

MESSAGE FROM THE PRESIDENT

Demand for PCs and mobile phones was firm in fiscal 2005. It was also a banner year for digital consumer electronics. These factors boosted demand for semiconductors and FPD, and capital investment for their production. Amid this growth, Tokyo Electron made united efforts in the development, manufacturing, marketing and servicing of our products.

I am pleased to report that the strategy was successful and we completed the year with impressive financial results. Consolidated operating income rose ¥41.7 billion from the previous fiscal year to ¥64.0 billion, while net sales rose 20% year on year to ¥635.7 billion. Net income rose ¥53.3 billion from the previous fiscal year to ¥61.6 billion. As a result, net income per share increased sharply from ¥46.37 to ¥343.63. The annual dividend was ¥45.0 per share.

NEW ACCOUNTING POLICIES STRENGTHEN FINANCIAL POSITION AND REVENUE STRUCTURE

In fiscal 2005, Tokyo Electron made two important changes in its accounting policies: the revenue recognition policies were changed and we booked accrued warranty expenses. These changes are a response to the international harmonization of accounting standards. The changes are also intended to make our accounting information more appropriate, thereby further bolstering the financial and revenue structure of Tokyo Electron.

We now recognize revenue at the time of confirmation of set-up and testing of products instead of the time of shipment, a change intended to bring greater precision to revenue measurement. We also expect this move to help us benchmark the time to completion of set-up and testing of products. This in turn should help us to reduce expenses by shortening this period. The other change was to record accrued warranty expenses for estimated expenses for after-sales repair during the warranty period of equipment. This change is intended to make periodic profit and loss statements more appropriate by matching the after-sales repair expenses with revenue when products are sold. This has also raised awareness within Tokyo Electron of the importance of reducing the after-sales repair expenses.

STRUCTURAL REFORMS START BENEFITING CASH FLOW

In April 2003, Tokyo Electron launched a structural reforms program, a series of initiatives aimed at readying our operating base for further growth. Two years into the program, trade notes and accounts receivable and inventory turnovers have improved significantly, leading to a marked improvement in cash flow. We have also worked to reduce interest-bearing debt. As a result, cash and cash equivalents at ¥115.4 billion exceeded interest-bearing debt as of March 31, 2005, thereby strengthening our financial position.

We are committed to building a strong company immune to market fluctuations and capable of generating cash flow through ongoing structural reforms while investing for the future in R&D and other areas.

TAKING ON THE CHALLENGE OF FURTHER STRUCTURAL REFORMS

In April 2005, we launched structural reforms Phase 2 in order to build on the improvements made to our operations, finances and position as a manufacturer. In semiconductor and FPD production equipment, customers are becoming more demanding about quality, as technology becomes more sophisticated. The development of higher-quality products has resulted in shorter start-up times at customers' factories, higher capacity utilization rates, enhanced reliability and cost reductions. We have bolstered group-wide measures to raise awareness of and improve product quality.

I am convinced that the introduction of new products with even higher added value is the key to the sustained growth of Tokyo Electron. We are therefore making collective efforts to foster new technologies and to plan and develop new products. In existing businesses, we are working to improve the performance of products to achieve clear differentiation from competition, and seeking cost reductions through enhanced production efficiency. As a group, we are speeding up in-house operations to further strengthen our competitive advantage and to rapidly respond to changes in the business environment.



EMERGING TECHNOLOGY TRENDS

In SPE, the primary issue so far has been toward the technology for design-rule shrinkage. In addition, we now need to focus on improvement of mass production technology, as our customers are increasingly expecting advances in this area. Moreover, the range of materials used in semiconductor production processes is expanding along with the transition to devices that offer higher performance and lower power consumption.

Tokyo Electron offers a broad lineup of products and has the best product development infrastructure in the sector. We are demonstrating our leadership position in adopting semiconductor processing technology for design-rule shrinkage, mass production technology and new materials through cooperative efforts with leading semiconductor manufacturers, consortiums and universities.

STRENGTHENING MEASURES FOR CORPORATE SOCIAL RESPONSIBILITY

Enhancing corporate governance to assure even fairer management and strengthening strategies for environment protection and safety are important issues from the standpoint of corporate social responsibility.

Amid the globalization of business management, the fundamental policy and purpose of our corporate governance activities is to ensure adherence to corporate ethics and laws and regulations. At the same time, we have established Compensation and Nomination committees as an integral part of a program to ensure management transparency and objectivity. In addition, we will also strengthen our internal control and risk management systems and carry out activities to educate and raise employees' awareness of these issues.

In environmental protection activities, Tokyo Electron is working to bring down the environmental loads of SPE by reducing power consumption, making our products lead-free, reducing industrial waste and promoting recycling.

COLLECTIVE EFFORTS TO BECOME AN EXCELLENT COMPANY

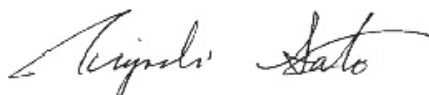
In 2005, in terms of capital investment, the semiconductor industry is likely to slow down slightly from a recent up turn because of declining capacity utilization rates at certain semiconductor manufacturers. However, expansion in markets for new applications, such as mobile devices, digital consumer electronics, automotive electronics and home servers, is expected. Fueled by a growing range of applications, semiconductors and SPE used in their manufacture are expected to experience high growth rates over the medium and long terms. The FPD production equipment market should continue to grow, driven by explosive growth of the flat panel television market.

I have defined fiscal 2006 as a period for concentrating on new product development and further enhancing operating efficiency to ready Tokyo Electron for another leap forward. Our goal is to achieve a growth rate exceeding that of the market in the next industry upturn.

Dynamic expansion of the semiconductor and FPD production equipment markets will intensify competitive realignments as weaker players are driven out. Since its foundation, Tokyo Electron has been guided by the customer-first principle. By combining this with the technological prowess that allows us to supply equipment that accurately meets user needs and our commitment to provide extensive support services, Tokyo Electron has maintained its leadership position in the industry.

Tokyo Electron is committed to continuing to improve its technology development, production and service capabilities in order to achieve customer satisfaction and in doing so raise our corporate value and meet the expectations of all our stakeholders. In meeting these challenges, we look forward to the continued support of our shareholders.

July 2005



Kiyoshi Sato
President & COO