at a business unit level of which profits are reasonably controllable. Also, the Company assesses the recoverability of individual assets not used in normal operations or that are idle.

The Company recorded impairment losses for the lands used for employees' welfare of ¥419 million in 2006. These charges were recorded in other income (expenses) in the consolidated statement of income for the year ended March 31, 2006.

No impairment loss of fixed assets was recognized in 2007.

8. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2007 and 2006.

9. Short-term Borrowings and Long-term Debt

Short-term borrowings are represented by 365-day notes issued by Tokyo Electron to banks and bore interest at the average annual rate of 2.61% and 1.58% as of March 31, 2007 and 2006, respectively.

Long-term debt as of March 31, 2007 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
0.42% unsecured bonds due 2006 . . .	¥ -	¥ 20,000	\$ -
0.72% unsecured bonds due 2008 . . .	30,000	30,000	254,130
1.59% unsecured bonds with warrants due 2006	-	4,500	-
0.86% unsecured bonds with warrants due 2007	5,500	5,500	46,590
Other loans from banks	3,000	3,000	25,413
Current portion	(8,500)	(24,500)	(72,003)
Total	¥ 30,000	¥ 38,500	\$254,130

As of March 31, 2007, Tokyo Electron has unused lines of credit amounting to ¥125,842 million (\$1,066,006 thousand).

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
	2007	2007
2008	¥ 8,500	\$ 72,003
2009	30,000	254,130
2010	-	-
2011	-	-
2012 and thereafter	-	-
Total	¥38,500	\$326,133

10. Accrued Pension and Severance Costs

The Company and its domestic subsidiaries have a defined benefit plan (cash balance plan) and noncontributory retirement and severance benefit plans covering substantially their employees who meet eligibility requirements. The benefits under the plans are based on length of service and certain other factors.

The cash balance plan provides for pension or lump-sum payment benefits to employees with ten or more years of service who retired or terminated their employment for reasons other than dismissal for cause. Under the cash balance pension plan, each participant has an account which is credited yearly based on the current rate of pay and market-related interest rate. The noncontributory plans provide for lump-sum payment benefits to employees who retired or terminated their employment for reasons other than dismissal for cause. Certain foreign subsidiaries have noncontributory retirement and severance benefit plans that provided for pension or lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause.

The funded status of the defined benefit plans, a substantial portion of which consists of domestic benefit plans, as of March 31, 2007 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Benefit obligation	¥(69,414)	¥(64,689)	\$(588,005)
Fair value of plan assets	30,812	24,962	261,011
Unrecognized benefit obligation	(38,602)	(39,727)	(326,994)
Unrecognized actuarial difference	(2,113)	(1,496)	(17,904)
Unrecognized prior service cost	1,662	3,188	14,078
Net amount recognized	¥(39,053)	¥(38,035)	\$(330,820)
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid pension and severance costs	966	-	8,180
Accrued pension and severance costs (Note)	(40,019)	(38,035)	(339,000)
Net amount recognized	¥(39,053)	¥(38,035)	\$(330,820)

Note: The provision for accrued pension and severance costs for directors and statutory auditors (¥667 million (\$5,649 thousand) in 2007 and ¥716 million in 2006) is not included in the above.

Net pension cost of the plans is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥4,912	¥4,757	\$41,610
Interest cost	1,281	1,186	10,855
Expected return on plan assets	(499)	(276)	(4,229)
Amortization of actuarial difference	391	1,876	3,310
Amortization of prior service cost	1,526	1,526	12,929
Net pension cost	7,611	9,069	64,475
Other	-	(24)	-
Net	¥7,611	¥9,045	\$64,475

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

	2007	2006
Allocation method of benefit obligation	Straight-line method	
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%
Amortization period of prior service cost	4 years	4 years
Amortization period of actuarial difference	4 years	4 years

