CONSOLIDATED BALANCE SHEETS

Tokyo Electron Limited and Subsidiaries
March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Current assets:			
Cash and cash equivalents	**¥115,420**	¥ 42,650	**$1,074,775**
Trade notes and accounts receivable	**172,488**	231,045	**1,606,179**
Allowance for doubtful accounts	**(114)**	(155)	**(1,063)**
Inventories	**161,489**	105,187	**1,503,765**
Deferred income taxes	**18,173**	2,943	**169,221**
Prepaid expenses and other current assets	**27,730**	21,304	**258,221**
Total current assets	**495,186**	402,974	**4,611,098**
Property, plant and equipment:			
Land	**18,351**	19,577	**170,879**
Buildings	**111,119**	108,718	**1,034,722**
Machinery and equipment	**90,497**	92,379	**842,697**
Construction in progress	**1,786**	2,552	**16,631**
Total property, plant and equipment	**221,753**	223,226	**2,064,929**
Less: Accumulated depreciation	**123,337**	114,437	**1,148,493**
Net property, plant and equipment	**98,416**	108,789	**916,436**
Investments and other assets:			
Investment securities	**10,381**	10,874	**96,667**
Deferred income taxes	**15,313**	10,203	**142,597**
Intangible assets	**18,612**	21,513	**173,308**
Other assets	**6,412**	7,279	**59,704**
Total investments and other assets	**50,718**	49,869	**472,276**
Total assets	**¥644,320**	¥561,632	**$5,999,810**

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current liabilities:			
Short-term borrowings	¥ 976	¥ 6,815	$ 9,087
Current portion of long-term debt	35,476	21,754	330,344
Trade notes and accounts payable	70,472	78,009	656,228
Customer advances	42,970	12,142	400,135
Income taxes payable	13,357	3,273	124,383
Accrued employees' bonuses	8,645	6,376	80,496
Accrued warranty expenses	13,106	–	122,038
Accrued expenses and other current liabilities	21,609	13,103	201,223
Total current liabilities	206,611	141,472	1,923,934
Long-term debt, less current portion	63,000	98,476	586,647
Accrued pension and severance costs	36,382	38,275	338,778
Other liabilities	1,751	3,662	16,304
Total liabilities	307,744	281,885	2,865,663
Minority interests	4,411	3,947	41,072
Contingent liabilities			
Shareholders' equity:			
Common stock	54,961	54,961	511,791
Authorized: 300,000,000 shares			
Issued: 180,610,911 shares as of March 31, 2005 and 2004			
Capital surplus	78,023	78,023	726,540
Retained earnings	212,094	154,343	1,974,987
Unrealized gains on securities	2,133	2,396	19,859
Foreign currency translation adjustments	997	(720)	9,285
Treasury stock, at cost	(16,043)	(13,203)	(149,387)
2,529,672 and 2,022,343 shares as of March 31, 2005 and 2004, respectively			
Total shareholders' equity	332,165	275,800	3,093,075
Total liabilities and shareholders' equity	¥644,320	¥561,632	$5,999,810

CONSOLIDATED STATEMENTS OF INCOME

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Net sales	¥635,710	¥529,654	$5,919,640
Cost of sales	459,797	389,499	4,281,568
Gross profit	175,913	140,155	1,638,072
Selling, general and administrative expenses	111,930	117,875	1,042,272
Operating income	63,983	22,280	595,800
Other income (expenses):			
Interest and dividend income	236	200	2,197
Interest expenses	(1,094)	(1,326)	(10,182)
Income from development grants	2,194	113	20,432
Gain on return of substitutional portion of employees' pension fund	7,084	–	65,962
Provision for accrued warranty expenses for previous fiscal years	(12,470)	–	(116,122)
Loss on business reorganization	(2,783)	–	(25,916)
Impairment of investment securities	(573)	(470)	(5,335)
Loss on disposal of property, plant and equipment	(1,388)	(1,257)	(12,925)
Restructuring costs	–	(2,540)	–
Impairment of goodwill	–	(1,933)	–
Other, net	586	(131)	5,462
Income before income taxes	55,775	14,936	519,373
Income taxes:			
Current	15,540	5,108	144,710
Deferred	(21,970)	1,016	(204,582)
Minority interests	604	515	5,622
Net income	¥ 61,601	¥ 8,297	$ 573,623
Per share of common stock:	Yen		U.S. dollars
Net income — basic	¥ 343.63	¥ 46.37	$ 3.20
Net income — diluted	343.54	45.78	3.20
Cash dividends	45.00	10.00	0.42

