

Annual Report 2004
Year ended March 31, 2004



ACCELERATION
AHEAD

TOKYO ELECTRON LIMITED



Established in 1963, Tokyo Electron (TEL or the Company) is a world-leading supplier of semiconductor production equipment (SPE) and related services for the semiconductor industry. The Company develops, manufactures and markets a broad lineup of products, including coater/developers, plasma etch systems, thermal processing systems, single wafer CVD systems, cleaning systems, wafer probers and others.

Tokyo Electron also uses its accumulated expertise in SPE to develop, manufacture and market coater/developers and etch/ash systems for the manufacture of Flat Panel Display (FPD). Most of the Company's semiconductor and FPD production systems hold leading shares in their respective markets.

Tokyo Electron also maintains a strong presence as a distributor, providing a wide array of semiconductor production systems, storage area network and Internet related products for broadband solutions, and electronic components in Japan from other leading suppliers. With a network spanning 12 countries on three continents, Tokyo Electron provides superior products and services to its customers, and superior returns to its shareholders.

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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 the Company's assumption 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

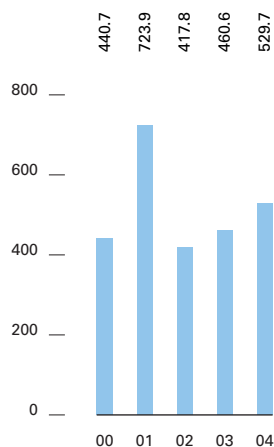
Financial Highlights

Tokyo Electron Limited and its Subsidiaries
Years ended March 31, 2004, 2003 and 2002

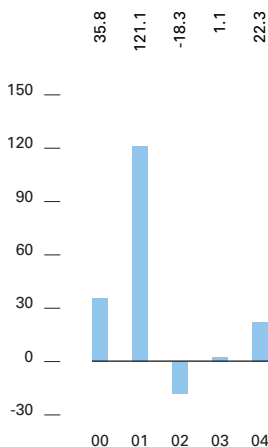
	Millions of Yen (Note 1)			Thousands of U.S. Dollars (Note 1)
	2004	2003	2002	2004
FOR THE YEAR				
Net sales	¥529,654	¥460,580	¥417,825	\$5,013,762
Operating income (loss)	22,280	1,119	(18,310)	210,902
Income (loss) before income taxes	14,936	(23,010)	(22,919)	141,382
Net income (loss)	8,297	(41,554)	(19,938)	78,544
Net income (loss) per share of common stock (Note 2): (Yen and U.S. Dollars):				
Basic	¥ 46.37	¥ (238.57)	¥ (113.85)	\$ 0.44
Diluted (Note 3)	45.78	–	–	0.43
Cash dividends per share of common stock	10.00	8.00	8.00	0.09
AT YEAR-END				
Total assets	¥561,632	¥524,901	¥556,915	\$5,316,467
Total shareholders' equity	275,800	252,904	307,579	2,610,748

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥105.64=\$1. Per share figures are stated in yen and dollars.
2. Net income per share is computed based on the weighted average number of shares of common stock outstanding during each fiscal year.
3. Dilution is not assumed for the years ended March 2003 and 2002.

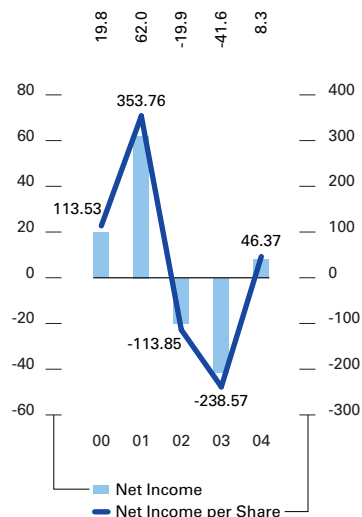
Net Sales
(Billions of Yen)



Operating Income
(Billions of Yen)



Net Income / Net Income per Share
(Billions of Yen / Yen)





Kiyoshi Sato
President & CEO

The past fiscal year was an exciting year for us at Tokyo Electron, as we witnessed the semiconductor industry emerge from its long recession and enter a recovery phase. Full-blown market penetration of digital consumer electronics, such as digital cameras, DVD recorders, and FPD television sets, in addition to replacement demand for next-generation personal computers and mobile phones, boosted demand for semiconductor devices. Amid the notable growth of economies in Asia, which now strongly influence the overall global economy, Japanese semiconductor manufacturers focused their business resources on their areas of strength, building momentum. Reflecting this strategy, capital investment sentiment began to build and shifted more to Asia.

Under these circumstances, the Company's performance also rebounded strongly in the second half, resulting in annual consolidated net sales rising 15%, to ¥529.7 billion. Profitability jumped as well. Operating income climbed to ¥22.3 billion from ¥1.1 billion and net income surged to ¥8.3 billion from a loss of ¥41.6 billion in the prior fiscal year. As a result, net income per share amounted to ¥46.37, and annual cash dividends were ¥10.0 per share.

Strengthening our Leading Position in the Industry

Along with broadening applications of semiconductors in digital consumer electronics and mobile devices, the demand for higher integration, faster speed, and lower energy consumption is steadily increasing. At our customers' semiconductor plants, full-scale, volume IC production based on 90 nanometer design rules is beginning. Based on technology capabilities that rank at the very pinnacle of our industry, we are contributing to the manufacture of our customers' leading-edge devices by developing highly differentiated products backed by our high-quality support services. Semiconductor manufacturers are now investing in equipment for 300mm wafer facilities. Anticipating that this trend would further strengthen, we developed 300mm wafer equipment and have been promoting it for the past several years.

Moreover, centered on our Process Technology Center in Nirasaki, Yamanashi Prefecture, we have been proceeding with joint development projects with leading semiconductor manufacturers from around the world, with the goal of supplying our customers with the most appropriate solutions for emerging and leading-edge processes. Consequently, 300mm wafer equipment now accounts for more than 50% of our semiconductor production equipment sales. According to our surveys, in the fiscal year under review, our semiconductor production equipment held top share of the market in many of our product categories.

Also in the past fiscal year, the Company established TEL Technology Center, America, LLC (TTCA), in Albany, New York, as its center for research and development in North America. TTCA will handle a variety of research and development projects for both next generation processes and the semiconductor manufacturing equipment needed by leading chip manufacturers worldwide. This development effort will involve a number of partners ranging from chip manufacturers to equipment suppliers and academia.

Strengthening our Leading Position in the Industry

In the future, we will continue to demonstrate technological leadership as a multi-product supplier of semiconductor production equipment and strengthen our ability to unify and incorporate leading-edge technologies by aggressively launching new products in the global market.

Among digital electronics products, growth expectations are particularly high for the LCD television market. This is good news for TEL, as our FPD production equipment is essential for the production of the TFT-LCDs used in these televisions. FPD manufacturers are currently increasing their capital investments in facilities that can process large glass substrates, causing orders for our related equipment to continue at record levels. Since further innovations are expected in advanced display technologies, we are also looking forward to business expansion in this field.

In our Electronic Components Division, which is operated by our subsidiary Tokyo Electron Device Ltd., we market high-value-added products of world's device manufacturers that have application in digital electronic and mobile phone devices, along with our technology support services. In this area, we are also working to expand sales of semi-custom design services and develop our own original products, along with tremendous efforts in application engineering.

Following the collapse of the IT bubble, our Computer Network Division achieved sales growth despite stagnation in the communications and network-related industries. The key to this success was customer recognition of the superiority of technical support, system design, and other technology capabilities behind the leading-edge products we distribute. In fact, it could be said that these adverse business conditions resulted in a strengthening of our position in the industry. In the computer network field, we expect to expand sales and improve profitability of our business, including higher service revenues along with the Japanese macro economy recovery and overall CAPEX increase.

Business Structural Reforms

Commencing with the fiscal year under review, TEL has moved ahead with a companywide structural reform plan aimed at preparing the Company, over the next one-to-two years, for its next growth stage. Among our top priorities are eliminating the excessive inventories built-up during the IT bubble and downsizing personnel appropriately for current conditions. In addition, we are seeking further cost reductions and shortening of production lead times to meet the requirements of end-use applications targeting the consumer market.

Building Higher Profitability

During the last fiscal year, we took thorough measures to reduce inventories, disposing unnecessary items in Japan and overseas, and refurbishing or converting products that could be sold. As a result, despite an increase in work in process during the second half due to higher production rates, we cut our inventory assets and improved our inventory turnover to 72 days from 89 days as a result of the first year of structural reforms. In our personnel program, we initiated measures to decrease the number of employees worldwide by around 1,000, decreasing our fixed costs.

To reduce costs and shorten production lead times, we set goals for each Business Unit. Guided by these targets, we made fundamental revisions of our procurement, design, manufacturing, and logistics. We are also implementing a system for shortening production lead times at all plants. As we are facing substantial growth in production volume this fiscal year, we are convinced that reducing production lead times at our plants will be an especially important factor in achieving higher production volumes without increasing fixed costs.

Although our restructuring efforts have progressed favorably during the past fiscal year, we are still merely at the halfway point. In the current fiscal year, we are redoubling our efforts in the second phase of the program, aiming to achieve agile management capabilities, as well as a low-cost structure to deal with the sudden fluctuations in our business cycles.

Building Higher Profitability

In addition to our business structural reforms, we recognize further improvement of profitability as a top priority management issue at Tokyo Electron.

Over the past few years, we have invested approximately 10% of our semiconductor production equipment sales in research and development, targeting high-value-added products. This focus is now steadily producing results. Our new thermal processing system, TELFORMULA™, which customers started using for volume production about two years ago, combines the advantages of a hot-wall thermal furnace with quick turnaround time. The model has earned a strong reputation among customers for high-end thermal processing applications.

The new coater/developer, CLEAN TRACK™ LITHIUS™, which we began manufacturing in volume during the past fiscal year, has also been a success. Fitted with embedded measurement devices and software technology, this model incorporates functions that enable improved process stability. As such, the model is compatible with the processes of 90 nanometer and beyond design rule, which are

now beginning in earnest in the semiconductor industry. CLEAN TRACK LITHIUS is already winning high praise from many customers, and shipments in the current fiscal year are anticipated to equal those of the Company's best-selling model CLEAN TRACK ACT® series. Both of these new products are contributing to greater profitability based on the high-value-added content they offer customers in comparison with previous models. Clearly, the demands of the market have spread beyond shrinking device sizes, diversifying to the application of new structures and materials. We believe that this field holds many opportunities to introduce new equipment, and are determined to successively launch new products.

To buffer ourselves from the silicon cycles, establishment of a business style ensuring stable earnings is in progress, and as part of that process, we are expanding our services and refurbishing business. As capital investment in 300mm equipment grows, there have been many requests from customers using 200mm and lower equipment for relocation and refurbishing services. We will focus more on this refurbishing business under our subsidiary Tokyo Electron FE Ltd., which is responsible for field engineering services. We are currently creating a plan to expand the sales of this business by 50% over the next few years.

Accelerate Innovations in Semiconductor Technology and Target a Truly High-Quality Company

Present applications for semiconductors go beyond personal computers and mobile phones, extending to storage-related devices, such as flash memory, and to sensors and microcontrollers used in automobiles. Along with higher communication speeds, the growing popularity of advanced mobile device functions, and the full-fledged start to digital terrestrial television broadcasting, there will be explosive growth in the volume of information being processed and accumulated globally. Naturally, this is expected to stimulate further expansion in the semiconductor market. Current semiconductor technology has only taken the first few steps toward its potential goal. Although facing various technological and economic hurdles, I have no doubt that technological innovations will enable semiconductor technology to continue to evolve. Determined to be one of the drivers of the technological innovations, the Company will continue to pursue and supply the highest quality in the industry in both our technology and support services. As a result, we hope to fulfill and exceed the expectations of our shareholders, customers, employees, regional communities, and all other stakeholders. In meeting these challenges, we look forward to the continued support of our shareholders. I would like to thank our shareholders for the support you have given us, and invite you to share in the benefits as we make our vision for the future reality.

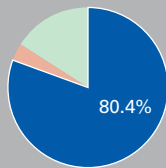
June 2004

A handwritten signature in black ink, appearing to read 'Kiyoshi Sato', written in a cursive style.

Kiyoshi Sato
President & CEO

Semiconductor Production Equipment

Tokyo Electron develops and manufactures a broad range of superior semiconductor production equipment, and complements its original lineup by distributing high-value-added products from other suppliers.



Semiconductor & FPD Production Equipment

•Original Products

- Coater/Developer
- Spin-on Dielectric Coater
- Mask Coater/Developer
- Plasma Etch System
- Thermal Processing System
- Single Wafer CVD System
- Plasma Processing System
- Cleaning System
- Scrubber System
- Wafer Prober
- Dicing Frame Prober
- Optical Digital Profilometry

•Distributed Products

- FIB System (FEI Company)
- Film Metrology Tool (Rudolph Technologies, Inc.)
- Yield Management Software (Yield Dynamics, Inc.)
- X- ray Diffraction Measurement Equipment (Bede Scientific Instruments Ltd.)



Coater/Developer
CLEAN TRACK™ LITHIUS™



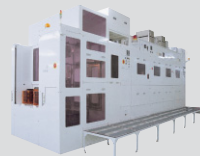
Plasma Etch System
Telius™



Thermal Processing System
TELFORMULA™



Single Wafer CVD System
Trias™



Carrierless Cleaning System
UW300Z



Wafer Prober
P-12XLn+

Flat Panel Display (FPD) Production Equipment

Leveraging the technology and expertise accumulated from its semiconductor production equipment business, Tokyo Electron has created a strong lineup of leading-edge FPD production equipment.

