

AN UNCOMPROMISING DEDICATION TO COMPLETE CUSTOMER SATISFACTION

The greatest strength of Tokyo Electron is a firm commitment to customer satisfaction that has defined the company since its foundation. Our sales and marketing team identifies the true needs of each customer. Support service teams make sure that our equipment is operating reliably and according to specifications at customers' factories. Our R&D engineers take the lead in developing products and technologies that closely meet the requirements of each customer. Backed by the "customer-first" stance of every element of our organization, Tokyo Electron equipment is performing key functions at semiconductor fabs throughout the world.

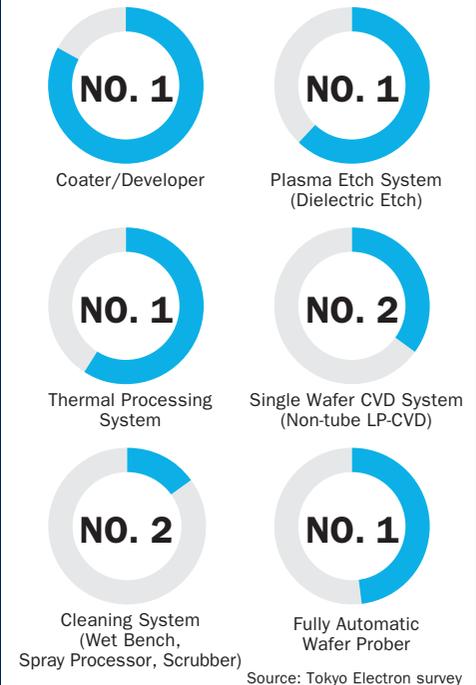
RETAINING A PROMINENT MARKET POSITION THROUGH OUR "NUMBER ONE" STRATEGY

Tokyo Electron is constantly differentiating itself by creating innovative technologies. We concentrate resources on targeted product categories with the aim of becoming number one. This policy has made us the leader in developing next-generation technologies for various types of equipment. By acquiring exclusive know-how needed to take technologies to the next stage, we can preserve a clear competitive edge.

MARKET SHARE BY PRODUCT CATEGORY

Tokyo Electron ranks among the leaders in terms of market share in every category of semiconductor production equipment it produces, based on Tokyo Electron data.

Tokyo Electron Products World Market Share (2005)



POWERFUL STRENGTH FOR FIRM POSITION



THE WORLD'S MOST ADVANCED SERVICE SUPPORT FRAMEWORK

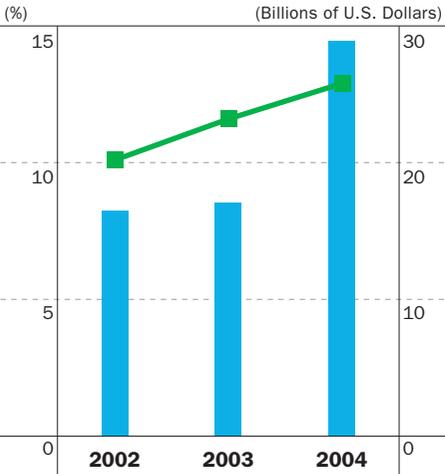
Semiconductor and FPD production equipment depends heavily on many state-of-the-art technologies. An equally sophisticated service support framework is essential to ensuring the stable operation of this equipment in customers' factories. To provide this capability, Tokyo Electron has service bases in 12 countries that help raise productivity by supplying support closely meeting the requirements of each customer.

INCREASED MARKET SHARE IN SPE MARKET

One measure of customer satisfaction is a supplier's market share. In the semiconductor wafer fab equipment market, our share increased from 11.6% in 2003 to 12.9% in 2004. This demonstrates the excellent reputation of our high-throughput equipment and reliable support system for 300mm wafers, which have become the industry standard.