11. Income Taxes

Significant components of the deferred tax assets and liabilities of Tokyo Electron as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets			
Accrued pension and severance costs	¥ 16,032	¥ 15,134	\$135,810
Elimination of unrealized profit			
on inventories	10,463	8,298	88,631
Accrued employees' bonuses	5,736	4,140	48,590
Accrued warranty expenses	4,737	4,737	40,127
Accrued business taxes	3,890	1,555	32,952
Devaluation of inventories	2,713	1,954	22,981
Net operating loss carryforwards	1,966	1,123	16,658
Depreciation and amortization	1,598	3,653	13,536
Other	5,981	5,957	50,662
Total gross deferred tax assets	53,116	46,551	449,947
Less valuation allowance	(1,952)	(2,848)	(16,535)
Total deferred tax assets	51,164	43,703	433,412
Deferred tax liabilities			
Net unrealized gains on securities	(3,975)	(3,480)	(33,672)
Undistributed earnings of			
foreign subsidiaries	(3,517)	(2,766)	(29,792)
Reserves under Special Taxation			
Measures Law, etc	(1,932)	(2,547)	(16,373)
Prepaid start-up expenses	(1,659)	(1,856)	(14,050)
Other	(626)	(288)	(5,299)
Total gross deferred tax liabilities	(11,709)	(10,937)	(99,186)
Net deferred tax assets	¥ 39,455	¥ 32,766	\$334,226

Effective from the year ended March 31, 2006, the Company and its wholly-owned domestic subsidiaries adopted the tax consolidation for corporate tax purposes.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. For assessment of the realizability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, future taxable income, tax planning strategies and level of net operating loss carryforwards, if any, in accordance with accounting principles generally accepted in Japan.

Based on the level of historical taxable income and future taxable income over the periods which the deferred tax assets are deductible, management believes Tokyo Electron will realize the benefits of these deferred tax assets, net of valuation allowance as of March 31, 2007 and 2006.

The Company is subject to a corporate tax, an inhabitant tax and a deductible business tax, which in the aggregate resulted in a statutory income tax rate of approximately 40.69% for the years ended March 31, 2007 and 2006.

Significant components of the difference between the statutory and effective tax rates for the years ended March 31, 2007 and 2006 are as follows:

	2007	2006
Statutory tax rate in Japan	40.69%	40.69%
Adjustments:		
Tax credits for research and development costs, etc.	(5.21)	(5.70)
Difference in statutory tax rates of		
consolidated subsidiaries	(1.06)	(1.33)
Gain on sale of shares of consolidated subsidiary	0.73	–
Change in valuation allowance	(0.60)	0.95
Dividends from foreign subsidiaries	0.57	0.59
Expenses not deductible for tax purpose	0.56	0.62
Amortization of goodwill	0.54	0.86
Increase in deferred tax liabilities on		
undistributed earnings of foreign subsidiaries	0.52	0.43
Others, net	(0.32)	(1.48)
Effective tax rate	36.42%	35.63%

12. Net Assets

Net assets comprises four subsections, which are shareholders' equity, valuation and translation adjustments, share subscription rights and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the board of directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital which is included in capital surplus.

Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal reserve must be set aside as additional paid-in capital or legal reserve. Legal reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal reserve until the total of legal reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the board of directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the general shareholders' meeting on June 23, 2006, in accordance with the Law, the Company altered the articles to allow for the distribution of earnings to shareholders on dates, other than the mid-term and year-end by a resolution of the board of directors.

At the board of directors' meeting held on May 11, 2007, the distribution of cash dividends amounting to ¥10,907 million (\$92,390 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are resolved at the board of directors' meeting.

13. Share Subscription Rights

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

Stock option plan

The Company's shareholders have approved annual stock option plans for directors and selected employees since the year ended March 31, 1999. In addition, a stock option plan for statutory auditors was additionally approved at the Company's general shareholders' meeting in June 2005. The cumulative number of shares authorized up to the year ended March 31, 2005 totaled 2,723,100, with the weighted average exercise price of ¥7,326. Options to purchase 85,200 and 92,000 shares of the Company were authorized and granted at exercise prices of ¥1 and ¥6,468, respectively for the year ended March 31, 2006. Options to purchase 66,900 shares of the Company were authorized and granted at an exercise price of ¥1 for the year ended March 31, 2007. The options under the plans vest immediately with restriction on exercise up to two or three years after the date of grant, and have an exercise period of eight to twenty years from the date of grant.