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



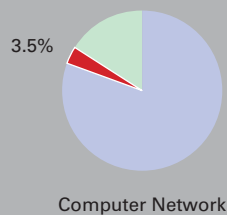
FPD Coater/Developer
CL1300



FPD Plasma Etch/Ash System
SE-1300

Computer Network

In order to fulfill its goal of providing solutions tailored to user needs, Tokyo Electron distributes storage area network and Internet related products for broadband solutions to offer comprehensive system solutions.



Computer Network

- Internet solutions
- Network security solutions
- SAN solutions



Brocade Communications Systems, Inc.
Fibre Channel Integrated Fabric Switch



Extreme Networks, Inc.
Gigabit Ethernet Switch



F5 Networks, Inc.
Secure Remote Access Controller

Computer/Networks

Advanced Digital Information Corporation
Brocade Communications Systems, Inc.
DataPower Technology, Inc.
Emulex Corporation
Extreme Networks, Inc.
F5 Networks, Inc.
GoAhead Software Inc.
Hewlett-Packard Japan, Ltd.
Hitachi, Ltd.
Isilon Systems, Inc.
Juniper Networks, Inc.
McDATA Corporation
nCipher Corporation Ltd.

- Business network solutions
- Aerospace products

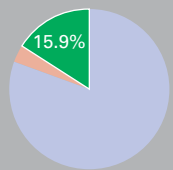
NeoScale Systems, Inc.
TimesTen Performance Software, Inc.
VERITAS Software Corporation
Z Microsystems Inc.

Aerospace Products

BAE SYSTEMS
Conax Florida Corp.
Scot Inc.
H. Koch & Sons Corp.
Irvin Aerospace Inc.
ITT Aerospace Controls Corp.
Pacific Cast Technologies

Electronic Components

Tokyo Electron selects and offers the world's best products from leading suppliers. With a full product lineup and flexible technical support, the Company provides total solutions to meet diversified user needs. Operations are handled by subsidiary Tokyo Electron Device Ltd.



Electronic Components

- Semiconductor products
- Board computer products
- Software
- Other electronic components



Fujitsu Ltd.



Xilinx, Inc.



Pixelworks, Inc.

Advanced Micro Devices, Inc.
Agilent Technologies, Inc.
Cavium Networks, Inc.
Conexant Systems, Inc.
Cosel Co., Ltd.
Digital Electronics Corp.
Emuzed, Inc.
Eudyna Devices Inc.
Freescale Semiconductor, Inc.
Fujifilm Microdevices Co., Ltd.
Fujitsu Ltd.
Fujitsu Display Technologies Corp.
Fujitsu Media Devices Ltd.
Infineon Technologies AG
Integrated Device Technology, Inc.

Intel Corp. (Dialogic Product)
Intersil Corp.
Kopin Corp.
Legerity, Inc.
Linear Technology Corp.
Metrowerks, Inc.
Microsoft Corp.
3M (Minnesota Mining and Manufacturing Com.)
Motorola, Inc.
ON Semiconductor Corp.
PFU Ltd.
Phoenix Technologies Ltd.
Pixelworks, Inc.
Potentia Semiconductor Corp.

Ramtron International Corp.
SafeNet, Inc.
Shinko Electric Industries Co., Ltd.
SiberCore Technologies Inc.
Silicon Integrated Systems Corp.
Texas Instruments Inc.
Tokyo Electron Device Ltd.
Tundra Semiconductor Corp.
VenturCom, Inc.
Winchester Electronics
Woodhead Industries, Inc.
Xicor, Inc.
Xilinx, Inc.
Zarlink Semiconductor Inc.
ZettaCom, Inc.

Achievements

▶ Semiconductor production equipment (SPE) — an industry that enters a new stage of growth on upturns in the silicon cycle. Having been through what is said to be the worst slump in the history of the semiconductor industry, our industry is now in the midst of a notable recovery, and the direction and potential of new markets are becoming visible. Against this backdrop, Tokyo Electron (TEL)'s established technological strengths and strategic marketing are helping its performance growth outstrip that of the recovery in the industry.

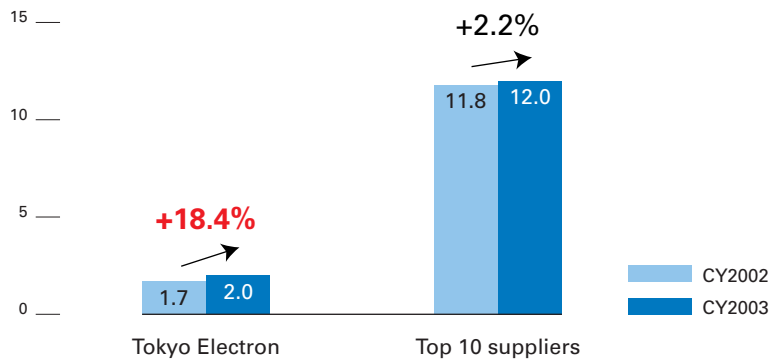
A Performance Rebound that Exceeds that of Market Recovery

18.4% growth

During the calendar year 2003, TEL's Wafer Fab Equipment sales surged 18.4% from the same period in 2002, substantially outperforming the 3.6% growth in the global Wafer Fab Equipment market. Starting from the second half of 2003, the semiconductor manufacturers began to invest robustly in memory chips and in chips for digital consumer electronics, one of the key drivers of the future. Our overwhelming technology leadership in these arenas enabled us to fully enjoy the benefits of the recovery.

CY2003 Growth of Wafer Fab Equipment Shipments Worldwide

(Billions of U.S. Dollars)

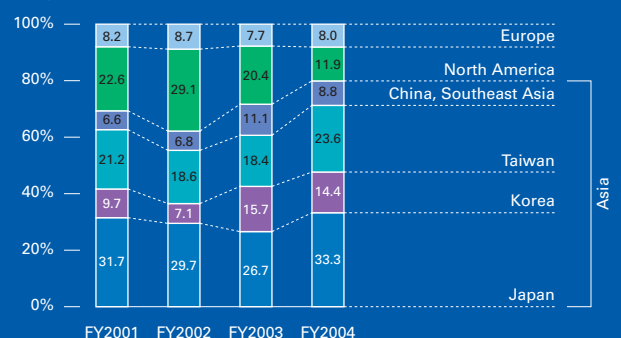


Source: Gartner Dataquest (April, 2004) GJ04312
Equipment sales only, excludes service and spare parts sales

Notes: 1. Growth rates described here are based on surveys by Gartner Dataquest.
2. TEL's Wafer Fab Equipment sales are equivalent to its Semiconductor Production Equipment sales excluding the sales of wafer probers.

TEL Basic Data

Composition of SPE Regional Sales

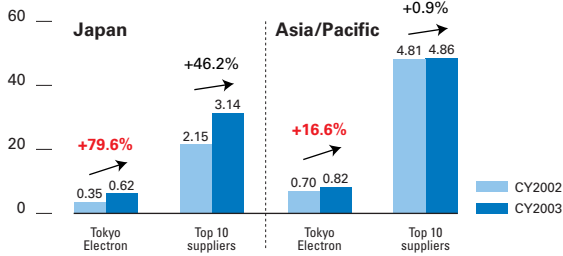


Note: Sales of FPD production equipment are included.

Booming SPE Sales in Asia

CY2003 Growth of Wafer Fab Equipment Shipments in Japan and Asia/Pacific

(Billions of U.S. Dollars)



Source: Gartner Dataquest (April, 2004) GJ04313
Equipment sales only, excludes service and spare parts sales

Note: Growth rates described here are based on surveys by Gartner Dataquest.

79.6 % growth in Japan
16.6 % growth in Asia/Pacific

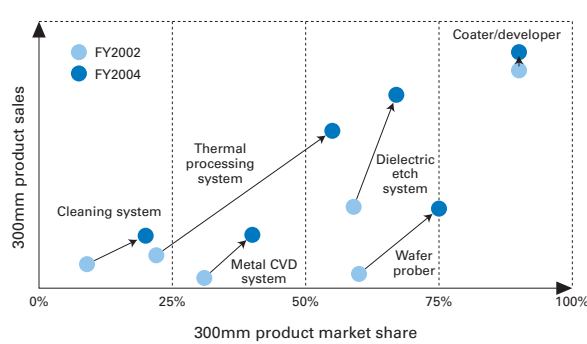
Our high presence in Asia, including Japan, made it possible for us to achieve our high-level recovery during the past year. On the threshold of the 21st century, many semiconductor manufacturers began shifting their mass-production bases to Asia to enable low cost production. Moreover, Japanese semiconductor manufacturers regained momentum by revising their product strategies.

These trends propelled TEL's performance upward thanks to our powerful marketing/sales and service network in Asia.

The Wafer Fab Equipment market in CY2003 grew 34.0% in Japan, and 3.4% in the rest of Asia. TEL's sales growth in these regions significantly outperformed the average growth.

Equipment for Handling 300mm Wafers – No.1 Market Share in Multi-segments

Market Shares of TEL Products for 300mm Wafers

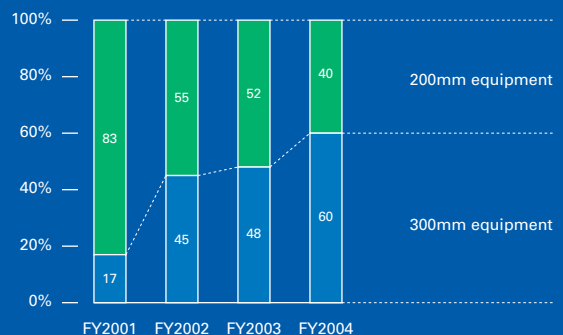


Note: Product market shares are based on surveys by TEL

No. 1

To reduce overall chip manufacturing costs, semiconductor manufacturers have now shifted their capital investment from 200mm to 300mm wafer equipment. Anticipating the full-scale start of the 300mm era in the wake of the market recovery, we have been focusing our efforts on building a competitive 300mm product lineup. Over the past two years, all of TEL's 300 mm wafer products have substantially increased their market shares as shown in the chart.

**Proportion of New Orders Received
200mm Equipment Vs. 300mm Equipment**



Achievements

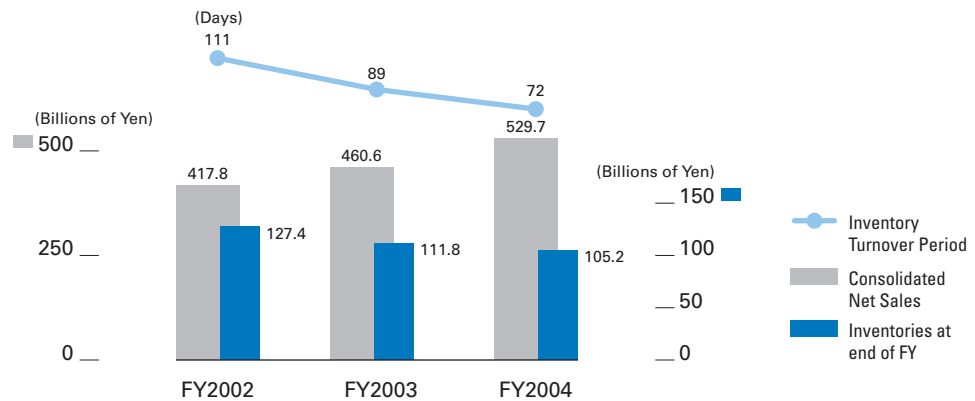
▶ After the collapse of the IT bubble, TEL carried out various groupwide restructuring measures to downsize costs and surplus assets to accommodate with current scale of the business. We accelerated all our business cycles through such efforts as shortening production leadtime and development period, aiming to be able to respond quickly to changes in market needs and achieve high operating efficiency.

Inventory Turnover Accelerated by 39 Days (FY2002 Vs. FY2004)

-39 days

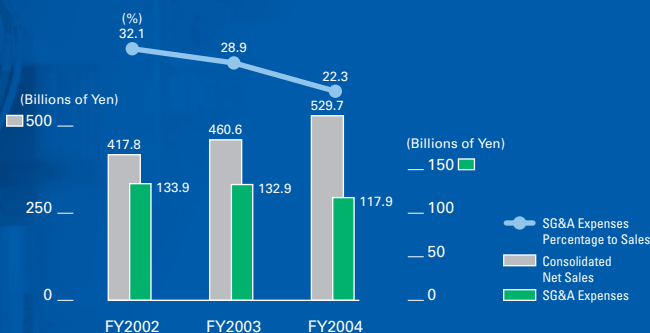
To improve TEL's cash flow, we have thoroughly pursued inventory reduction. While working to restore the healthy status of inventories by writing-off obsolete ones, we also strengthened efforts to sell our accumulated in-stock products. As a result, inventory assets fell by ¥22.2 billion compared with the end of FY2002. The inventory turnover period contracted dramatically to 72 days from 111 days. The reduction of production leadtime project currently under way is also proceeding smoothly, and our near-term goal 60 days is well within sight.

Inventories and Inventory Turnover



TEL Basic Data

Selling, General and Administrative Expenses and Percentage to Sales



Note:
From FY2004, some of field engineering related expenses previously included in SG&A expenses were reclassified to cost of goods sold. Disregarding the reclassification for the purpose of comparison with performances in previous fiscal years yields an SG&A to net sales ratio of 25.0%.