Worldwide Wafer Fab Equipment Market and Tokyo Electron's Market Share

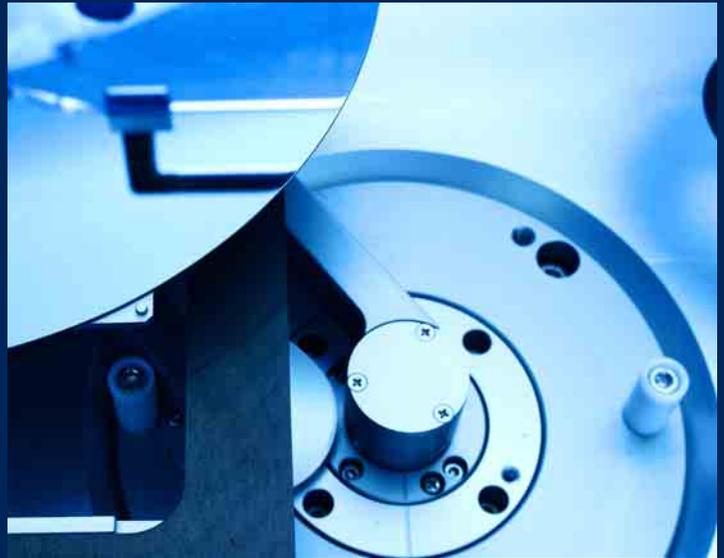
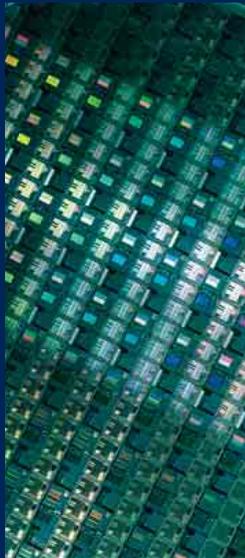
(Calendar Year)



■ Wafer fab equipment market
 ■ Tokyo Electron share

Source: Gartner Dataquest
 (April 2005) GS05219

Worldwide Operations (As of July 1, 2005)



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MAKING AN EVEN ST FINANCIAL POSITION

GREATER FINANCIAL SOUNDNESS

During the surge in IT-related demand and investments a few years ago, Tokyo Electron added assets and costs that are no longer suitable for today's operating environment. To improve operating efficiency, we have constantly worked on achieving the proper level of employees, inventories and capital expenditure. Due to these initiatives, the days required to turn over trade-notes and accounts receivable and inventories have decreased over the past two years even as sales climbed, producing a significant increase in operating cash flows.

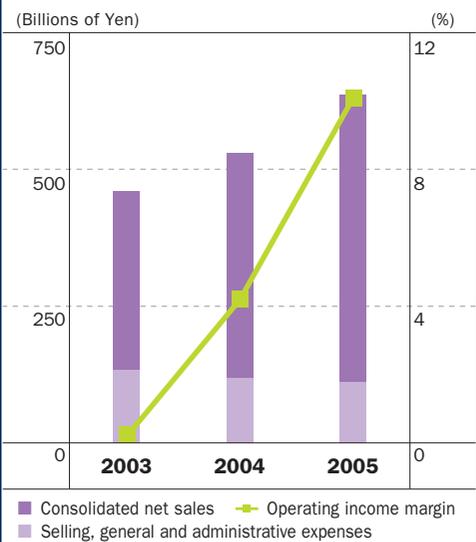
MORE STRUCTURAL REFORMS

For some time, we have been enacting structural reforms aimed at reducing manufacturing lead times, cutting costs and other goals. Now, along with work involving existing themes, we are focusing on the additional priority of further improving quality. The objective is to use these reforms to raise profitability and build a powerful financial position that can generate consistent cash flows.

IMPROVEMENT IN THE OPERATING INCOME MARGIN

Structural reforms have produced a substantial increase in the operating income margin. While the cost of sales rose along with sales, selling, general and administrative expenses were down 5.0% due to measures to control headcount, lower depreciation expenses by carefully managing capital expenditures, and other factors. The result was a noteworthy jump of 9.9 percentage points in the operating income margin compared with fiscal 2003.