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Common stock			
Balance at beginning of year	**¥ 54,961**	¥ 47,223	**$ 511,791**
Conversion of convertible bonds	–	7,738	**–**
Balance at end of year	**54,961**	54,961	**511,791**
Capital surplus			
Balance at beginning of year	**78,023**	70,285	**726,540**
Conversion of convertible bonds	**–**	7,738	**–**
Balance at end of year	**78,023**	78,023	**726,540**
Retained earnings			
Balance at beginning of year	**154,343**	147,465	**1,437,217**
Net income	**61,601**	8,297	**573,623**
Cash dividends	**(3,743)**	(1,409)	**(34,853)**
Bonuses to directors	**(107)**	(10)	**(1,000)**
Loss on disposal of treasury stocks	**–**	(0)	**–**
Balance at end of year	**212,094**	154,343	**1,974,987**
Unrealized gains on securities			
Balance at beginning of year	**2,396**	(59)	**22,306**
Net changes during the year	**(263)**	2,455	**(2,447)**
Balance at end of year	**2,133**	2,396	**19,859**
Foreign currency translation adjustments			
Balance at beginning of year	**(720)**	1,229	**(6,703)**
Net changes during the year	**1,717**	(1,949)	**15,988**
Balance at end of year	**997**	(720)	**9,285**
Treasury stock, at cost			
Balance at beginning of year	**(13,203)**	(13,239)	**(122,946)**
Purchase	**(2,840)**	(55)	**(26,441)**
Resale for stock option plan	**–**	91	**–**
Balance at end of year	**(16,043)**	(13,203)	**(149,387)**
Total shareholders' equity	**¥332,165**	¥275,800	**$3,093,075**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Cash flows from operating activities:			
Income before income taxes	**¥ 55,775**	¥14,936	**$ 519,373**
Depreciation and amortization	**21,463**	24,963	**199,856**
Amortization of goodwill	**1,600**	1,898	**14,900**
Increase in accrued pension and severance costs	**5,158**	1,891	**48,031**
Interest expenses	**1,094**	1,333	**10,184**
Loss on disposal of property, plant and equipment	**1,388**	1,257	**12,925**
Gain on return of substitutional portion of employees' pension fund	**(7,084)**	–	**(65,962)**
Loss on business reorganization	**2,783**	–	**25,916**
Restructuring costs	**–**	2,540	**–**
Impairment of goodwill	**–**	1,933	**–**
(Increase) decrease in trade notes and accounts receivable	**59,115**	(61,789)	**550,467**
Increase in inventories	**(59,914)**	(5,326)	**(557,910)**
Increase (decrease) in trade notes and accounts payable	**(7,440)**	29,154	**(69,284)**
Increase in customer advances	**30,816**	10,657	**286,953**
Increase in accrued employees' bonuses	**2,258**	2,765	**21,032**
Increase in accrued warranty expenses	**13,106**	–	**122,038**
Other, net	**1,482**	(3,741)	**13,800**
Subtotal	**121,600**	22,471	**1,132,319**
Receipts from interest and dividends	**241**	193	**2,249**
Interest paid	**(1,159)**	(1,307)	**(10,795)**
Payment for special retirement benefits	**–**	(6,513)	**–**
Payment for business reorganization	**(1,558)**	–	**(14,506)**
Income taxes paid	**(4,774)**	(6,961)	**(44,457)**
Net cash provided by operating activities	**114,350**	7,883	**1,064,810**
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment	**(8,680)**	(7,530)	**(80,822)**
Proceeds from sale of property, plant and equipment	**3,798**	2,391	**35,362**
Payment for acquisition of intangible assets	**(1,780)**	(3,200)	**(16,577)**
Other, net	**(788)**	(205)	**(7,337)**
Net cash used in investing activities	**(7,450)**	(8,544)	**(69,374)**
Cash flows from financing activities:			
Decrease in short-term borrowings	**(5,864)**	(1,464)	**(54,608)**
Decrease in commercial paper	**–**	(35,000)	**–**
Repayment of long-term debt	**(1,754)**	(1,922)	**(16,331)**
Proceeds from issuance of bonds	**–**	49,767	**–**
Redemption of unsecured bonds	**(20,000)**	(20,005)	**(186,237)**
(Increase) decrease in treasury stock	**(2,840)**	35	**(26,441)**
Dividends paid	**(3,743)**	(1,409)	**(34,853)**
Other	**(143)**	(273)	**(1,335)**
Net cash used in financing activities	**(34,344)**	(10,271)	**(319,805)**
Effect of exchange rate changes on cash and cash equivalents	**214**	600	**1,995**
Net increase (decrease) in cash and cash equivalents	**72,770**	(10,332)	**677,626**
Cash and cash equivalents at beginning of year	**42,650**	52,982	**397,149**
Cash and cash equivalents at end of year	**¥115,420**	¥ 42,650	**$1,074,775**