Shareholders of Tokyo Electron Device Limited ("TED"), a domestic listed subsidiary, have approved annual stock option plans for directors and selected employees since the year ended March 31, 2005. As of April 1, 2005, outstanding granted stock options were 300 shares, with a weighted-average exercise price of ¥340,439. Options to purchase 350 shares of TED were authorized and granted at an exercise price of ¥281,492 for the year ended March 31, 2006. As of March 31, 2007, outstanding granted stock options were 650 shares with a weighted-average exercise price of ¥308,698 (\$2,614.98).

Warrant plan

In June 2000 and 2001, the Company issued unsecured bonds with detachable warrants. Upon issuance of the unsecured bonds with detachable warrants, the Company purchased all of the detachable warrants and distributed them to the directors and selected employees. By exercising the warrant, directors and selected employees can purchase the common stock of the Company, the numbers of which were 319,829 shares and 572,439 shares at the exercise price of ¥14,070 and ¥9,608 for warrants issued in June 2000, which were forfeited and recognized a gain of ¥526 million (\$4,458 thousand) in 2007, and June 2001, respectively. As noted above, the stock option plan granted stock options at an exercise price of ¥1 and to be in accordance with the Warrant plan, the exercise prices of these warrants issued in 2001 were adjusted to ¥9,601 (\$81.33) and ¥9,604 in 2007 and 2006, respectively. The number of outstanding granted options increased by 139 shares and 283 shares in 2007 and 2006, respectively as a result of these adjustments to the exercise price of the warrant.

The warrants vest immediately with restriction on exercise up to two years after the date of grant, and have an exercise period of six years from the date of grant. For financial reporting purposes, these transactions were accounted for as an issuance of debt to third parties and separately as the issuance of warrants to directors and selected employees.

As of April 1, 2005, outstanding granted stock options, including warrants were 3,418,020 shares of the Company, with a weighted-average exercise price of ¥8,108. For the year ended March 31, 2006, 28,705 shares of the options were forfeited and 198,900 shares of the options were exercised. For the year ended March 31, 2007, 322,560 shares of the options were forfeited and 530,900 shares of the options were exercised. As of March 31, 2007, outstanding granted stock options, including the warrants were 2,581,477 shares with a weighted-average exercise price of ¥7,609 (\$64.46).

14. Leases

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance leases, and depreciation expense of finance leases that do not transfer ownership of leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2007 and 2006 are as follows:

Leased assets not recorded in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Acquisition cost	¥1,538	¥1,448	\$13,029
Accumulated depreciation	1,104	797	9,353
Net leased property	¥ 434	¥ 651	\$ 3,676

Future minimum lease payments:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥121	¥247	\$1,023
Due over one year	313	404	2,653
Total	¥434	¥651	\$3,676

Lease payments relating to finance leases accounted for as operating leases amounted to ¥274 million (\$2,321 thousand) and ¥318 million, which approximated the corresponding depreciation on the respective leased property computed by the straight-line method over the lease terms for the years ended March 31, 2007 and 2006, respectively.

Future minimum lease payments on non-cancelable operating leases:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥ 733	¥ 690	\$ 6,206
Due over one year	920	696	7,795
Total	¥1,653	¥1,386	\$14,001

15. Derivative Financial Instruments

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

The estimated fair values of the derivative financial instruments as of March 31, 2007 and 2006 are as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gains (losses)
2007:			
Sell U.S. dollars	41,648	44,142	(2,494)
Buy U.S. dollars	1,770	1,870	100
	Millions of yen		
	Contract amount	Fair value	Unrealized gains (losses)
2006:			
Sell U.S. dollars	45,872	46,313	(441)
Buy U.S. dollars	1,909	1,922	13
	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gains (losses)
2007:			
Sell U.S. dollars	352,797	373,921	(21,124)
Buy U.S. dollars	14,991	15,842	851

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

16. Other income (expenses)

Equity in loss of affiliated company of ¥1,442 million (\$12,212 thousand) which is included in other income (expenses) for the year ended March 31, 2007 mainly consists of the liquidation of a 42.9% owned affiliated company (e-BEAM Corporation).