Fixed Cost Reduced by 14 Billion Yen (FY2004)

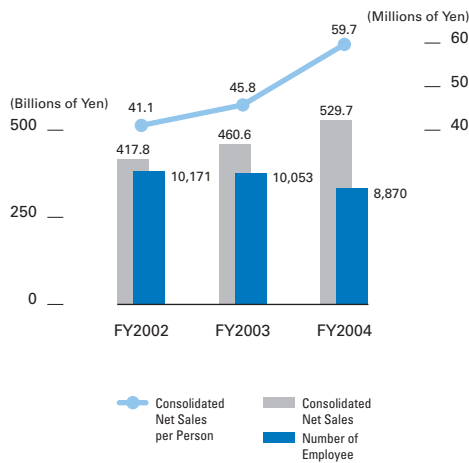
14 billion yen

Over the last three years, we have been reducing our fixed costs, which had increased along with the sharp growth in the market up to 2000. In FY2004, we cut fixed costs by ¥14 billion mainly through reductions in labor costs and depreciation expenses. In addition, we reduced our R&D costs by adhering to “selection-and-focus” strategies. Among the measures taken were an exit from a business no longer core for us and consolidation of our production bases in Japan and the United States. Furthermore, commencing with the past fiscal year, we have been reviewing and optimizing our manufacturing processes with the goal of decreasing manufacturing costs by 30% over three years.

Operational Efficiency Boosted (FY2001/3Q Vs. FY2004/4Q)

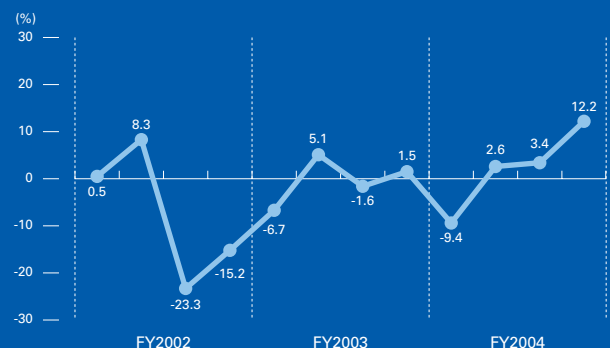
18.5% up

Number of Employee and Consolidated Net Sales per Person



Our production levels began to rise sharply from the second half of the past fiscal year, along with the beginnings of a recovery in the capital investment sentiment of semiconductor manufacturers. In response, TEL shortened production leadtimes by revising its product designs and manufacturing processes—and was successful in expanding production volume without adding personnel. Consolidated net sales for the third quarter of the fiscal year ended March 2001, our record sales year, and for the fourth quarter of the past fiscal year were both around the level of ¥180 billion. However, we were able to get through this production ramp-up period with approximately 1,400 less workers than three years ago. This represents an 18.5% increase in operational efficiency with substantial improvement in productivity from the third quarter of FY2001.

Quarterly Operating Margin



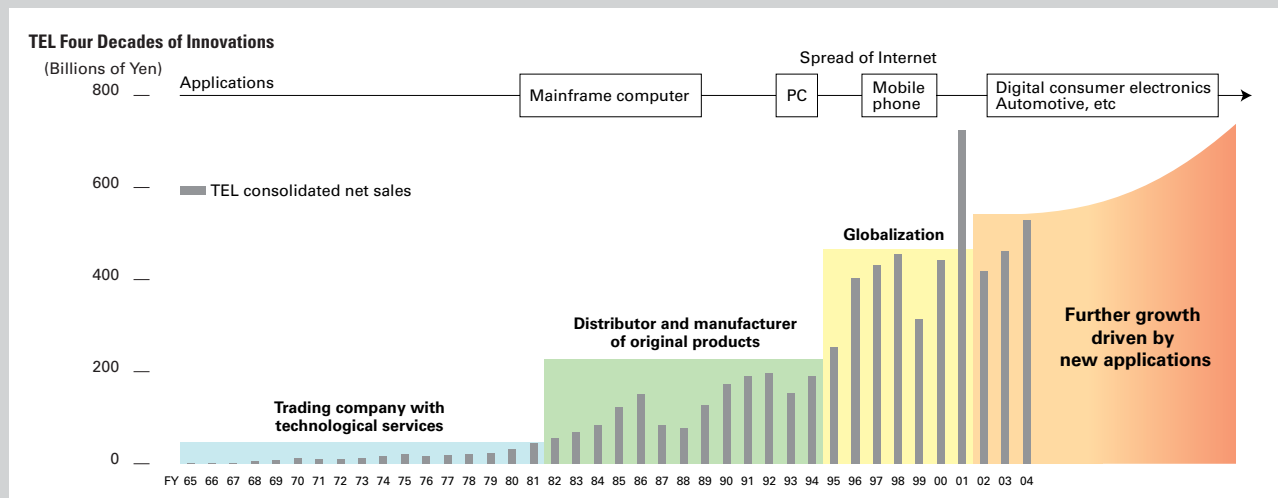
The Challenge to Become a Highly Profitable Company

- ▶ As a medium-to-long-term goal, TEL has set itself the challenge of building a high-profit structure that meets world-class standards. By implementing a growth strategy to expand sales, the source of profits, while also proceeding simultaneously with a cost reduction program, TEL aims to become a company that earns large returns when the market is robust, yet maintains stable returns during correction periods.

Setting a Growth Strategy that Adjusts to Market Changes

In the past, TEL has achieved growth by evolving in response to advances in the electronics industry or changes in the external environment. Now, yet another new trend has occurred in our business environment. In addition to personal computers and mobile devices, the key drivers of growth in the semiconductor market over the past decade, a new wave of digital consumer electronics has emerged as another driving force.

In setting a growth strategy that responds to this new wave in the market, TEL is moving forward to its next stage of development. Because of the short cycle between generations of digital consumer products, manufacturing equipment for semiconductors used in these end products needs to be scalable and adaptable to enable a shorter chip manufacturing cycle. Moreover, high-speed and highly-functional semiconductors that will make PC and mobile communications stress-free and more fun to use, require new evolutionary manufacturing technologies. In response, TEL is accelerating the development of new products and new process technologies that meet the diversifying and increasingly sophisticated needs of semiconductor manufacturers.



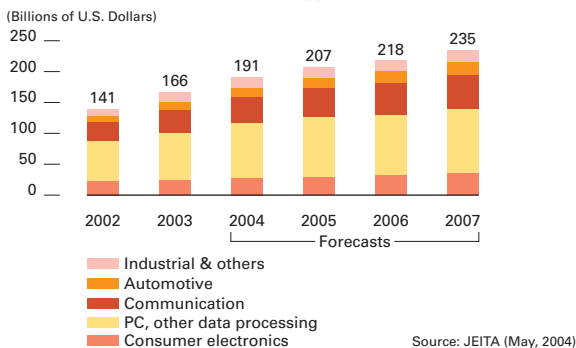
TEL Basic Data

FY2004 Technology Highlights

- Volume production commenced of CLEAN TRACK LITHIUS, a new model of coater/developer
- Liquid immersion technology alliance formed
- MEMS business marketing started
- Mask coater/developer CLEAN TRACK ACT M launched

A prediction – The Semiconductor Market will Grow 41 percent in Four Years (CY2003 Vs. CY2007)

Semiconductor Demand Forecast by End-applications



The driving force behind the growth in the semiconductor market in the latter half of the 1990s was the expansion in the personal computer market along with the spread of the Internet and the growth in the mobile phone market. The future growth in the market is expected to be more robust, driven by not only the personal computer and mobile phone markets, but by more digital electronics products, automotive electronics, and other new applications for semiconductors. We should also consider that quantity growth of semiconductor chips and bit growth of memories will far outstrip the sales growth rate.

Operating Margin Target is to Surpass Previous Record and Go on to Attain World-class Heights in Profitability

TEL Operating Margin



As expressed by the term “cyclical growth”, semiconductor-related industry is a business that grows through a continuous process of boom and bust. With the broadening of the fields in which semiconductors are used, the volatility is expected to subside—but the cycle will remain. Facing these circumstances, TEL’s target is to first surpass its highest recorded operating margin, and then go on to attain new world-class heights in profitability as its ultimate goal. In its drive toward this goal, TEL will:

- strengthen its R&D, further differentiating its existing products and accelerating its new product launches;
- reinforce its post-sales service business, expanding profitability; and
- continue to pursue the structural reforms begun last year, maintaining its lean structure.

By carrying out with these strategies, the Company is aiming to achieve a high-profit structure on a global level.

New Products of Recent Years

2000



Plasma Etch System
Telius

2002



Thermal Processing System
TELFORMULA

2002



Plasma Processing System
Trias SPA

2004



Coater/Developer
CLEAN TRACK LITHIUS

2004



Mask Coater/Developer
CLEAN TRACK ACT M

Activities to Reduce Environmental Impact

Tokyo Electron recognizes that the protection of the environment and a commitment to sustained environmental improvement are top priority issues for mankind as well as issues to be considered in business management. At the Company, achieving social prosperity in harmony with the environment is always first and foremost in our minds. Through the environmental activities described below, we are aiming to become a company with overall trust from its stakeholders. The following is an explanation of some of our achievements in the environmental field.

LCA Initiative

The Company uses Life Cycle Assessment (LCA) to quantitatively assess a product's environmental burden during the course of its life at each stage: from raw materials through manufacturing, transport, use, and disposal. For major types of equipment, it has been proven that following the implementation of a LCA program,

comparisons of old and new models show a reduction in the environmental burden of new equipment. Utilization of this assessment in our product development process also allows us to achieve continuous improvement in environmental aspects of our products.

Below we introduce an example of LCA implementation by comparing the new thermal processing system, TELFORMULA with the conventional model, ALPHA (α)-303i.

Lead-Free Solder Movement

Based on the European Union (EU) directive, the use of mercury, cadmium, lead and other hazardous substances in electrical and electronic equipment will be banned in Europe after June 2006. Although semiconductor production equipment does not fall under this directive, the Company is voluntarily and systematically manufacturing our products lead free as part of our efforts to forestall further pollution.

Comparison of Energy Consumption (CO₂ Equivalent) between ALPHA (α)-303i and TELFORMULA

	Electricity	N ₂	Water Coolant	Exhaust	Consumables	Dry Air	Process Gas	(T-CO ₂) Total
ALPHA (α)-303i	463.1	215.6	43.5	44.1	1,217.4	8.7	1.6	1,994.1
TELFORMLA	259.5	96.9	72.2	40.6	36.5	33.4	2.3	541.4

Lead-Free Implementation Plan

- **Restriction of lead use in EU : Cancer and soil pollution prevention**

- WEEE:07/2005, RoHS:07/2006 — for electric and electronic equipment
- Many Japanese electric manufacturers stopped using lead by the end of 2003
Semiconductor equipment is out of scope, but procurements of components including lead will be difficult in the near future.

- **Various lead-free soldering technology : Sn-Ag-Cu, Sn-Zn-**, etc.**

- Potential affection for melting point and adhesiveness

- **To be achieved with a quality and reliability guarantee of lead-free component**

- **The Company's Policy: Implement from the start of 300mm equipment production**

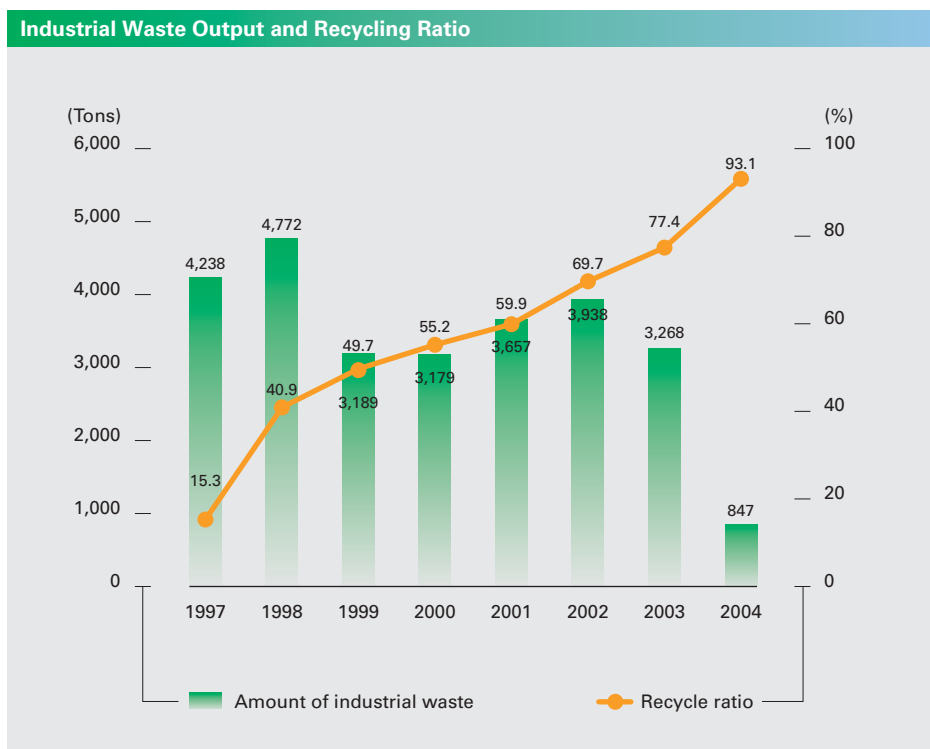
Items	FY2003				FY2004				FY2005				FY2006
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Lead-free task team started activity	▶												
Plan announcement to vender	▶▶												
Technology and material examination to apply	▶▶▶												
Vender investigation and cooperation plan	▶▶▶▶												
Promotion plan to OEM maker					▶▶								
Evaluation of PWB and ASSY (unit)					▶▶▶▶								
Evaluation of PWB and ASSY (built-in)									▶▶▶▶				
Preparation for production									▶▶▶▶▶▶				
Start production													▶▶▶▶

Green Procurement

Almost all of our materials and parts for the manufacturing of semiconductor manufacturing equipment are sourced from suppliers. It is essential to have the cooperation of suppliers, in order to effectively use "Green procurement" to source materials in a manner that reduces environmental damage. To promote their cooperation, the Company issues a Green Procurement Guideline, distributes it to suppliers throughout Japan, and holds green-procurement seminars. As a leader in our industry, we are actively working to introduce trainer education programs to help educate suppliers about green procurement as well as create other educational systems.