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tokyo Electron Limited and Subsidiaries

1. Basis of Presentation of Consolidated Financial Statements

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

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

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

U.S. dollar amounts included herein are solely for the convenience of readers and are presented at the rate of ¥107.39 to $1.00, the approximate rate as of March 31, 2005. The translation should not be construed as a representation that the Japanese yen amounts shown could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 25 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 a December 31 year-end, and no significant transactions were noted between the different fiscal year-ends.

(b) Foreign currency translation

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

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

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

(c) Investment securities

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

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

(d) Inventories

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

(e) Property, plant and equipment

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

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

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

For the years ended March 31, 2005 and 2004, the Company and its domestic subsidiaries did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption. The Company and its domestic subsidiaries are currently determining the impact of the adoption of the standard on the consolidated financial statements.

(f) Intangible assets

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

(g) Allowance for doubtful accounts

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

(h) Accrued pension and severance costs

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

The annual provision for accrued pension and severance costs for directors and statutory auditors of the Company and its domestic subsidiaries is also calculated to state the liability at the amount that would be required if all directors and statutory auditors retired at the end of the fiscal year according to internal regulations.

Tokyo Electron has recently announced to revise its executive compensation system. With this revision, Tokyo Electron has abolished the system of accrued pension and severance costs for directors and statutory auditors from the period starting April 2005. Accrued pension and severance costs for directors and statutory auditors as of March 31, 2005 will remain until actually paid out, upon retirement of directors and statutory auditors.

(i) Accrued warranty expenses

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

(j) Leases

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases), except that leases which stipulate the transfer of ownership of the leased assets to the leases are accounted for as finance leases.

(k) Derivatives and hedge accounting

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

Derivatives are carried at fair value with changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferred hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(l) Income taxes

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

(m) Revenue recognition

Revenue from Semiconductor and FPD (Flat Panel Display) production equipment is principally recognized at the time of the confirmation of set-up and testing of products. Revenue from such equipment not requiring substantial installation is recognized at the time of shipment. Revenue from other products, such as electronic components, is recognized at the time of shipment. Service revenue from maintenance is recognized ratably over the term of the maintenance contract.

(n) Per share information

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

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

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

(o) Research and development expenses

Research and development expenses are charged to income as incurred, and amounted to ¥43,889 million ($408,686 thousand) and ¥44,150 million for the years ended March 31, 2005 and 2004, respectively.

(p) Cash equivalents

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

(q) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements to conform with the presentation used for the year ended March 31, 2005. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Changes in Accounting Policies

(a) Revenue recognition

Until the year ended March 31, 2004, revenue from Semiconductor and FPD production equipment was recognized at the time of shipment. Effective from the year ended March 31, 2005, the Company changed its method of revenue recognition in which such equipment sales revenue is principally recognized at the time of the confirmation of set-up and testing of products. This change is intended to reflect the actual situation of revenue more appropriately, corresponding to the fact that the process from the shipment of products to the confirmation of set-up and testing of products has shown a marked tendency to become longer, and review of post-shipment business processes has made it possible to provide a complete set of data upon the confirmation of set-up and testing of products.