The 19,247 shares of Tokyo Electron Device Limited, a domestic listed subsidiary, were sold in the amount of ¥4,169 million (\$35,311 thousand) in March 2007, and a gain of ¥528 million (\$4,475 thousand) was recognized. As a result, the Company's ownership interests in Tokyo Electron Device Limited decreased to 55.4%.

17. Cash Flows Information

As discussed in note 4, Tokyo Electron U.S. Holdings, Inc., acquired all the shares of Epion Corporation (renamed TEL Epion, Inc.) in December 2006. The summary of the assets and liabilities of TEL Epion, Inc. on the date of acquisition was as follows:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Current assets	¥ 548	\$ 4,642
Intangible and other non-current assets	6,159	52,178
Current liabilities	(168)	(1,427)
Non-current liabilities	(2,013)	(17,052)
Acquisition costs	4,526	38,341
Cash and cash equivalents of TEL Epion, Inc.	(2)	(16)
Net: payment for acquisition	4,524	38,325

18. Segment Information

Business segment information as of and for the years ended March 31, 2007 and 2006 is as follows:

	Millions of yen				
	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
2007:					
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	¥744,512	¥107,463	¥851,975	¥ -	¥851,975
(2) Intersegment sales or transfers	2,382	1,247	3,629	(3,629)	-
Total	746,894	108,710	855,604	(3,629)	851,975
Operating expenses	606,540	104,740	711,280	(3,283)	707,996
Operating income	140,354	3,970	144,324	(346)	143,979
2. Assets, depreciation and amortization expenses and capital expenditure					
Assets	¥728,236	¥ 46,730	¥774,966	¥(4,452)	¥770,514
Depreciation and amortization expenses	20,061	360	20,421	-	20,421
Capital expenditure, including intangible and other assets	34,795	274	35,069	-	35,069

2006:	Millions of yen				
	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	¥569,308	¥104,378	¥673,686	¥ -	¥673,686
(2) Intersegment sales or transfers	2,220	1,426	3,646	(3,646)	-
Total	571,528	105,804	677,332	(3,646)	673,686
Operating expenses	500,002	101,623	601,625	(3,642)	597,983
Operating income	71,526	4,181	75,707	(4)	75,703
2. Assets, depreciation and amortization expenses and capital expenditure					
Assets	¥618,265	¥ 45,662	¥663,927	¥ (684)	¥663,243
Depreciation and amortization expenses	20,375	395	20,770	-	20,770
Loss on impairment of fixed assets	419	-	419	-	419
Capital expenditure, including intangible and other assets	16,014	353	16,367	-	16,367

2007:	Thousands of U.S. dollars				
	Industrial electronic equipment	Electronic components and computer networks	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	\$6,306,756	\$910,316	\$7,217,072	\$ -	\$7,217,072
(2) Intersegment sales or transfers	20,173	10,564	30,737	(30,737)	-
Total	6,326,929	920,880	7,247,809	(30,737)	7,217,072
Operating expenses	5,137,988	887,251	6,025,239	(27,809)	5,997,429
Operating income	1,188,941	33,629	1,222,570	(2,928)	1,219,643
2. Assets, depreciation and amortization expenses and capital expenditure					
Assets	\$6,168,882	\$395,846	\$6,564,728	\$(37,715)	\$6,527,013
Depreciation and amortization expenses	169,932	3,050	172,982	-	172,982
Capital expenditure, including intangible and other assets	294,751	2,321	297,072	-	297,072

Note: 1. Method of classifying business segments: Business segments are classified after considering similarities in types of products and service, as well as sales methods.

2. Major products in each business segment:

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

3. Depreciation expenses and capital expenditure include those of long-term prepaid expenses.

4. Business segment information for the year ended March 31, 2006, which would have been classified in accordance with the classification for the year ended March 31, 2007.

5. Changes in accounting policies

(1) Accounting standard for stock options

Effective from the year ended March 31, 2007, "Accounting Standard for Stock Option" issued by the Accounting Standards Board of Japan has been adopted. The adoption of the new standards increased operating expenses and decreased operating income for the industrial electronic equipment by ¥118 million (\$996 thousand) for the year ended March 31, 2007, compared with the corresponding amount which would have been recorded if the previous method had been applied. The change did not affect the figures of the electronic components and computer networks segment.

