

TO OUR STAKEHOLDERS

*Advancing
to a New Stage
of Growth*

Fiscal 2006, the year ended March 31, 2006, saw Tokyo Electron enter a phase of renewed sales and earnings growth. The year was also marked by the introduction of a range of new next-generation products.

Review of fiscal 2006 operating results: strengths in semiconductor memory field drive sales and earnings growth

Consolidated operating income for fiscal 2006 rose 18.3% year on year to ¥75.7 billion, on a net sales gain of 6.0% to ¥673.7 billion. Net income*, however, declined 22.1% to ¥48.0 billion.

* Net income for fiscal 2005 was ¥61.6 billion, mainly because of a one-time ¥27.9 billion reversal of valuation allowance on deferred tax assets that lifted net income.



As a company committed to boosting profits through meaningful contributions to our customers' businesses, we are also pleased to report a definite return to a phase of renewed sales and earnings growth. We are on the right track toward achieving the goals we set in our medium- to long-term growth plans. We are convinced that Tokyo Electron now stands at the turning point of a new stage of growth.

Capital investment in semiconductor and LCD production facilities remains high worldwide, as a true era of digital networks and mobile communications appears on the horizon. More particularly, accelerated capital investment in Japan, Taiwan and Korea provided Tokyo Electron with a tailwind, due to our strong customer base in the region, supporting our impressive financial results. Semiconductor applications are also experiencing change. The NAND flash memory, a trigger for the revolution in memory media, drove the market. We enjoy a competitive edge in semiconductor production equipment for such state-of-the-art semiconductors that require advanced process technologies. We have won a high level of customer confidence by supplying outstanding products with top caliber service. This, too, underpinned our strong performance in the past fiscal year.

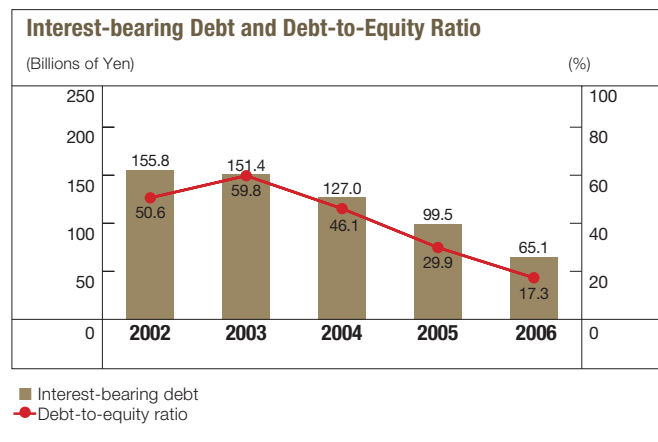
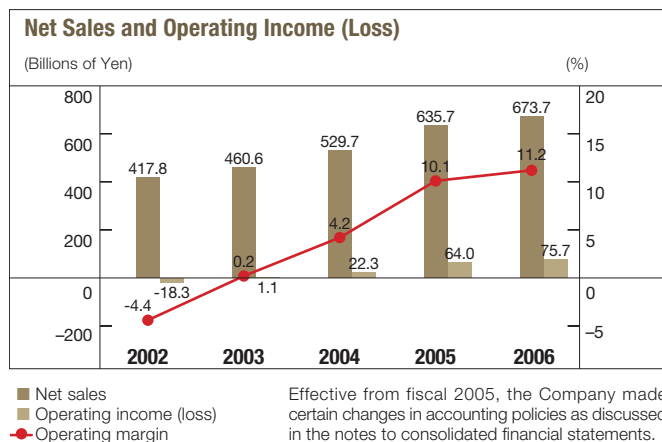
Building a strong company with cash flow immune to market cycles has been an important ongoing management priority. Initiatives to improve the asset turnover ratio and curb

growth in working capital requirements have started to yield positive results, as evidenced by the significant increase in free cash flows for a second consecutive year. Some of this ample cash was used to retire interest-bearing debt, bringing down the debt-to-equity ratio (interest-bearing debt/shareholders' equity) to 17.3%. We also raised the balance of cash and cash equivalents to an appropriate level, putting our balance sheet on an even stronger footing, in view of the unique nature of business characterized by the silicon cycle.

Foremost achievement in fiscal 2006: the launch of several strategic products that will drive earnings

Growth at Tokyo Electron is underpinned by our ability to develop new products. But the true growth driver is our ability to precisely identify new technologies that our customers require, and to quickly develop and bring to market products that provide powerful support for technological advances at our customers.

In the past fiscal year, we launched a range of new products for 65/45nm nodes, as we responded to the change to even finer design rules and the use of new materials in semiconductor manufacturing processes. Another significant development was the launch of the world's first eighth-generation FPD production equipment for the manufacture of large-sized LCD panels as growth in demand for large-screen LCD TVs is fast surpassing forecasts. Our efforts to develop new products



have started to bear fruit. We feel that this was the foremost achievement of the past year. We expect to see a large increase in shipments of new products based on our unique technologies from fiscal 2007 on, contributing significantly to sales and earnings growth.

Business strategy

Tokyo Electron is determined to continue its evolution to become an even more profitable enterprise by responding to the true needs of customers. The main thrusts of our growth strategy are to accelerate the launch of new, value-added products, strengthen cost competitiveness through the pursuit of higher productivity in our manufacturing, and offer the world's highest level of quality in both technology and services. We plan to develop a framework that smoothly integrates development, manufacturing and customer service, and to increase earnings and boost profit margins. We will use the cash this generates to invest in our next growth strategies. This will sustain a virtuous cycle of further growth.

While getting the most out of our original core technologies, we will focus on marketing and research and development with the view to entering new fields that harbor prospects for growth.

Tokyo Electron is committed to implementing business strategies that assure continuing medium- to long-term growth, and to becoming a company with a superior financial position.

Provide infrastructure for the digital age through untiring dedication to technological innovation

Tokyo Electron manufactures a broad range of production equipment used in the manufacture of semiconductors, LCDs and other cutting-edge products. These products help customers to manufacture key components that will be at the very core of the mobile communication and digital network era. The progress of a digital society is dependent on outstanding key components and the advanced production equipment required for their manufacture. Tokyo Electron is managed on the basis of

the firm conviction that the primary mission of the Company and its business is to provide the backbone for comfortable lifestyles. By identifying and nurturing new technologies with an eye on the future, Tokyo Electron will continue to contribute profoundly to society through the supply of advanced manufacturing infrastructure to customers worldwide.

As a company operating on a global basis, Tokyo Electron recognizes that thoughtful consideration for environmental protection is one of today's most important management issues. As a leading supplier of semiconductor and FPD production equipment, Tokyo Electron is committed to fulfilling its responsibilities by aggressively working to lower the environmental loads of its equipment, while actively promoting other environment-related programs.

In corporate governance, Tokyo Electron was quick to adopt concepts and systems that promote compliance, and realize fair, transparent management that allows the Company to live up to the trust that society has placed in us.

Tokyo Electron is dedicated to providing its customers and society with high-value products developed through the unwavering pursuit of technological innovation. We will achieve this while continuing reforms that build a foundation for sustained growth, strong earnings and increased corporate value. Having entered a renewed growth stage, Tokyo Electron is a company to watch. We look forward to your continued support.

June 2006



Tetsuro Higashi, Chairman & CEO



Kiyoshi Sato, President & COO