The effect of this change was to decrease net sales, operating income and income before income taxes by ¥80,956 million ($753,852 thousand), ¥20,541 million ($191,278 thousand) and ¥20,563 million ($191,479 thousand), respectively, for the year ended March 31, 2005 as compared with the corresponding amounts which would have been recorded if the previous method had been followed.

(b) Accrued warranty expenses

Until the year ended March 31, 2004, after-sale repair expenses incurred during the warranty period for Semiconductor and FPD production equipment were charged to income as incurred. Effective from the year ended March 31, 2005, the Company changed its method to account for after-sale repair expenses by implementing accrued warranty expenses for such equipment, calculated on the basis of after-sale repair expenses incurred in the past. This change is intended to make periodic income more appropriate by matching after-sale repair expenses with revenues when products are sold, with the increased importance on after sale service. A complete set of historical data on actual after-sale repair expenses, as well as remaining warranty period compiled, has made possible the calculation of accrued warranty expenses.

The effect of this change was to decrease operating income and income before income taxes by ¥635 million ($5,916 thousand) and ¥13,106 million ($122,038 thousand), respectively, for the year ended March 31, 2005 as compared with the corresponding amounts which would have been recorded if the previous method had been followed. The provision for accrued warranty expenses related to revenues recognized in prior years were recorded as other expense in the accompanying consolidated statement of income for the year ended March 31, 2005.

(c) Business segment

Tokyo Electron is involved in the manufacture and sale of industrial electronic products. In the past, Tokyo Electron's business was classified as a single segment based on its sales method.

Effective from the year ended March 31, 2005, the segment classification was changed and separated into two segments: "industrial electronic equipment" and "electronic components", which were determined based on the types of products and service, as well as sales methods. The new classification of the business segments reflects more appropriately the businesses of Tokyo Electron.

4. Investment Securities

Investment securities, which solely comprises of other securities, as of March 31, 2005 and 2004 are as follows:

	Millions of yen	
2005:	Cost	Carrying value
Securities with market prices		
Equity securities	**¥5,484**	**¥ 9,059**
Other	**114**	**115**
Securities without market value		
Unlisted stock	**1,712**	**1,184**
Other	**23**	**23**
Total	**¥7,333**	**¥10,381**

	Millions of yen	
2004:	Cost	Carrying value
Securities with market prices		
Equity securities	¥5,405	¥ 9,429
Other	114	116
Securities without market value		
Unlisted stock	1,503	1,328
Other	1	1
Total	¥7,023	¥10,874

	Thousands of U.S. dollars	
2005:	Cost	Carrying value
Securities with market prices		
Equity securities	**$51,073**	**$84,354**
Other	**1,059**	**1,073**
Securities without market value		
Unlisted stock	**15,939**	**11,026**
Other	**214**	**214**
Total	**$68,285**	**$96,667**

5. Inventories

Inventories as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Finished products	**¥102,418**	¥ 49,759	**$ 953,701**
Work in process, raw materials and supplies	**59,071**	55,428	**550,064**
Total	**¥161,489**	¥105,187	**$1,503,765**

6. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2005 and 2004.

7. Short-term Borrowings and Long-term Debt

Short-term borrowings are represented by 365-day notes issued by Tokyo Electron to banks and bore interest at the average annual rate of 1.80% and 1.13% as of March 31, 2005 and 2004, respectively.