Reducing Industrial Waste and Recycling

The Company has set a goal of reducing industrial waste from its manufacturing-related operations in Japan as close to zero as possible by the fiscal year ending March 2005. Targeting zero emissions, we are proceeding with industrial waste reduction and recycling measures. Specific activities include the separation of wastes at each operation into categories for collection, the introduction of processing equipment for effluents, finding recycling companies, and improving industrial processes which do not produce industrial wastes. Through these activities, our recycling ratio has been steadily rising as more effective use is made of our resources.



Environmental Report

The Company has been publishing environmental reports since 2002. We believe that it is important to provide the public as much information as possible about our environmental activities to strengthen communications by sharing it. The results for the fiscal year ended March 2004 will be available in the Environmental Report 2004, to be published in autumn 2004.

Safety Activities

Based on giving top priority to the safety and health of our employees, customers, and everyone involved with the Company's business, we established the TEL Group Credo and Principles on Environment, Safety and Health in 1998. These guidelines clearly state that employees are responsible for being constantly aware of safety and health considerations in each and every business activity. For thorough implementation of these guidelines, we proceed with risk assessments of our shipped products and each assembly and start-up process. Where safety risk is judged to be high, we take systematic steps to reduce it. We are also making efforts to discover and eliminate dangers in our work processes by anticipating them prior to those processes.



Environmental Report 2003



Green Procurement Guideline

Tokyo Electron devotes a great deal of effort into developing technologies to bolster the competitiveness of its products. Without protection of its intellectual property rights, however, the Company would not be able to lay claim to those independently developed technologies and products as proprietary assets. It is precisely the integration of our intellectual property strategy with its technology and product strategies that allows the Company to realize maximum benefit from its development efforts. Accordingly, the Company has positioned intellectual property strategy as one of its most important strategies. To enable us to effectively use superior technologies of other companies and our products to market quickly, the Company places a high priority on license-in activities.

Contribution of License-Related Activities

Intellectual property acquired by filing applications and securing rights for the Company's proprietary products and development technologies are primarily effective not as source of income from licensing to competitors and other companies, but as a method of differentiating our products and technologies and achieving a competitive advantage.

Technology for the semiconductor and FPD fields are becoming increasingly advanced and sophisticated. To efficiently develop new products incorporating leading-edge technologies, and launch them quickly to the market, it is essential to effectively utilize all available intellectual properties, whether the Company's or those of other companies.

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

The Company has a set of internal rules that define the management of its intellectual property. The Company's procedures for acquiring and managing intellectual property are on a comparable level to those mentioned in the Policies Regarding the Acquisition and Management of Intellectual Properties issued by the Ministry of Economy, Trade and Industry of Japan.

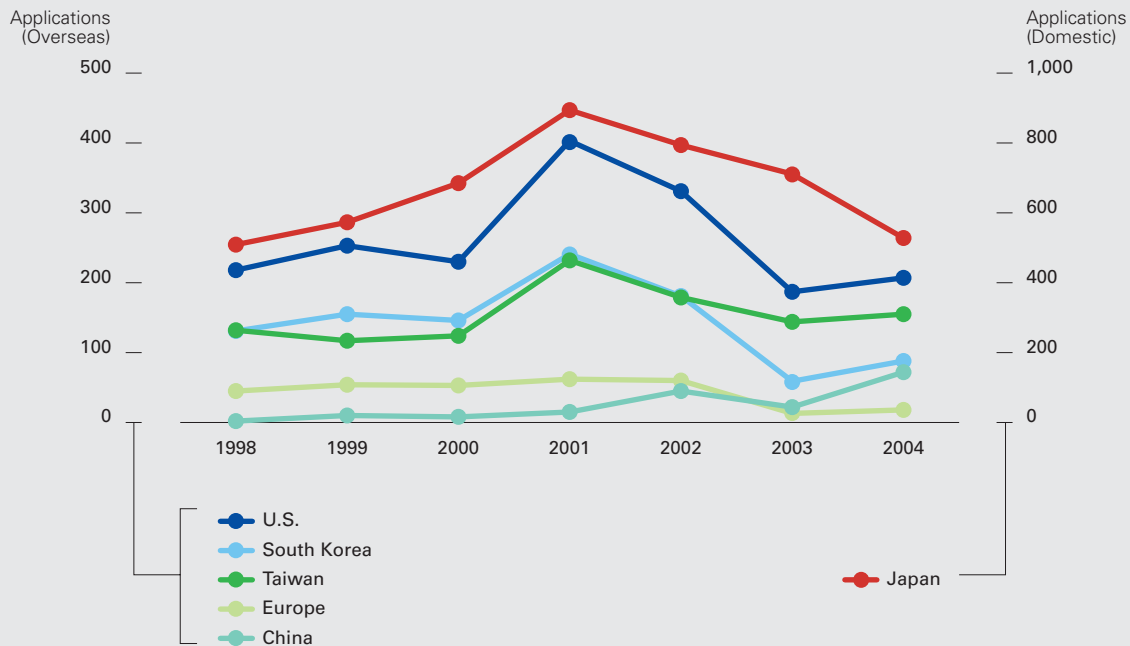
According to these rules, the Company provides incentives for inventors and creators within the Company. We established awards to honor inventors and creators and pays lump-sum payments at the time of submission or registration of applications for patents, utility model rights, designs and others. Bonuses are also issued as incentives if these creations are implemented at the Company and bonuses scaled to their earning record if such licenses and other rights are sold outside.

Management of trade secrets is handled according to the Company's "Internal rules on Managing Technology and Marketing Information" and its "Manual for managing Technology and Marketing Information." The provisions of these documents are similar to those of the government's Policies Regarding Managing Trade Secrets and Policies Regarding the Prevention of Technology Leakage.

Along with the globalization of production bases for semiconductors and flat panel displays, the Company is

emphasizing the filing of applications for intellectual property rights in countries around the world.

Number of Patent Applications



Intellectual Property by Major Country (at March 31, 2004)

	Japan	U.S.	Korea	Taiwan	China	Germany	France	Other	Total
Patent	2,453	1,875	772	969	19	103	57	350	6,598
Utility Model	64	0	2	40	6	0	0	0	112
Design	156	62	99	59	41	27	44	165	653
Trade mark	196	25	37	65	21	16	15	274	649
Total	2,869	1,962	910	1,133	87	146	116	789	8,012

Efficient Acquisition of Intellectual Property Rights

According to the Japanese Patent Office, the approval rate for patents filed by the Company in 2001 was 73.9%, ranking 10th highest in Japan.

Furthermore, according to a survey by CHI Research Inc., a U.S. intellectual property asset research company, the Company ranked No. 1 in the world for the highest

proportion of elite patents in its U.S. patent portfolio during the five-year period from 1996 to 2000. An elite patent is the one that ranks in the top 5% of the most frequently cited patents in its technological field. This ranking reflects the efficient acquisition of rights for superior patents, which is contributing to strengthen the Company's global competitiveness.

Fundamental Stance on Corporate Governance

Amid progressive globalization of business management, the fundamental policy and purpose of our corporate governance activities is to achieve thorough adherence to our corporate ethics and laws and regulations, to establish and strengthen our internal control and risk management systems, and to maintain transparency and objectivity in our business. Our ultimate goal is to promote management that is focused on building corporate value for shareholders and all other stakeholders.

Corporate Governance Measures

In the past the Company has separated the functions of our board of directors and executive body. In April 2003, however, the Company further clarified their roles by introducing an executive officers system, enabling an organization that is quicker in formulating and implementing strategies. The major functions of the board of directors are now clearly defined as 1) deciding basic management policies, 2) considering and deciding fundamental business strategies proposed by executive officers, and 3) overseeing and assessing group management.

Compensation and Nomination Committees

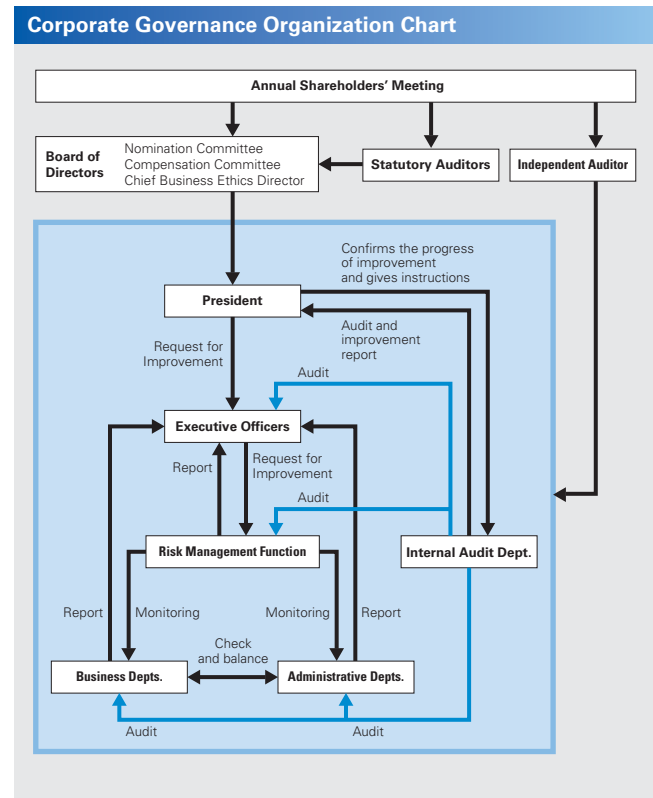
Aiming to implement improvements in corporate governance from within our own company organization, the Company has created Compensation and Nomination Committees within our board of directors. The Compensation Committee determines compensation for the president, while the Nomination Committee, composed of three directors other than the president, selects candidates to be elected as directors at the annual shareholders' meeting and a candidate to be elected as president by the board of directors.

Other Activities

As a company with shareholder-oriented management, the Company discloses personal compensation received by our two representative directors in our "Notice of Annual General Meeting of Shareholders" from the standpoint of the importance of shareholders' acknowledging our business activities as being transparent.

At the annual shareholders' meeting held in June 2002, the Company shortened the term of office for directors to one year from two to enable a faster response to changes in our business environment and to further clarify management responsibilities.

The following is an outline of the Company's corporate governance organization.



Internal Control and Risk Management Systems

Our guiding principles are to maintain a high standard of business ethics throughout our activities and comply with laws and international regulations. Accordingly, the Company has appointed a director in charge of business ethics and established a code of ethics to thoroughly implement business ethics companywide.

Reaffirming the importance of establishing proper internal control and risk management systems, the Company has upgraded the internal auditing functions of the Internal Audit Department and established a new section within the General Affairs Department responsible for managing business, operating and other risks. Moreover, efforts are being made to develop the internal regulations required to manage these risks, and to carry out activities to educate and raise employees' awareness of these issues.

Board of Directors and Statutory Auditors



Tetsuro Higashi Tetsuo Tsuneishi

Board of Directors

Tetsuro Higashi¹
Chairman of the Board

Tetsuo Tsuneishi²
Vice Chairman of the Board

Kiyoshi Sato
President & CEO

Mamoru Hara
Executive Vice President

Hirosuke Ishibashi^{1 3}

Kengo Kuroiwa²
Chairman of the Board, Tokyo Electron AT Limited

Masao Kubodera²
Corporate Director, Tokyo Electron AT Limited

Yukio Sunahara¹
Chairman, Tokyo Broadcasting System, Inc.

Toshiyuki Kondo
Executive Chairman, SRL, Inc.

Statutory Auditors

Taketoshi Itoyama

Takeo Tanaka

Fujio Kimura

Hiroshi Maeda
Mitsui, Yasuda, Wani & Maeda

Notes:

- 1 Member of Compensation Committee
- 2 Member of Nomination Committee
- 3 Chief Business Ethics Director

Executive Officers



Kiyoshi Sato Mamoru Hara

Kiyoshi Sato
President & CEO

Mamoru Hara
Executive Vice President, Administration

Mitsuru Onozato
Senior Vice President, FPD
and General Manager, FPD Division

Ryuichi Komatsubara
Senior Vice President, Business Planning
and General Manager, Test Systems BU

Makoto Mizokuchi
Senior Vice President,
Business Development & Account Management, Japan

Jinzaburo Sakamoto
VP & General Manager, Field Engineering
and President, Representative Director,
Tokyo Electron FE Ltd.

Satoshi Nakashima
VP & General Manager, Manufacturing

Yoshifumi Tahara
VP & General Manager,
Technology & Development, Development -Vacuum
and Senior Vice President, Tokyo Electron AT Ltd.

Yutaka Nanasawa
VP & General Manager, HR / Finance
and Director, Personnel Dept.

Yoshiteru Harada
VP & General Manager,
General Affairs / Accounting / Order Process / Legal /
Administration, Osaka

Takao Kodama
VP & General Manager, IT Center

Hikaru Ito
VP & General Manager, Clean Track BU

Takashi Ito
VP & General Manager, Etch Systems BU

Yasuyuki Kuriki
VP & General Manager, Thermal Processing Systems BU
and Senior Executive VP & Representative Director,
Tokyo Electron AT Ltd.

Kenji Washino
VP & General Manager, Cleaning Systems BU

Hiroshi Takenaka
VP & General Manager, Single Wafer Deposition BU

Keiichi Furugaki
VP & General Manager, Business Development & Account
Management, Korea and President, Tokyo Electron Korea Ltd.

Chiaki Yamaguchi
VP & General Manager,
Business Development & Account Management, Asia

Takahiro Komatsu
VP & General Manager,
Business Development & Account Management, Japan
and Branch Manager, Osaka Branch / Kyushu Branch

Kiyoshi Sunohara
VP & General Manager,
Business Development & Account Management,
North America & Europe

Noriyuki Kuga
VP & Deputy General Manager,
FPD Division (Administration)

Katsuyuki Amano
VP & General Manager, Computer Network Division
and Director, Computer Network Dept.