Operating Income Margin, Consolidated Net Sales and Selling, General and Administrative Expenses



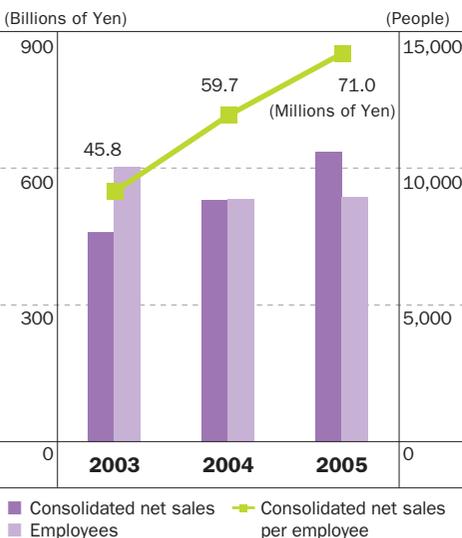
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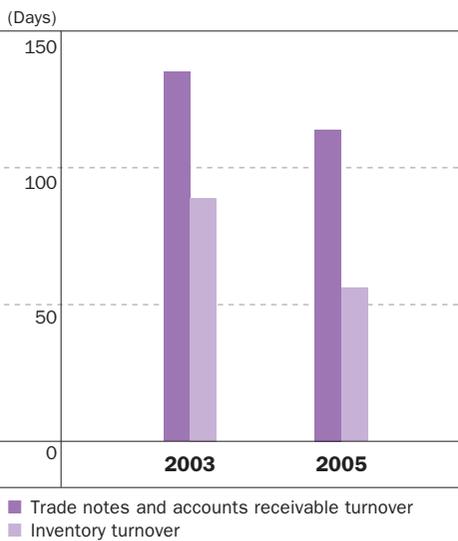
HIGHER PRODUCTIVITY AND EFFICIENCY

Tokyo Electron achieved a significant improvement in operating efficiency even while meeting a large increase in demand for its products during the past fiscal year. Shorter manufacturing lead times, a review of the product design process and other improvements made this possible. The result was increases in productivity and efficiency. In particular, consolidated net sales per employee was up a remarkable 55.0% compared with fiscal 2003.

Consolidated Net Sales per Employee, Consolidated Net Sales and Employees



Trade Notes and Accounts Receivable and Inventory Turnovers



IMPROVE TRADE NOTES AND ACCOUNTS RECEIVABLE AND INVENTORY TURNOVERS

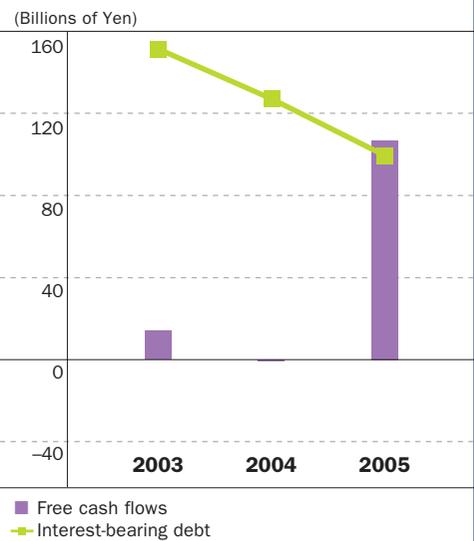
Inventories tend to rise in tandem with sales. However, through extensive measures to maintain sound inventories, in terms of volume and composition, we have worked to hold inventories at a suitable level. Benefits have been dramatic. Inventory turnover, based on shipments, improved from 89 days as of March 31, 2003 to 72 days one year later and 56 days as of March 31, 2005.