(2) Accounting standard for director's bonus

Effective from the year ended March 31, 2007, "Accounting Standard for director's bonus" issued by the Accounting Standards Board of Japan has been adopted. The effect of change increased operating expenses and decreased operating income for the industrial electronic equipment segment and the electronic components and computer networks segment by ¥626 million (\$5,299 thousand) and ¥26 million (\$220 thousand), respectively, for the year ended March 31, 2007, compared with the corresponding amount which would have been recorded if the previous method had been applied.

Geographical segment information as of and for the years ended March 31, 2007 and 2006 are as follows:

2007:	Millions of yen				Consolidated
	Japan	Other regions	Total	Eliminations and corporate	
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	¥749,282	¥102,693	¥851,975	¥ -	¥851,975
(2) Intersegment sales or transfers	69,936	48,526	118,462	(118,462)	-
Total	819,218	151,219	970,437	(118,462)	851,975
Operating expenses	683,389	140,782	824,171	(116,175)	707,996
Operating income	135,829	10,437	146,266	(2,287)	143,979
2. Assets	¥740,970	¥ 95,183	¥836,153	¥ (65,639)	¥770,514

2006:	Millions of yen				Consolidated
	Japan	Other regions	Total	Eliminations and corporate	
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	¥602,564	¥ 71,122	¥673,686	¥ -	¥673,686
(2) Intersegment sales or transfers	61,443	43,811	105,254	(105,254)	-
Total	664,007	114,933	778,940	(105,254)	673,686
Operating expenses	588,933	107,639	696,572	(98,589)	597,983
Operating income	75,074	7,294	82,368	(6,665)	75,703
2. Assets	¥636,559	¥ 85,730	¥722,289	¥ (59,046)	¥663,243

2007:	Thousands of U.S. dollars				Consolidated
	Japan	Other regions	Total	Eliminations and corporate	
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	\$6,347,157	\$ 869,915	\$7,217,072	\$ -	\$7,217,072
(2) Intersegment sales or transfers	592,428	411,061	1,003,489	(1,003,489)	-
Total	6,939,585	1,280,976	8,220,561	(1,003,489)	7,217,072
Operating expenses	5,788,976	1,192,567	6,981,543	(984,114)	5,997,429
Operating income	1,150,609	88,409	1,239,018	(19,375)	1,219,643
2. Assets	\$6,276,747	\$ 806,290	\$7,083,037	\$ (556,024)	\$6,527,013

Note: 1. For the reporting of geographical segment information, net sales and operating income are separated based on the location of the Company and its subsidiaries. Assets are separated by geographic location.

2. Others comprises primarily of the United States of America, Europe and Korea.

Domestic and overseas sales for the years ended March 31, 2007 and 2006 are as follows:

Net sales	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Japan	¥313,816	¥262,532	\$2,658,334
Taiwan	182,918	150,322	1,549,497
Korea	122,628	83,571	1,038,780
United States of America	105,717	93,314	895,527
Others	126,896	83,947	1,074,934
Total	¥851,975	¥673,686	\$7,217,072

Note: 1. For the reporting of domestic and overseas sales, overseas sales (other than Japan) include export sales of the Company and its domestic subsidiaries and sales of the foreign subsidiaries, except for export sales to Japan.

2. Others comprises primarily of China, Singapore, Germany and Ireland.

19. Subsequent Event

Grant of stock options under the stock option plans

On May 11, 2007, the Company's board of directors decided to submit a resolution to the general shareholders' meeting for approval of the issuance of stock subscription rights to directors and selected employees of Tokyo Electron. The issuance of stock subscription rights is intended to enable the grant of stock options. Under this stock option plan, the options to purchase the shares of the Company at an exercise price of ¥1 (\$0.01), up to 40,000 shares will be granted to directors of the Company (excluding outside directors) and the options to purchase the shares of the Company at an exercise price of ¥1 (\$0.01), up to 90,000 shares will be granted to executive officers of the Company, directors and executive officers of domestic subsidiaries, the chairman, presidents, vice presidents, executives (including corporate officers) and senior executives of its overseas subsidiaries as of March 31, 2007 and directors of the Company resigning at the general shareholders' meeting on June 22, 2007. This grant of stock options was approved at the general meeting of the shareholders of the Company on June 22, 2007.