Yoichi Ishikawa
VP & General Manager, Marketing
and Director, Marketing Dept.

Hiroshi Tomita
VP & General Manager, MEMS Business

Masami Akimoto
VP & General Manager,
Technology & Development-Atmospheric Pressure
and Executive Officer, Tokyo Electron Kyushu Ltd.

*BU: Business Unit

Sales and Income

Business Environment

In the fiscal year ended March 31, 2004, despite the uncertain factors affecting the global economy, such as the growing tension in Iraq and the spread of severe acute respiration syndrome (SARS) at the beginning of the fiscal year, the U.S. economy remained firm thanks to the benefits of tax cuts and other positive factors. In Asia, the Chinese economy continued to grow and the economies of Taiwan and Korea also rallied. Japan's economy posted a mild recovery; corporate performances improved regardless of the negative impact of the appreciation in the yen and other pressures, and capital investment and exports advanced mainly led by the manufacturing industry.

During the fiscal year, there was robust demand in the electronics market where the Company participates. Growth of the market was supported by replacement demand stimulated by new models of personal computers (PCs) and mobile phones with embedded cameras and the expanding market for digital consumer products, such as DVD recorders, digital cameras, and flat panel televisions. As a result, the rate of capacity utilization rose for semiconductor manufacturers, many of which have their production bases in Japan and other Asian countries, and further increase in capacity was pursued, beginning at the middle of the fiscal year.

Sales

Under these circumstances, consolidated net sales for the fiscal year ended March 31, 2004 increased 15.0 percent from the prior fiscal year to 529.7 billion yen. Sales of the

Company's core SPE Division grew 16.7 percent, to 425.7 billion yen, primarily by favorable growth in sales to semiconductor and FPD manufacturers in Asia, including Japan. The sales growth of Computer Network and Electronic Components divisions also contributed to overall sales expansion.

Domestic sales increased 27.2 percent to 242.3 billion yen and overseas sales rose 6.4 percent to 287.3 billion yen. As a result, the contribution of overseas sales to net sales decreased to 54.2 percent from 58.6 percent in the previous fiscal year.

Consolidated orders received for the fiscal year increased 42.5 percent from the previous fiscal year to 653.6 billion yen. The order backlogs at the fiscal year-end increased 82.3 percent to 274.7 billion yen.

Performance by Division

Semiconductor Production Equipment Division

Triggered by the bursting of the bubble in the IT market, the global electronics industry, and especially the semiconductor-related industry, experienced a serious downturn for approximately two years. At the beginning of 2003, replacement demand for PCs and mobile phones began to grow and the digital consumer products market began to emerge. These trends prompted a sharp recovery in capital investment sentiment among semiconductor manufacturers producing devices related to these markets. In particular, subsequent orders from semiconductor manufacturers in Japan began to rise beginning in the

	Millions of Yen (percentage of net sales)			Thousands of U.S. Dollars
	2004	2003	2002	2004
Net sales	¥529,654 (100.0)	¥460,580 (100.0)	¥417,825 (100.0)	\$5,013,762
Cost of sales	389,499 (73.5)	326,540 (70.9)	302,270 (72.3)	3,687,037
Gross profit	140,155 (26.5)	134,040 (29.1)	115,555 (27.7)	1,326,725
SG&A expenses	117,875 (22.3)	132,921 (28.9)	133,865 (32.1)	1,115,823
Operating income (loss)	22,280 (4.2)	1,119 (0.2)	(18,310) –	210,902
Other income (expenses)	(7,344) –	(24,129) –	(4,609) –	(69,520)
Income (loss) before income taxes	14,936 (2.8)	(23,010) –	(22,919) –	141,382
Provision for income taxes	6,124 (1.2)	18,532 (4.0)	(2,990) –	57,962
Minority interest	515 (0.1)	12 (0.0)	8 (0.0)	4,876
Net income (loss)	8,297 (1.6)	(41,554) –	(19,938) –	78,544

spring of 2003, since Japanese semiconductor manufacturers are especially strong in the fields of image sensors for digital cameras and LCD drivers. Accordingly, semiconductor manufacturers, particularly Asian, started to increase capital investment in their fabs and equipment in response to the increased demand for memory and PC-related devices.

Consolidated orders of the SPE Division for the fiscal year amounted to 549.8 billion yen, rising 51.3 percent from the previous fiscal year. Consolidated sales climbed 16.7 percent to 425.7 billion yen. Contribution to consolidated sales also rose, increasing to 80.4 percent from 79.2 percent. Japanese and overseas FPD manufacturers also increased their capital investment, building new factories and capacity based on the long-term growth expectations for the flat panel television market. As a result, sales of FPD production equipment, which are also included in this division, expanded compared with the previous fiscal year.

Looking at performance by region, capital investment in semiconductor devices for digital consumer products was active in Japan, causing sales to rise 45.7 percent, to 141.9 billion yen. In Korea, capital investment in memory devices and FPD products increased, boosting sales 7.2 percent, to 61.4 billion yen. Capital investment in the semiconductor industry in Taiwan recovered from a recent weak spell, supporting a 49.9 percent increase in sales, to 100.5 billion yen. On the other hand, sales in the U.S. market fell 31.9 percent, to 50.6 billion yen due to continuing low capital investment by major semiconductor manufacturers in this region.

Focusing on individual products, the sales of major products such as coater/developers, etch systems, thermal processing systems, single wafer CVD systems, wafer probers, cleaning systems and FPD production equipment rose during the fiscal year. Among the latest products, TELFORMULA, a new thermal processing tool, and CLEAN TRACK LITHIUS, a new coater/developer, posted strong sales.

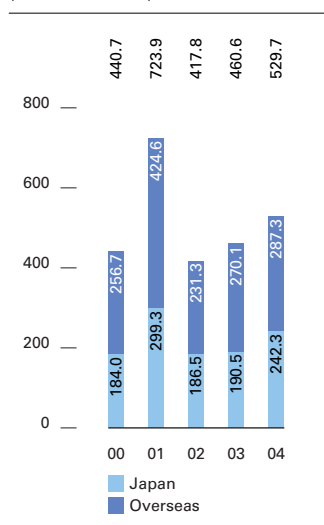
In terms of wafer sizes, capital investment in 300mm wafer manufacturing lines continued to increase among semiconductor manufacturers in Asia, including Japan. In total, the sales contribution of 300mm equipment accounted for approximately 60 percent of our SPE sales.

Computer Network Division

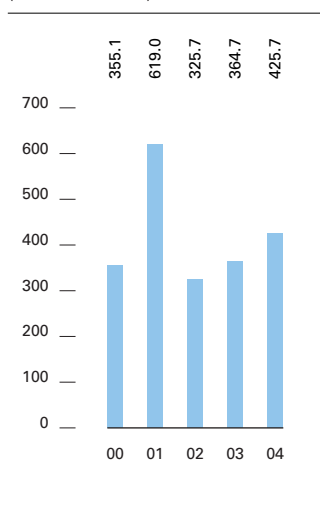
Net sales of the Computer Network (CN) Division advanced 7.3 percent, to 18.4 billion yen. The division's business is principally based on providing customers with storage area networks (SAN: high speed network that interconnects external data storage devices, and internal storage devices and computers), and broadband solutions.

Among SAN-related products, which generated about 37 percent of CN Division sales, Brocade Communications Systems, Inc.'s fibre channel fabric switches and Emulex Corporation's fibre channel host bus adapters steadily expanded their sales. NeoScale Systems, Inc.'s backup data encryption systems, which the division started distributing in recognition of the growing importance of security for data storage systems, are now being adopted as a solution for preventing data leaks. The division is set to begin sales of Advanced Digital Information Corp.'s

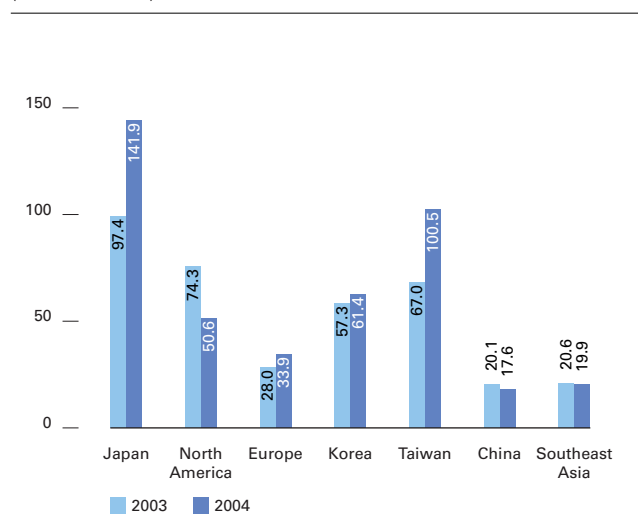
Domestic and Overseas Sales
(Billions of Yen)



SPE Division's Sales
(Billions of Yen)



SPE Division's Sales by Geographic Region
(Billions of Yen)



(ADIC) tape libraries, which hold the top share of the global open-system tape automation market, as part of their strategy to offer expanded solutions including data storage and management.

Among network-related products, a newly added secure socket layer-virtual private network (SSL-VPN) product from F5 Networks, one of the division's core product lines, expanded sales in a new market.

During the fiscal year, the division added Ruff Systems HDV, a new version of its own proprietary high-definition video picture and sound broadcasting systems, that enables the Internet Protocol transmission of video camera images processed with a high-definition video standard which is more economical than high-definition television (HDTV) cameras. The division believes that having made High Vision image transmission over broadband networks a reality, it has the possibility to contribute to the diffusion of HDTV content for professionals and consumers.

Electronic Components Division

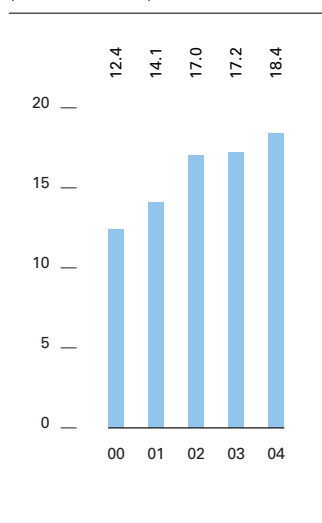
Net sales of Electronic Components Division, including sales of semiconductors, board products, software and general electronic components, rose 8.9 percent to 84.2 billion yen. During the fiscal year, the division concentrated on sales of high-value-added products that require technical support services. In addition, the division expanded its product line-up, working to add new products in particular. The division also expanded its sales network, opening sales offices in Nagaoka and Okayama, Japan to provide better customer service.

Semiconductor products accounted for 88 percent of divisional net sales. During the fiscal year, the division worked to expand sales of high-value-added items, such as Xilinx, Inc.'s programmable logic devices (PLDs), use of which is expanding in consumer electronics products such as flat panel televisions, and Linear Technology Corporation's analog ICs for power sources of mobile devices. Furthermore, the sales of Texas Instruments, Inc.'s products that the division began distributing in 2002 increased due to growth in sales of semiconductor testing equipment, ATMs and other industrial devices. Consequently, sales of semiconductor products rose 8.5 percent compared with the prior fiscal year.

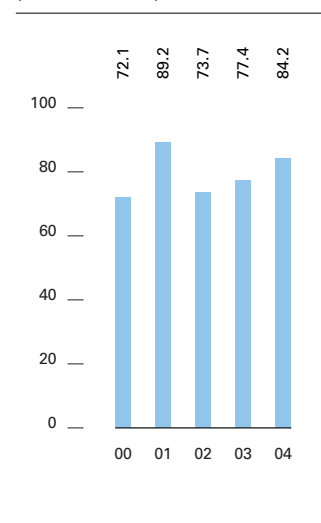
Sales of board products, such as motherboards, VME boards, and others sold well during the fiscal year. Sales of software rose as well, benefiting from by expanding sales of operating system software for embedded system devices. On the other hand, sales of general electronic components slightly declined despite the efforts to increase sales of panel PCs and power switches for consumer electronic devices.

The division is aggressively developing its design and development services for custom ICs, motherboards and software. In response to the increased number of orders received for these services, in January 2004, the Company established a subsidiary in Shanghai, China, to expand its capacity. In the development of original products, the division has been one of the quickest to respond to large-scale integrated circuit (LSI) market needs, developing products such as high-definition simultaneous separator

CN Division's Sales
(Billions of Yen)



EC Division's Sales
(Billions of Yen)



LSIs for picture devices for LCD projectors, plasma televisions and other displays, and host controllers for SD memory cards used extensively in mobile phones.

As a result, sales of the division amounted to 84.2 billion yen, up 8.9 percent from the previous fiscal year.

Making efforts to understand customer needs, and to pursue further growth in its design, development and original products business, the division will focus on providing thorough technical support for high-value-added products such as custom, dedicated, or analog ICs.

Cost of Sales, SG&A Expenses and Operating Income

Although gross profit increased 4.6 percent to 140.2 billion yen, cost of sales increased 19.3 percent to 389.5 billion yen, thus gross profit margin decreased 2.6 percentage points to 26.5 percent compared with the previous fiscal year. There were reductions in production costs and an increase in plant utilization rates due to higher business volume, however, the gross profit margin decreased slightly influenced to some extent by a change in the field engineering-related contracts of some of our services subsidiaries.

Selling, general and administrative expenses (SG&A) decreased 11.3 percent to 117.9 billion yen, and SG&A to net sales declined from 28.9 percent to 22.3 percent. Based on efforts to focus on selected R&D projects to shorten

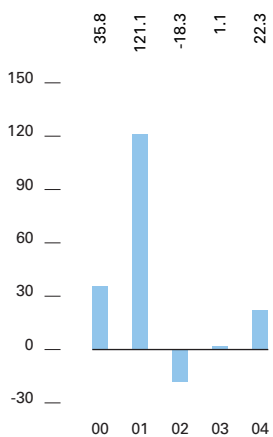
development period, R&D expenses decreased 11.9 percent to 44.1 billion yen, year-on-year. R&D expenses were allocated strategically to the development of 65 nanometer-and-beyond design rule process technology and equipment, as well as new product development. Operating income increased 21.2 billion yen to 22.3 billion yen from 1.1 billion yen in the previous fiscal year.