To collect receivables associated with product sales faster, we had to devise ways to reduce time needed for final adjustments following the installation of a product. We are making progress by standardizing our equipment and raising quality. At the same time, we are negotiating with customers to shorten payment terms. Trade notes and accounts receivable turnover, on a shipment basis, improved sharply to 114 days as of March 31, 2005 compared with 159 days as of March 31, 2004 and 135 days as of March 31, 2003.

FREE CASH FLOWS GENERATION AND DEBT REDUCTION

Success at holding accounts receivable and inventories to proper levels means that we need less additional working capital when sales rise. Capital expenditures are also kept at the proper level by concentrating these investments mainly on R&D activities and IT infrastructure components that can raise productivity. Together, these actions helped generate more than ¥100 billion in free cash flows in fiscal 2005. This cash was proactively used during the past fiscal year for new product development activities and interest-bearing debt reductions. We achieved negative net debt that gave us virtually debt-free operations.

Free Cash Flows and Interest-bearing Debt



MEETING THE DEMAND FOR INVESTMENTS IN TECHNOLOGY AND NEW PRODUCTS

Our customers need to make semiconductor devices with greater scales of integration, more functions, higher speeds and lower power consumption, all at high volumes and with excellent productivity. At the heart of our ability to meet these demands is our Process Technology Center, which has an environment identical to the wafer fabs of our customers. Here and at other locations, we work with customers from around the world, consortiums, universities and other partners to develop sophisticated technologies. Developing semiconductor manufacturing technology is becoming increasingly sophisticated. By leveraging our technological leadership, we will continue to develop equipment that provides the solutions customers require.

AIMING FOR FURTHER GROWTH

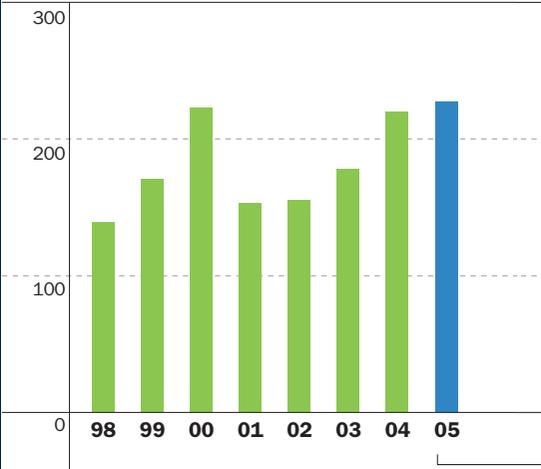
Our primary goal is to attain further growth in corporate value. Following up on structural reforms enacted in recent years, we plan to take initiatives to generate record earnings each time the semiconductor industry reaches a cyclical peak.

SEMICONDUCTOR-RELATED MARKETS STILL HAVE ENORMOUS GROWTH POTENTIAL

Increasing applications for semiconductors are fueling explosive growth in the volume of devices shipped. That translates into substantial demand for manufacturing equipment. At the semiconductor industry's next peak, which is forecast to be around 2008, projections show that markets for semiconductors and production equipment will be about 30% larger than the recent peak.

Worldwide Semiconductor Revenue (Calendar Year)

(Billions of U.S. Dollars)



Source: Gartner Dataquest (April 2005) GJ05220

NEW APPLICATIONS DRIVE DEMAND FOR SEMICONDUCTORS

Growth of the semiconductor market has been driven mainly by the PC. Looking ahead, the market will be backed by a multitude of other applications as well, like mobile devices, automotive electronics and digital consumer electronics.