Long-term debt as of March 31, 2005 and 2004 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
1.39% unsecured bonds due 2004	¥ –	¥ 20,000	$ –
1.30% unsecured bonds due 2005	30,000	30,000	279,356
0.42% unsecured bonds due 2006	20,000	20,000	186,237
0.72% unsecured bonds due 2008	30,000	30,000	279,356
1.59% unsecured bonds with warrants due 2006	4,500	4,500	41,903
0.86% unsecured bonds with warrants due 2007	5,500	5,500	51,215
Other loans from banks	8,476	10,230	78,924
Current portion	(35,476)	(21,754)	(330,344)
Total	¥ 63,000	¥ 98,476	$ 586,647

As of March 31, 2005, Tokyo Electron has unused lines of credit amounting to ¥113,106 million ($1,053,227 thousand).

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

	Millions of yen	Thousands of U.S. dollars
Year ending March 31	2005	2005
2006	¥35,476	$330,344
2007	24,500	228,140
2008	8,500	79,151
2009	30,000	279,356
2010 and thereafter	–	–
Total	¥98,476	$916,991

8. Accrued Pension and Severance Costs

The Company and its 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 domestic subsidiaries are covered by a contributory pension plan, whose benefits are based on length of service and certain other factors. This pension plan includes a substitutional portion representing the government social security welfare pension.

Certain 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.

In January 2004, following the enactment of changes to the Japanese Welfare Pension Insurance Law, the Company and its domestic subsidiaries obtained an approval from the Japanese Ministry of Health, Labor and Welfare for exemption from the future benefit obligation with respect to the substitutional portion of the Welfare Pension Insurance Scheme. After obtaining the approval, in January 2005, these companies obtained another approval for separation of the remaining benefit obligation of the substitutional portion that is related to past employees services. The transfer of pension plan assets to the Government is expected in the year ending March 31, 2006.

The Company and its domestic subsidiaries accounted for the transitional provisions in accordance with paragraph 44-2 of the JICPA Accounting Committee Report No. 13, “Practical Guideline for Accounting of Retirement Benefits (Interim Report),” and recognized a gain of ¥7,084 million ($65,962 thousand), upon the receipt of the second approval in January 2005, as “Gain on return on substitutional portion of employees’ pension fund” in the consolidated statement of income for the year ended March 31, 2005.

In January 2005, following the approval for separation of the substitutional portion, the Company and its domestic subsidiaries amended the contributory pension plan to a cash balance pension plan. Additionally, the Company and its domestic subsidiaries amended the noncontributory retirement and severance benefit plans. The net effect of these plan amendments was to increase the benefit obligation by ¥3,799 million ($35,371 thousand), and the resulting prior service cost is amortized over four years.

The funded status of the defined benefit plans, a substantial portion of which consists of domestic benefit plans, as of March 31, 2005 and 2004 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Benefit obligation	¥(59,984)	¥(75,682)	$(558,559)
Fair value of plan assets	18,388	23,686	171,225
Unrecognized benefit obligation	(41,596)	(51,996)	(387,334)
Unrecognized actuarial difference	1,249	13,929	11,628
Unrecognized prior service cost	4,714	492	43,901
Amount recognized in the consolidated balance sheets (Note)	¥(35,633)	¥(37,575)	$(331,805)

Note: The annual provision for accrued pension and severance costs for directors and statutory auditors (¥749 million ($6,972 thousand) in 2005 and ¥700 million in 2004) is not included.

Net pension cost of the plans is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost	¥ 4,724	¥ 5,909	$ 43,985
Interest cost	1,397	1,733	13,007
Expected return on plan assets	(317)	(206)	(2,948)
Amortization of actuarial difference	4,677	4,034	43,551
Amortization of prior service cost	350	(35)	3,258
Net pension cost	10,831	11,435	100,853
Gain on return of substitutional portion of employees’ pension fund	(7,084)	–	(65,962)
Net	¥ 3,747	¥11,435	$ 34,891

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

	2005	2004
Allocation method of benefit obligation	Straight-line method	
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	1.50%	1.00%
Amortization period of prior service cost	4 years	4 years
Amortization period of actuarial difference	4 years	4 years