Non-operating Income and Expenses and Net Income

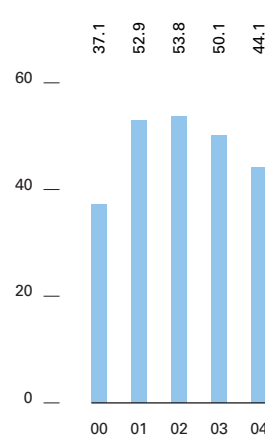
Net non-operating expenses improved 16.8 billion yen from the previous fiscal year, to 7.3 billion yen. The decline in non-operating expenses primarily resulted from a reduction in restructuring expenses from 20.6 billion yen to 2.5 billion yen, down 18.1 billion yen from the prior fiscal year. Income before income taxes, therefore, increased 37.9 billion yen from the prior fiscal year to 14.9 billion yen.

Net income improved 49.9 billion yen to 8.3 billion yen, and net income per share improved from minus 238.57 yen to 46.37 yen. The Company increased cash dividends by 2.0 yen per share to 10.0 yen per share; the payout ratio was 47.4 percent on a non-consolidated basis.

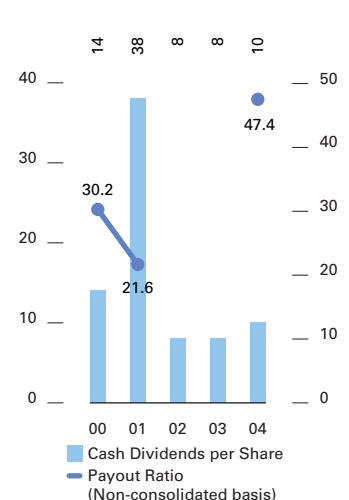
Operating Income
(Billions of Yen)



R&D Expenses
(Billions of Yen)



Cash Dividends per Share & Payout Ratio (Yen / %)



Note: The payout ratio of FY2002 and FY2003 are not indicated due to net loss on a non-consolidated basis.

Financial Position and Cash Flows

Financial Position

Current assets at March 31, 2004 increased 46.5 billion yen year-on-year, to 403.0 billion yen. Among the main factors in this change were a 63.3 billion yen rise in trade notes and accounts receivable along with greater sales, and a 10.3 billion yen decrease in cash and cash equivalents due to increase of working capital. Even though work-in-process increased due to the ramp-up of manufacturing, inventory decreased 6.6 billion yen to 105.2 billion yen year-on-year due to finished goods reduction efforts. Excluding other accounts receivables, trade notes and accounts receivable turnover based at the end of fiscal year lengthened to 159 days, from 135 days the prior fiscal year because of the increase of regional sales, which have a relatively long collection period for accounts receivable. Inventory turnover, however, improved to 72 days, compared with 89 days in the previous fiscal year.

Property, plant and equipment decreased 10.8 billion yen year-on-year to 108.8 billion yen. During the fiscal year, the Company placed an investment of 11.0 billion yen in property, plant and equipment, primarily for the purchase of evaluation equipment and IT-related investments.

Investments and other assets increased 1.0 billion yen to 49.9 billion yen. The main factor in the increase in investments and other assets was the increase of the fair value of marketable securities due to improvement of stock

prices. Therefore, total assets increased 36.7 billion yen year-on-year to 561.6 billion yen.

Current liabilities decreased 19.2 billion yen year-on-year to 141.5 billion yen. Major factors behind this decrease were redemption of 35.0 billion yen worth of commercial paper and the maturity of the second unsecured convertible bonds, regardless of the increase of trade notes and accounts payable due to increased procurement necessary for higher production levels.

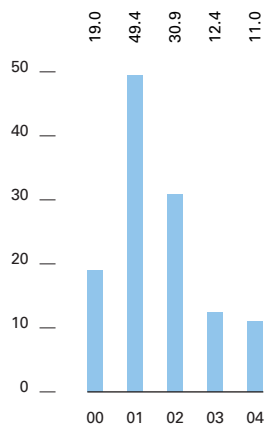
Long-term debt increased 32.7 billion yen year-on-year to 140.4 billion yen due to a 20 billion yen 10th unsecured bond issue and a 30 billion yen 11th unsecured bond issue.

Shareholders' equity increased 22.9 billion yen to 275.8 billion yen, principally due to the conversion of convertible bonds and greater retained earnings resulting from the increase in net income. As a percentage of total assets, shareholders' equity rose to 49.1 percent from 48.2 percent the previous fiscal year. Return on average total shareholders' equity was 3.1 percent.

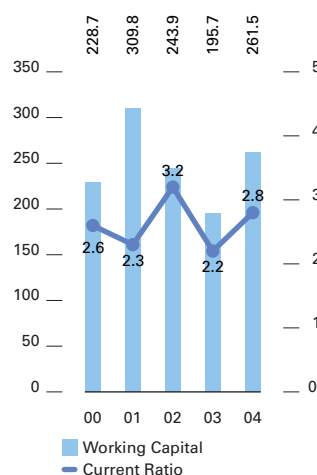
Cash Flows

Net cash provided by operating activities amounted to 7.9 billion yen, decreasing from 21.4 billion yen, year-on-year. The positive main factors included income before income taxes amounting to 14.9 billion yen, depreciation and amortization totaling 25.0 billion yen, and increases in account payable amounting to 29.2 billion yen. On the

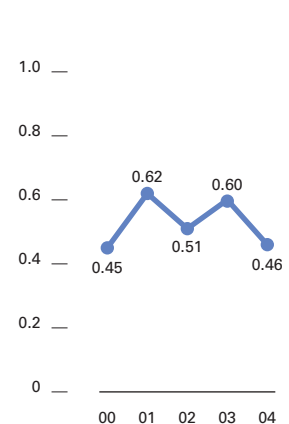
Capital Expenditure for Property, Plant and Equipment (Billions of Yen)



Working Capital & Current Ratio (Billions of Yen / Times)



Debt-to-Equity Ratio (Times)



contrary, negative factors included increases in accounts receivable amounting to 61.8 billion yen.

Net cash used in investing activities was 8.5 billion yen, increasing from 7.3 billion yen the previous fiscal year. Investment in property, plant and equipment totaling 7.5 billion yen was mainly comprised of the purchase of equipment for R&D.

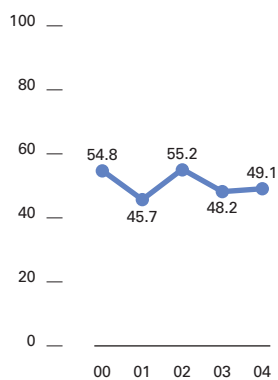
Net cash used in financing activities amounted to 10.3 billion yen compared with 9.9 billion yen in the previous

fiscal year. The Company had outlays during the fiscal year related to commercial papers and redemption of the eighth unsecured bond issue, repayment of short-term borrowings, and payment of dividends. These outlays were offset, however, by proceeds from the 20 billion yen 10th unsecured bond issue and the 30 billion yen 11th unsecured bond issue.

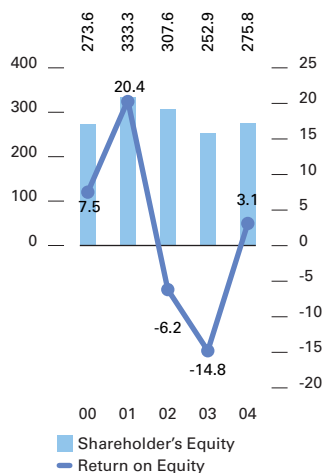
Cash and cash equivalents at the end of the year were 42.7 billion yen, down 10.3 billion yen from 53.0 billion yen at the end of the previous fiscal year.

	Millions of Yen (percentage of total assets)		Thousands of U.S. Dollars
	2004	2003	2004
Total assets	¥561,632 (100.0)	¥524,901 (100.0)	\$5,316,467
Cash and cash equivalents	42,650 (7.6)	52,982 (10.1)	403,727
Trade notes and accounts receivable	245,554 (43.7)	182,218 (34.7)	2,324,439
Inventories	105,187 (18.7)	111,810 (21.3)	995,712
Investments and other assets	49,869 (8.9)	48,851 (9.3)	472,064
Property, plant and equipment	108,789 (19.4)	119,611 (22.8)	1,029,805
Total liabilities	281,885 (50.2)	268,402 (51.1)	2,668,356
Short-term borrowings	6,815 (1.2)	8,729 (1.7)	64,514
Trade notes and accounts payable	78,009 (13.9)	48,279 (9.2)	738,440
Accrued income taxes	3,273 (0.6)	3,645 (0.7)	30,983
Long-term debt, less current portion	98,476 (17.5)	70,230 (13.4)	932,181
Shareholders' equity	275,800 (49.1)	252,904 (48.2)	2,610,748

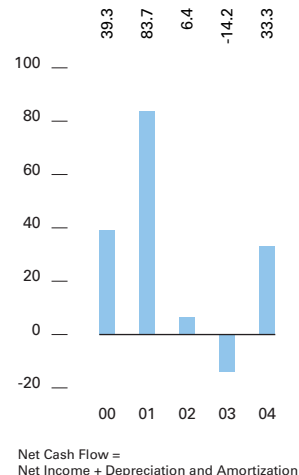
Shareholder's Equity Ratio (%)



Shareholder's Equity & ROE (Billions of Yen / %)



Net Cash Flow (Billions of Yen)



Business-related and Other Risks

The following are possible risks that may have an impact on the Company's operating results, stock prices, or financial position.

(1) Impact of fluctuating foreign exchange rates

Success in the development of our overseas operations has increased the Company's portion of overseas sales. As a rule, the Company carries out export transactions on a yen-basis in order to avert exchange-related risks, yet there are some exports involving foreign currencies. In these cases, the Company employs an exchange risk hedge, such as a forward exchange contract when an order is placed. However, since for overseas customers, exchange-related risks can arise from fluctuations in prices due to drastic exchange fluctuations, it may have indirect negative impact on the Company's performance.

(2) Impact from research and development

Through the ongoing implementation of proactive R&D investment and activities for cutting-edge technologies—miniaturization, vacuum, plasma, thermal-processing, coating/developing, cleaning, wafer-transfer, and clean technologies—the Company has created cutting-edge technologies. Promptly introducing new products on the market that are equipped with these technologies, the Company has successfully obtained a large market share in each of the product fields, as well as a high profit margin. However, the possibility does exist that the ill-timed launch of new products may have a negative impact on the Company's performance.

(3) Impact from changes in semiconductor market

The Company has achieved a high profit margin by concentrating resources in the high-tech field, including semiconductor production equipment, where technologies undergo rapid changes and the Company is able to display its strength. Although the semiconductor market enjoys broad growth through technological change, the Company has actively undertaken structural reforms to be able to generate profit under any circumstance, such as, when the size of the market temporarily contracts due to imbalance of supply and demand. However, the possibility does exist that business results and cash flow may receive a negative impact from an unexpectedly broad contraction in the size of the market, resulting in order write-offs, over capacity and personnel, or increased inventories.

(4) Impact from transactions concentrated on particular customers

Providing products equipped with superior, cutting-edge technology and offering a system of high customer satisfaction, the Company has been successful in expanding its business transactions with the world's

leading semiconductor manufacturers both inside and outside of Japan. Yet, since the Company's net sales may at times be temporarily concentrated on particular customers due to the timing of large-scale capital investments, there is the possibility of a negative impact on business results from intensified sales competition.

(5) Impact from quality issues

The Company has been proactively developing superior, cutting-edge technologies utilized in new products that are promptly introduced to the market, while establishing a quality assurance system, including obtaining ISO 9001 certification at the same time. The Company has also worked to establish a world-class service system, resulting in a large number of customers adopting our products. However, because they are cutting-edge technology products, in addition to other factors, many of the technologies developed are in unknown fields, and the possibility exists that business results may be negatively affected by the occurrence of unforeseen defective products.

(6) Impact of intellectual property rights

In order to set the Company's products apart and enhance its competitive strength, the Company has promoted its R&D strategy for the prompt development of cutting-edge technologies, together with its business and intellectual property strategies. This has made it possible to obtain many of the Company's own proprietary technologies, thereby successfully ensuring a large market share and high profit margin in each product field. However, partly because the Company's products use many of the consolidated and optimized cutting-edge technologies, there may be cases where a negative impact on business results arises from avoiding the use of a third party's technology and intellectual property rights.

(7) Other risks

Seeking the creation of new high-growth, high-return businesses, while pursuing higher revenues from existing businesses, the Company has been actively involved in making improvements to corporate structure so that profit can be generated even during contractions in market size, and also overhauled its risk management system. However, to the extent that the Company performs its operations, like other companies in the same or different industries, it is subject to the impact from factors such as global or local economic environment, natural disasters, wars, terrorism, unavoidable incidents (such as infectious diseases), financial or stock markets, government regulation, provision systems of suppliers, market conditions for products and real estate, securing of personnel domestically or overseas, competition over standardization, loss of important personnel, etc., and at times it can be assumed that such factors may have a negative impact on the Company's business performance.