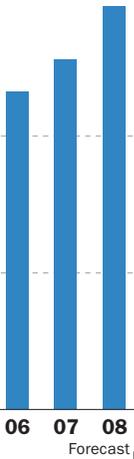
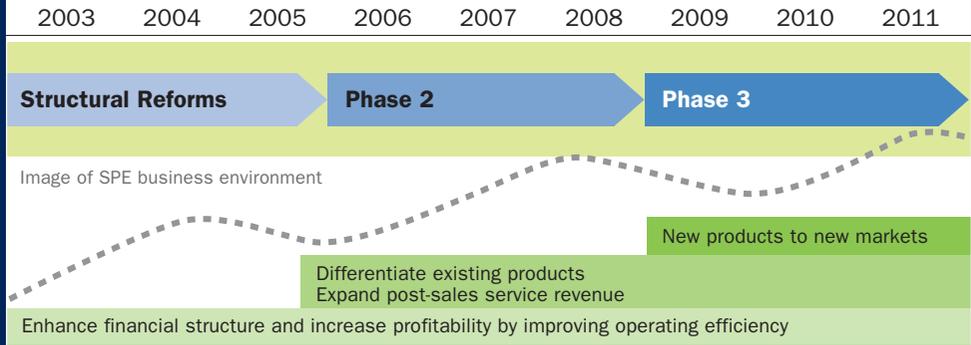
ENVISIONING FURTH BY INNOVATIVE TECH



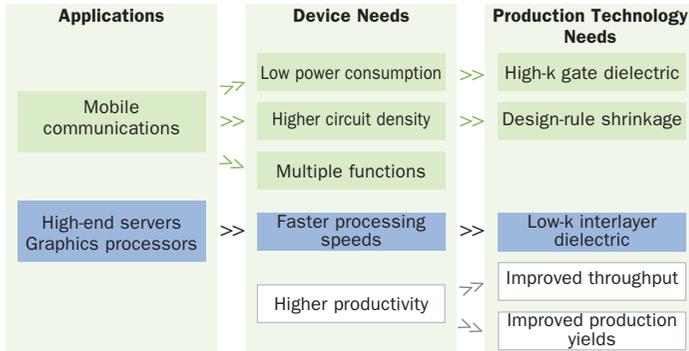
OUR GOAL – RECORD EARNINGS

We continue to concentrate on reducing costs and shortening manufacturing lead times in our ongoing structural reform program. At the same time, we are active in two other areas to lay the groundwork for continued growth. One is becoming more competitive by adding more value to our existing product lineup. The other is expanding after-sales businesses, such as the sale of parts and equipment refurbish. Furthermore, we expect that the results of development projects now under way will contribute to additional earnings growth at the next stage by providing new products to new market sectors.

Scenario to Increase Profitability



Device and Production Equipment Needs

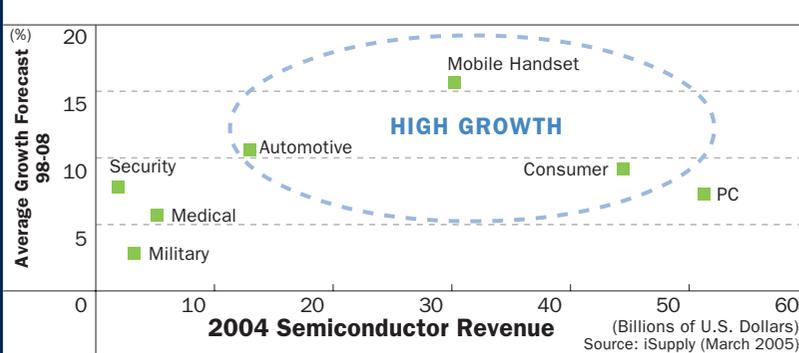


"k" in high-k and low-k refers to the dielectric constant of the insulator

REQUIREMENTS FOR SEMICONDUCTOR TECHNOLOGIES DEMANDED BY END PRODUCTS

Cell phones and other mobile devices need to be lighter and have longer battery lives in order to smoothly handle streaming video and other content in the coming age of digital networks. Networks linking these devices require high-performance servers with massive processing power and data storage capacity. Tokyo Electron is responding by developing sophisticated technologies that precisely target the requirements of end products.

Semiconductor Forecast by Application, 1998-2008 (Calendar Year)



ER GROWTH NOLOGY