INDEPENDENT AUDITORS' REPORT



To the Board of Directors of
Tokyo Electron Limited:

We have audited the accompanying consolidated balance sheets of Tokyo Electron Limited and subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tokyo Electron Limited and subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

- (1) As discussed in note 3 (f) to the consolidated financial statements, the Company changed its classification of business segments in the year ended March 31, 2007.
- (2) As discussed in note 2 (g) to the consolidated financial statements, the Company adopted "Accounting Standard for Impairment of Fixed Assets", issued by the Business Accounting Deliberation Council, for the year beginning April 1, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in note 1 to the consolidated financial statements.

KPMG AZSA & CO.

Tokyo, Japan
June 22, 2007

SUBSIDIARIES AND AFFILIATES

As of March 31, 2007, the Tokyo Electron Group was made up of the parent company, 30 subsidiaries and 1 affiliate.

Company	Main business
JAPAN	
Consolidated subsidiaries	
Tokyo Electron AT Limited	Manufacture and development
Tokyo Electron Kyushu Limited	Manufacture and development
Tokyo Electron Tohoku Limited	Manufacture and development
Tokyo Electron TS Limited	Manufacture and development
Tokyo Electron Software Technologies Limited	Development
Epion Japan Limited	Development
Tokyo Electron FE Limited	Field engineering
Tokyo Electron PS Limited	Refurbishment and modification
Tokyo Electron Device Limited	Sales
Tokyo Electron BP Limited	Business and office support including logistics, leasing, facility management, etc.
Tokyo Electron Agency Limited	Nonlife insurance
Equity-method affiliate	
e-BEAM Corporation	Development
AMERICA	
Consolidated subsidiaries	
Tokyo Electron U.S. Holdings, Inc.	Holding company
Tokyo Electron America, Inc.	Sales and field engineering
Tokyo Electron Massachusetts, LLC	Manufacture and development
Tokyo Electron Arizona, LLC	Manufacture and development
Timbre Technologies, Inc.	Manufacture and development
TEL Technology Center, America, LLC	Development
TEL Epion, Inc.	Manufacture and development
TEL Venture Capital, Inc.	Identification and evaluation of new technologies
EUROPE	
Consolidated subsidiaries	
Tokyo Electron Europe Limited	Sales and field engineering
Tokyo Electron Deutschland GmbH	Field engineering
Tokyo Electron Nederland B.V.	Field engineering
Tokyo Electron Ireland Limited	Field engineering
Tokyo Electron Israel Limited	Field engineering
ASIA	
Consolidated subsidiaries	
Tokyo Electron Korea Limited	Sales and field engineering
Tokyo Electron Korea Solution Limited	Modification
Tokyo Electron Taiwan Limited	Sales and field engineering
Tokyo Electron (Shanghai) Limited	Sales and field engineering
Tokyo Electron (Shanghai) Logistic Center Limited	Logistics
Tokyo Electron Device Hong Kong Limited	Sales

INVESTOR INFORMATION

(As of March 31, 2007)

Corporate Name and Head Office:

Tokyo Electron Limited
 TBS Broadcast Center
 3-6 Akasaka 5-chome, Minato-ku,
 Tokyo 107-8481, Japan

URL:

<http://www.tel.com>

Established:

November 11, 1963

Annual General Meeting of Shareholders:

June

Common Stock:

Stock trading unit	100 shares
Authorized	300,000,000 shares
Issued and outstanding	180,610,911 shares
Number of shareholders	41,289

Common Stock Listed on:

The Tokyo Stock Exchange 1st Section (#8035)

Independent Auditors:

KPMG AZSA & Co.