Consolidated Six-Year Summary

Tokyo Electron Limited and its Subsidiaries

Years ended March 31, 2004, 2003, 2002, 2001, 2000, and 1999

	Thousands of U.S. dollars		Millions of yen				
	2004	2004	2003	2002	2001	2000	1999
Net sales	\$5,013,762	¥529,654	¥460,580	¥417,825	¥723,880	¥440,729	¥313,820
Semiconductor production equipment ¹	4,030,173	425,747	364,689	325,715	619,001	355,103	242,240
Computer network ¹	174,629	18,448	17,193	17,031	14,054	12,357	12,878
Electronic components	797,322	84,229	77,380	73,658	89,211	72,051	57,734
Other	11,638	1,230	1,318	1,421	1,614	1,218	968
Operating income (loss)	210,902	22,280	1,119	(18,310)	121,086	35,816	6,383
Income (loss) before income taxes	141,382	14,936	(23,010)	(22,919)	99,132	29,689	6,038
Net income (loss)	78,544	8,297	(41,554)	(19,938)	62,012	19,848	1,866
Domestic sales	2,293,810	242,318	190,513	186,516	299,272	183,987	149,838
Overseas sales	2,719,952	287,336	270,067	231,309	424,608	256,742	163,982
Depreciation and amortization	236,302	24,963	27,374	26,294	21,679	19,446	17,921
Capital expenditures ²	104,191	11,007	12,359	30,946	49,403	18,999	23,478
R&D expenses	417,927	44,150	50,123	53,827	52,911	37,135	26,842
Total assets	5,316,467	561,632	524,901	556,915	729,511	499,499	414,903
Total shareholders' equity	2,610,748	275,800	252,904	307,579	333,281	273,603	257,716
Number of employees		8,870	10,053	10,171	10,236	8,946	7,835
	U.S. dollars		Yen				
Net income (loss) per share of common stock: ³							
Basic	\$ 0.44	¥ 46.37	¥(238.57)	¥(113.85)	¥ 353.76	¥ 113.53	¥ 10.70
Diluted ⁴	0.43	45.78	-	-	344.75	110.64	-
Cash dividends per share of common stock:							
Actual	0.09	10.00	8.00	8.00	38.00	14.00	12.00
Adjusted ³	0.09	10.00	8.00	8.00	38.00	14.00	12.00
Number of shares outstanding (thousands)		180,611	175,698	175,691	175,691	175,660	174,624
Number of shareholders		60,873	49,259	37,116	42,781	7,147	8,576
		Percent					
ROE		3.1	(14.8)	(6.2)	20.4	7.5	0.7
Operating income margin		4.2	0.2	(4.4)	16.7	8.1	2.0
Shareholders' equity ratio		49.1	48.2	55.2	45.7	54.8	62.1
Asset turnover (times)		0.97	0.85	0.65	1.18	0.96	0.69
	U.S. dollars		Thousands of yen				
Net sales per employee	\$ 565,249	¥ 59,713	¥ 45,815	¥ 41,080	¥ 70,719	¥ 49,265	¥ 40,054

1 The FPD, Flat Panel Display, Department has been included in Semiconductor Production Equipment. The Computer Systems Division was renamed the Computer Network Division as of April 1, 2000.

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

3 From 2003, the Company began applying "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.

Consolidated Balance Sheets

Tokyo Electron Limited and its Subsidiaries
March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current assets:			
Cash and cash equivalents (Note 3).....	¥ 42,650	¥ 52,982	\$ 403,727
Trade notes and accounts receivable	245,554	182,218	2,324,439
Allowance for doubtful accounts	(155)	(342)	(1,464)
Inventories (Note 5).....	105,187	111,810	995,712
Deferred tax assets (Note 9)	2,943	4,152	27,863
Prepaid expenses and other current assets	6,795	5,619	64,321
Total current assets	402,974	356,439	3,814,598
Investments and other assets:			
Investments in securities (Note 4).....	10,874	7,216	102,931
Deferred tax assets (Note 9)	10,203	9,362	96,587
Intangible and other assets	28,792	32,273	272,546
Total investments and other assets.....	49,869	48,851	472,064
Property, plant and equipment:			
Land	19,577	19,718	185,319
Buildings.....	108,718	110,950	1,029,136
Machinery and equipment.....	92,379	97,937	874,466
Construction in progress	2,552	2,480	24,162
Total property, plant and equipment.....	223,226	231,085	2,113,083
Less: Accumulated depreciation	114,437	111,474	1,083,278
Net property, plant and equipment	108,789	119,611	1,029,805
Total assets	¥561,632	¥524,901	\$5,316,467

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current liabilities:			
Short-term borrowings (Note 7).....	¥ 6,815	¥ 8,729	\$ 64,514
Current portion of long-term debt (Note 7).....	21,754	37,404	205,923
Commercial paper.....	–	35,000	–
Trade notes and accounts payable.....	78,009	48,279	738,440
Accrued income taxes.....	3,273	3,645	30,983
Allowance for employees' bonuses.....	6,376	3,629	60,357
Provision for loss on restructuring.....	–	8,577	–
Accrued expenses and other current liabilities.....	25,245	15,443	238,975
Total current liabilities.....	141,472	160,706	1,339,192
Long-term debt, less current portion (Note 7).....	98,476	70,230	932,181
Allowance for retirement and severance benefits (Note 8).....	38,275	36,392	362,319
Other non-current liabilities.....	3,662	1,074	34,664
Total liabilities.....	281,885	268,402	2,668,356
Minority interest.....	3,947	3,595	37,363
Shareholders' equity:			
Common stock (Note 10).....	54,961	47,223	520,269
Authorized: 300,000,000 shares			
Issued: 180,610,911 at March 31, 2004			
175,697,930 at March 31, 2003			
Additional paid-in capital (Note 10).....	78,023	70,285	738,576
Retained earnings.....	154,343	147,465	1,461,025
Unrealized gains on securities.....	2,396	(59)	22,676
Foreign currency translation adjustments.....	(720)	1,229	(6,815)
Treasury stock at cost (Note 11).....	(13,203)	(13,239)	(124,983)
2,022,343 at March 31, 2004			
2,034,755 at March 31, 2003			
Total shareholders' equity.....	275,800	252,904	2,610,748
Total liabilities and shareholders' equity.....	¥561,632	¥524,901	\$5,316,467

Consolidated Statements of Operation

Tokyo Electron Limited and its Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Net sales	¥529,654	¥460,580	¥417,825	\$5,013,762
Cost of sales	389,499	326,540	302,270	3,687,037
Gross profit	140,155	134,040	115,555	1,326,725
Selling, general and administrative expenses	117,875	132,921	133,865	1,115,823
Operating income (loss)	22,280	1,119	(18,310)	210,902
Other income (expenses):				
Interest and dividend income	200	191	351	1,894
Interest expenses	(1,326)	(1,601)	(1,960)	(12,557)
Restructuring costs (Note 12)	(2,540)	(12,055)	-	(24,050)
Amount transferred to provision for loss on restructuring (Note 13)	-	(8,577)	-	-
Devaluation of investments in securities	(470)	(739)	(1,236)	(4,447)
Impairment of goodwill (Note 14)	(1,933)	-	-	(18,300)
Other, net	(1,275)	(1,348)	(1,764)	(12,060)
Income (loss) before income taxes	14,936	(23,010)	(22,919)	141,382
Provision for income taxes (Note 9):				
Current	5,108	4,806	2,612	48,346
Deferred	1,016	13,726	(5,602)	9,616
Minority interest	515	12	8	4,876
Net income (loss)	¥ 8,297	¥ (41,554)	¥ (19,938)	\$ 78,544
Per share of common stock:				
	Yen			U.S. dollars
Net income (loss) — basic	¥ 46.37	¥ (238.57)	¥ (113.85)	\$ 0.44
Net income — diluted	45.78	-	-	0.43
Cash dividends	10.00	8.00	8.00	0.09

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

Tokyo Electron Limited and its Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Common stock				
Balance at beginning of year.....	¥ 47,223	¥ 47,214	¥ 47,213	\$ 447,021
Conversion of convertible bonds (Note 10).....	7,738	9	1	73,248
Balance at end of year	54,961	47,223	47,214	520,269
Additional paid-in capital				
Balance at beginning of year.....	70,285	70,276	70,275	665,328
Conversion of convertible bonds (Note 10).....	7,738	9	1	73,248
Balance at end of year	78,023	70,285	70,276	738,576
Retained earnings				
Balance at beginning of year.....	147,465	190,195	214,920	1,395,918
Increase due to the change in the equity holding as a result of a public offering by a consolidated subsidiary	-	219	-	-
Net income (loss) for year	8,297	(41,554)	(19,938)	78,544
Cash dividends	(1,409)	(1,395)	(4,031)	(13,338)
Bonuses to directors	(10)	-	(756)	(99)
Loss on disposal of treasury stocks	(0)	-	-	(0)
Balance at end of year	154,343	147,465	190,195	1,461,025
Unrealized gains on securities				
Net change in unrealized holding gains arising during the period	2,396	(59)	1,171	22,676
Net change in foreign currency translation adjustments	(720)	1,229	3,738	(6,815)
Treasury stock, at cost (Note 11)	(13,203)	(13,239)	(5,015)	(124,983)
(2002: 605,867 shares; 2003: 2,034,755 shares 2004: 2,022,343 shares)				
Total shareholders' equity	¥275,800	¥252,904	¥307,579	\$2,610,748

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Tokyo Electron Limited and its Subsidiaries
Years ended March 31, 2004 and 2003

	Thousands of		
	Millions of yen	U.S. dollars	
	2004	2003	2004
Cash flow from operating activities:			
Income(loss) before income taxes	¥ 14,936	¥(23,010)	\$141,382
Depreciation and amortization	24,963	27,374	236,302
Increase in allowance for retirement and severance benefits.....	1,891	3,416	17,900
Increase in allowance for employees' bonuses	2,765	1,166	26,171
Interest expenses	1,333	1,605	12,617
Loss on disposal of fixed assets	1,257	1,707	11,899
Devaluation of investments in securities	470	739	4,447
Restructuring costs (Note 12)	2,540	12,055	24,050
Amount transferred to provision for loss on restructuring (Note 13).....	-	8,577	-
(Increase) in trade notes and accounts receivable	(61,789)	(13,662)	(584,902)
(Increase) in inventories	(5,326)	(3,890)	(50,417)
Increase in accounts payable.....	29,154	10,352	275,973
(Increase) decrease in prepaid consumption tax	333	(926)	3,158
Others.....	9,944	(2,103)	94,135
Subtotal	22,471	23,400	212,715
Receipts from interest and dividends	193	191	1,827
Interest paid.....	(1,307)	(1,670)	(12,369)
Payment for special retirement benefits.....	(6,513)	-	(61,658)
Income taxes paid	(6,961)	(527)	(65,892)
Net cash provided by operating activities	7,883	21,394	74,623
Cash flow from investing activities:			
Payment for purchase of property, plant and equipment.....	(7,530)	(7,028)	(71,280)
Payment for acquisition of intangible assets.....	(3,200)	(2,780)	(30,297)
Others.....	2,186	2,538	20,695
Net cash (used in) investing activities	(8,544)	(7,270)	(80,882)
Cash flow from financing activities:			
(Decrease) in short-term borrowings	(1,464)	(4,829)	(13,860)
Increase (decrease) in commercial paper.....	(35,000)	25,000	(331,314)
Proceeds from long-term debt.....	-	3,000	-
Repayment of long-term debt.....	(1,922)	(7,183)	(18,198)
Proceeds from issuance of bonds.....	49,767	-	471,102
Redemption of unsecured bonds	(20,005)	(20,000)	(189,370)
(Increase) decrease in treasury stock.....	35	(8,224)	335
Dividends paid.....	(1,409)	(1,395)	(13,338)
Proceeds from a public offering of a subsidiary	-	3,751	-
Others.....	(273)	(4)	(2,582)
Net cash (used in) financing activities	(10,271)	(9,884)	(97,225)
Effect of exchange rate changes on cash and cash equivalents	600	333	5,675
Net increase (decrease) in cash and cash equivalents	(10,332)	4,573	(97,809)
Cash and cash equivalents at beginning of year.....	52,982	48,409	501,536
Cash and cash equivalents at end of year (Note 3)	¥ 42,650	¥ 52,982	\$403,727

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Tokyo Electron Limited and its Subsidiaries

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Tokyo Electron Limited (hereinafter "the Company") and its subsidiaries have been prepared from those that have been filed with the Ministry of Finance of Japan as required by the Securities and Exchange Law and that conform with accounting principles generally accepted in Japan.

Foreign subsidiaries maintain their books in conformity with financial standards of the countries of their domicile.

For the convenience of readers outside Japan, the presentation of the consolidated financial statements and the information contained therein have been modified in some respects.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 27 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 ends on March 31, except for two foreign subsidiaries, which use December 31 year end, and no significant transactions were noted between the different fiscal year ends.

U.S. dollar amounts included herein are solely for the convenience of readers and are presented at the rate of ¥105.64 to \$1.00, the approximate rate at March 31, 2004. 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.

(b) Foreign currency translation

All assets and liabilities denominated in foreign currencies are translated into Japanese yen at the rate prevailing at the balance sheet date, except for those hedged by forward exchange contracts, which are translated at the contracted rates.

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

The financial statements of foreign subsidiaries have been translated in accordance with the accounting standards in Japan.

(c) Marketable securities and investments in securities

Securities with market prices are valued at market based on market prices on the fiscal year-end. Other securities without market value are valued at cost using the weighted average method.

The differences between the book and market prices of marketable securities are charged to shareholders' equity. 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 is computed on the declining balance method for the Company and its consolidated domestic subsidiaries at rates based on the estimated useful lives of assets, while the straight-line method is mainly applied for its consolidated foreign subsidiaries over the estimated useful lives of their assets.

(f) Retirement and severance benefits

The Company and its consolidated domestic subsidiaries provide a reserve for employees' retirement benefits based on the projected benefit obligation and pension assets on the consolidated account settlement date. Prior service costs are charged to income on a straight-line basis, beginning from the consolidated 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 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 annual provision for accrued retirement benefits for directors and corporate auditors of the Company and its consolidated domestic subsidiaries is also calculated to state the liability at the amount that would be required if all directors and corporate auditors retired at the end of the consolidated fiscal year according to internal regulation.

(g) Provision for loss on restructuring

The Company and its consolidated domestic subsidiaries booked provision for loss on restructuring in the year ended March 31, 2003 in preparation for losses that the companies expected to incur in future due to the implementation of their business restructuring plan.

(h) Leases

Finance lease transactions, unless the lessee practically acquires legal title to the leased asset, are treated as operating lease transactions.

(i) Income taxes

The Company and its consolidated subsidiaries record deferred tax assets and liabilities on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(j) Derivatives

The Company makes use of derivatives only to reduce exchange risk of foreign currencies. The amount of derivatives is limited to the extent of foreign currency assets, debt and actual orders, and the Company does not trade in derivatives for speculative purposes.

Derivatives are valued at market based on market prices on the fiscal year-end.

(k) Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of consolidated subsidiaries are valued using the full mark-to-market method.

(l) Amortization of goodwill

Goodwill is evaluated on an individual basis and amortized not exceeding 20 years, and the balance is included in the Intangible and other assets.

(m) Per share information

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

From 2003, the Company began applying "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)

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.

3. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and deposits	¥ 42,650	¥52,982	\$403,727
Time deposits due over 3 month.....	-	-	-
Total	¥ 42,650	¥52,982	\$403,727

4. Investments in Securities

Investments in securities at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Listed stock	¥ 9,308	¥5,710	\$ 88,109
Mutual funds	116	117	1,099
Other	1,450	1,389	13,723
Total	¥ 10,874	¥7,216	\$102,931

5. Inventories

Inventories at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished products	¥ 49,759	¥ 63,206	\$471,022
Work in process, raw materials and supplies	55,428	48,604	524,690
Total	¥105,187	¥111,810	\$995,712

6. Pledged Assets

The Company and its consolidated subsidiaries did not hold any assets pledged as collateral at March 31, 2004 and 2003.

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings are represented by 365-day notes issued by the Company and its consolidated subsidiaries to banks and bore interest at the average annual rate of 1.13% at March 31, 2004 and 1.15% at March 31, 2003. Long-term debt at March 31, 2004 and 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
0.90% unsecured convertible bonds due 2003	¥ -	¥15,481	\$ -
1.39% unsecured bonds due 2004.....	20,000	20,000	189,322
0.85% unsecured bonds due 2003.....	-	20,000	-
1.30% unsecured bonds due 2005.....	30,000	30,000	283,983
0.42% unsecured bonds due 2006.....	20,000	-	189,322
0.72% unsecured bonds due 2008.....	30,000	-	283,983
1.59% unsecured bonds with warrants due 2006	4,500	4,500	42,598
0.86% unsecured bonds with warrants due 2007	5,500	5,500	52,064
Other loans from banks	10,230	12,153	96,832
Current portion.....	(21,754)	(37,404)	(205,923)
Total	¥98,476	¥70,230	\$932,181

A summary of terms and conditions of the bonds with warrants at March 31, 2004 is as follows:

1.59% unsecured bonds with warrants due 2006

Bond amount	¥4,500 million
Interest rate.....	1.59%
Issued stocks	Common stock
Exercise price	¥14,070
Exercise period.....	July 1, 2002-June 8, 2006

0.86% unsecured bonds with warrants due 2007

Bond amount	¥5,500 million
Interest rate.....	0.86%
Issued stocks	Common stock
Exercise price	¥9,608
Exercise period.....	July 1, 2003-June 7, 2007

8. Retirement and Severance Benefits

The Company and its consolidated domestic subsidiaries have noncontributory retirement and severance benefit plans that provide for pension or lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause. In addition, the majority of the employees of the Company and its consolidated domestic subsidiaries are covered by a contributory pension plan, whose benefits are based on length of service and certain other factors and include a portion representing the government social security welfare pension.

Certain consolidated foreign subsidiaries have a noncontributory retirement and severance benefit plan that provides for pension or lump-sum payment benefits to employees who retire or terminate their employment for reasons other than dismissal for cause.

Based on the enforcement of Defined Benefit Corporate Pension Law, Tokyo Electron Employees' Pension Fund, established by the Company, was permitted by the Minister of Health, Labor and Welfare on January 1, 2004 to be released from its future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme.

The funded status of the defined benefit plans, a substantial portion of which consists of domestic benefit plans, as of March 31, 2004 and 2003 is as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Benefit obligation	¥(75,682)	¥(67,714)	\$(716,413)
Fair value of plan assets	23,686	20,631	224,213
Unrecognized benefit obligation	(51,996)	(47,083)	(492,200)
Unrecognized actuarial difference	13,929	13,622	131,853
Unrecognized prior service cost	492	(1,857)	4,658
Amount recognized in the consolidated balance sheets (note) ..	¥(37,575)	¥(35,318)	\$(355,689)

Note: The annual provision for accrued retirement benefits for directors and corporate auditors (¥ 700 million in 2004, and ¥1,074 million in 2003) is not included.

The amount of pension plan assets expected to be transferred back to the government (minimum legal reserve) was measured at ¥10,323 million as of March 31, 2004. If the payment of the amount was made on that date, the expected gain in accordance with paragraph 44-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)" would be ¥6,032 million.

Net pension cost of the plans is as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Service cost	¥ 5,909	¥5,164	\$ 55,938
Interest cost	1,733	1,688	16,401
Expected return on plan assets	(206)	(541)	(1,953)
Amortization of actuarial difference	4,034	2,456	38,193
Amortization of prior service cost	(35)	(619)	(333)
Net pension cost	¥ 11,435	¥8,148	\$108,246

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

	2004	2003
Allocation method of benefit obligation	Straight-line method	
Discount rate	2.00%	2.50%
Expected rate of return on plan assets	1.00%	3.00%
Amortization life of prior service cost	4 years	4 years
Amortization life of actuarial difference	4 years	4 years
Amortization life of transition obligation	Fully recognized in the fiscal year ended March 31, 2001	

9. Income Taxes

Significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Deferred tax assets			
Tax loss carryforwards	¥17,735	¥13,394	\$167,880
Allowance for retirement benefits	13,470	11,417	127,507
Devaluation of inventories	3,570	6,993	33,794
Excess of depreciation and amortization	2,963	2,451	28,045
Allowance for bonuses	2,579	1,165	24,413
Elimination of unrealized gain on fixed assets	1,286	1,271	12,175
Elimination of unrealized gain on inventories	208	1,273	1,970
Provision for loss on restructuring	-	3,549	-
Other	3,304	3,014	31,278
Subtotal of deferred tax assets	45,115	44,527	427,062
Valuation allowance	(31,431)	(30,724)	(297,526)
Total deferred tax assets	13,684	13,803	129,536
Deferred tax liabilities			
Allowance for extraordinary depreciation	(1,877)	(523)	(17,771)
Other	(1,894)	(407)	(17,926)
Total deferred tax liabilities	(3,771)	(930)	(35,697)
Net deferred tax assets	¥ 9,913	¥12,873	\$ 93,839

10. Shareholders' Equity

The Company issued 4,912,981 shares and 6,027 shares of common stock in 2004 and 2003, respectively, in connection with the conversion of convertible bonds.

Conversion of convertible bonds into common stock has been accounted for in accordance with the provisions of the Japanese Commercial Code by crediting one-half of the conversion price to the common stock account and the additional paid-in capital account respectively.

11. Share Repurchase Under Stock Option Program

The Company and its consolidated subsidiaries have a stock option plan to further increase directors' and employees' incentive and motivation to raise corporate performance with the aim of maximizing corporate value. A summary of share repurchases under the stock option plan during the year ended March 31, 2004 is as follows:

	Number of shares	Millions of yen	Thousands of U.S. dollars
Outstanding at beginning of the year	603,000	¥4,991	\$47,249
Purchased	-	-	-
Exercised	20,000	90	860
Outstanding at end of the year	583,000	¥4,901	\$46,389

Note: The Company has 1,439,343 shares (¥8,302 million) of treasury stock other than the above.

12. Restructuring Costs

These costs are for the devaluation and disposal, etc. of assets due to the consolidation or the closure of operating bases in accordance with the implementation of the business restructuring plan.

13. Amount Transferred to Provision for Loss on Restructuring

This amount was transferred to provision for loss on restructuring in preparation for losses expected to be incurred in future due to the implementation of the business restructuring plan.

14. Impairment of Goodwill

The impairment of goodwill was fully recognized as an extraordinary loss in this fiscal year due to the devaluation in the subsidiary.

15. Leases

Pro-forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, 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, 2004 and 2003 is as follows:

Leased assets not recorded in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acquisition cost	¥ 1,014	¥ 999	\$ 9,600
Accumulated depreciation	412	255	3,906
Net leased property	¥ 602	¥ 744	\$ 5,694

Future minimum lease payments:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥ 176	¥ 171	\$ 1,667
Due over one year	426	573	4,027
Total	¥ 602	¥ 744	\$ 5,694

Lease payments and depreciation computed by the straight-line method over the lease terms with no residual value and imputed interest expense were ¥178 million in the year ended March 31, 2004 and ¥171 million in the year ended March 31, 2003.

Future minimum operating lease payments:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥ 721	¥ 1,434	\$ 6,830
Due over one year	700	1,582	6,622
Total	¥ 1,421	¥ 3,016	\$13,452

16. Segment Information

The Company and its consolidated subsidiaries operate in a single segment.

17. Contingent Liabilities

The Company and its consolidated subsidiaries did not hold any contingent liabilities at March 31, 2004.

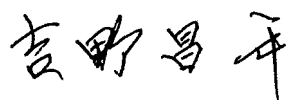
To the Board of Directors, Tokyo Electron Limited

We have examined the consolidated balance sheets of Tokyo Electron Limited and its consolidated subsidiaries as of March 31, 2004 and 2003, the related statements of income and shareholders' equity for each of the three years in the period ended March 31, 2004, and the statements of cash flows for the years ended March 31, 2004 and 2003, all expressed in yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

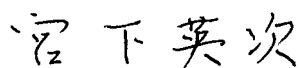
In our opinion, the consolidated statements present fairly the financial position of Tokyo Electron Limited and its consolidated subsidiaries at March 31, 2004 and 2003, the results of their operations for each of the three years in the period ended March 31, 2004, and their cash flows for the year ended March 31, 2004 and 2003, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

The amounts expressed in U.S. dollars have been translated on the basis described in Note 2-a.

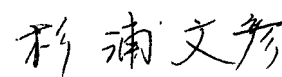
Tokyo, Japan
June 22, 2004



Masatoshi Yoshino
Certified Public Accountant



Eiji Miyashita
Certified Public Accountant



Fumihiko Sugiura
Certified Public Accountant

Japan

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Investor Information

(As of March 31, 2004)

Corporate Name:

Tokyo Electron Limited

Common Stock Listed on:

The Tokyo Stock Exchange 1st Section (#8035)

Established:

November 11, 1963

Transfer Agent for Common Stock:

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

Annual General Meeting of Shareholders:

June

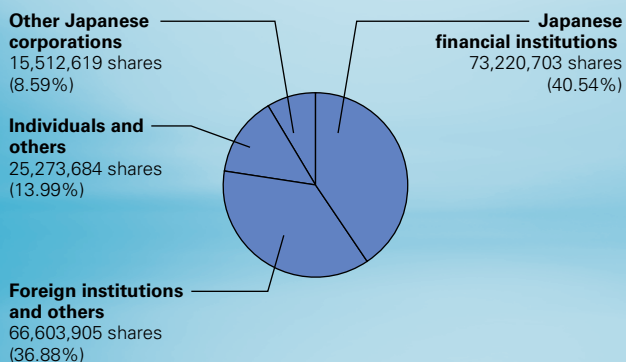
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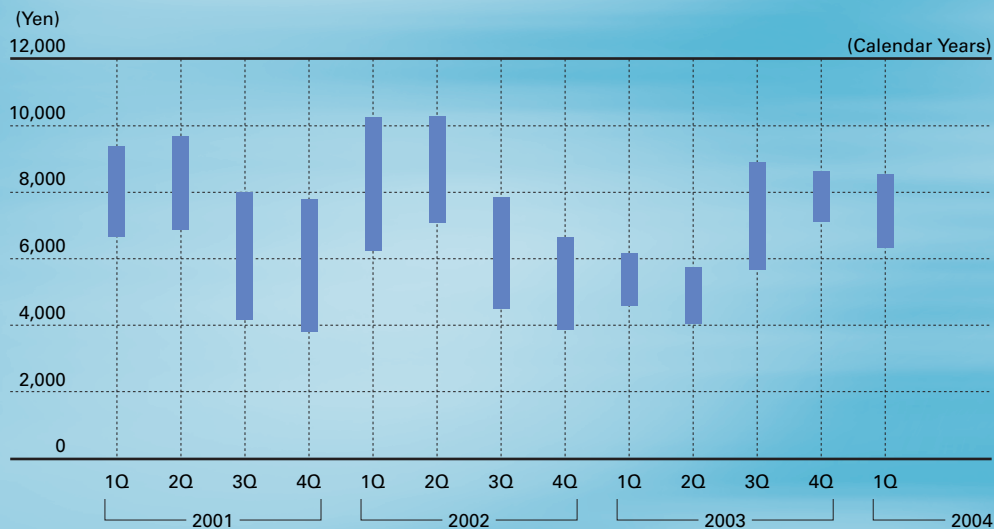
Common Stock:

Stock trading unit	100 shares
Authorized	300,000,000 shares
Issued and outstanding	180,610,911 shares
Number of shareholders	60,873

Distribution of ownership among shareholders



Quarterly Stock Price Range





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