Administrator of Shareholders' Register:

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

For Further Information, Contact:

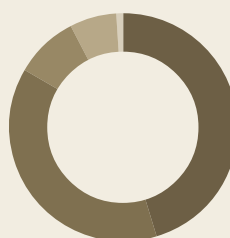
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 TBS Broadcast Center
 3-6 Akasaka 5-chome, Minato-ku
 Tokyo 107-8481, Japan
 Tel: +81-3-5561-7003
 Fax: +81-3-5561-7400

Principal Shareholders:

	Number of shares held (thousands)	Voting share ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	22,267	12.32
Japan Trustee Services Bank, Ltd. (Trust Account)	14,266	7.89
Tokyo Broadcasting System, Inc.	10,227	5.66
The Chase Manhattan Bank, N.A. London	6,203	3.43
The Dai-ichi Mutual Life Insurance Co.	4,800	2.65
Japan Trustee Services Bank, Ltd. (Trust Account No. 4)	4,408	2.44
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,000	1.66
Trust & Custody Services Bank, Ltd. (Trust Account B)	2,823	1.56
BNP Paribas Securities (Japan) Ltd.	2,700	1.49
Calyon DMA OTC	2,668	1.47

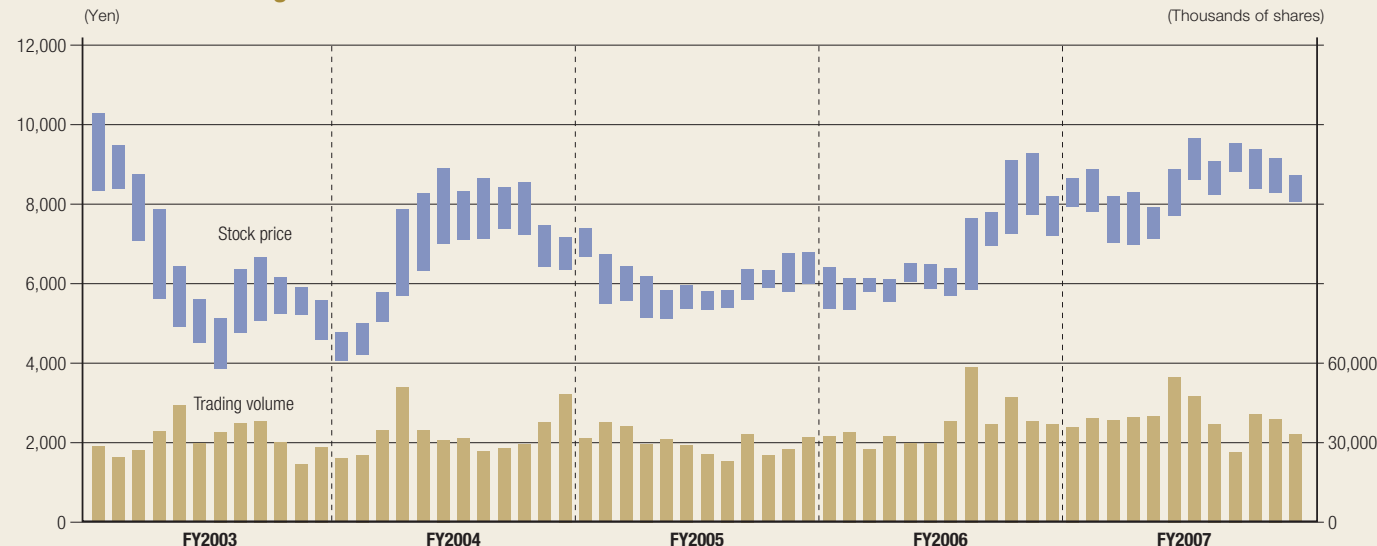
Shares of less than one thousand have been rounded down in the "Number of shares held"

Distribution of Ownership Among Shareholders:



■ Japanese financial institutions and securities companies	81,793,184 shares	45.29%
■ Foreign institutions and others	68,774,799 shares	38.08%
■ Individuals and others	16,247,212 shares	9.00%
■ Other Japanese corporations	11,982,740 shares	6.63%
■ Treasury stock	1,812,976 shares	1.00%

Stock Price and Trading Volume





TOKYO ELECTRON LIMITED

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