9. Income Taxes

Significant components of the deferred tax assets and liabilities of Tokyo Electron as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets			
Accrued pension and severance costs	**¥13,469**	¥13,470	**$125,426**
Elimination of unrealized profit on inventories	**6,293**	208	**58,596**
Accrued warranty expenses	**5,333**	–	**49,657**
Devaluation of inventories	**3,751**	3,570	**34,927**
Accrued employees' bonuses	**3,498**	2,579	**32,573**
Depreciation and amortization	**2,501**	2,963	**23,288**
Net operating loss carryforwards	**2,082**	17,735	**19,385**
Elimination of unrealized profit on fixed assets	**1,104**	1,286	**10,284**
Accrued business taxes	**1,030**	272	**9,589**
Other	**4,690**	3,032	**43,677**
Total gross deferred tax assets	**43,751**	45,115	**407,402**
Less valuation allowance	**(2,112)**	(31,431)	**(19,670)**
Total deferred tax assets	**41,639**	13,684	**387,732**
Deferred tax liabilities			
Prepaid start-up expenses	**(2,783)**	–	**(25,917)**
Reserves under Special Taxation Measures Law, etc.	**(2,568)**	(1,877)	**(23,916)**
Undistributed earnings of foreign subsidiaries	**(2,444)**	–	**(22,754)**
Net unrealized gains on securities	**(1,443)**	(1,630)	**(13,436)**
Other	**(254)**	(264)	**(2,362)**
Total gross deferred tax liabilities	**(9,492)**	(3,771)	**(88,385)**
Net deferred tax assets	**¥32,147**	¥ 9,913	**$299,347**

As of March 31, 2004, management of Tokyo Electron considered that the deferred tax assets of the Company and its certain subsidiaries would not be realizable, and had established valuation allowance of ¥31,431 million. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, future taxable income, tax planning strategies and level of net operating loss carryforwards in making this assessment in accordance with accounting principles generally accepted in Japan. After the utilization of significant portion of net operating loss carryforwards with operating income earned for the year ended March 31, 2005 and the reassessment of future taxable income over the periods in which the net deductible temporary differences are expected to reverse, management believes Tokyo Electron will realize the benefits of these deferred tax assets, net of remaining valuation allowance as of March 31, 2005, and accordingly, has reversed a significant portion of valuation allowance as of March 31, 2005.

The aggregate statutory income tax rate was reduced from the year ended March 31, 2005 due to the revised local tax law. As of March 31, 2004, the Company and its domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40.69% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on April 1, 2004 or later. The effects of the reduction in the tax rate were not material to the consolidated financial statements.

Significant components of the difference between the statutory and effective tax rates for the year ended March 31, 2005 were as follows:

	2005
Statutory tax rate in Japan	**40.69%**
Adjustments:	
Utilization of net operating loss carryforwards	**(27.77)**
Change in valuation allowance other than net operating loss carryforwards	**(24.79)**
Increase in deferred tax liabilities on undistributed earnings of foreign subsidiaries	**4.38**
Elimination of unrealized profit on inventories	**(3.17)**
Tax credits, etc.	**(2.81)**
Others, net	**1.94**
Effective tax rate	**(11.53)**

The effective tax rate did not differ by more than 5.0% from the statutory tax rate for the year ended March 31, 2004.

10. Shareholders' Equity

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital, which is included in capital surplus in the accompanying consolidated balance sheets, equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the board of directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal reserve as of March 31, 2005 amounts to ¥5,660 million ($52,709 thousand), and is included in retained earnings in the accompanying consolidated financial statements.

Cash dividends charged to retained earnings for the years ended March 31, 2005 and 2004 represent dividends paid out during those years. The total amount of legal reserve and additional paid-in capital of the Company has been reached to 25% of common stock, and therefore, the Company is not required to provide legal reserve any more. Provision has not been made in the consolidated financial statements for the dividend for the second half year of ¥30 ($0.28) per share subsequently proposed by the board of directors and approved by the shareholders' meeting on June 24, 2005, in respect of the year ended March 31, 2005.

The Company issued 4,912,981 shares of common stock for the year ended March 31, 2004 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 additional paid-in capital, respectively.

Under the Japanese Commercial Code, the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of the board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

11. Stock-based Compensation

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

Stock option plan

Since the year ended March 31, 1999, the Company's shareholders have approved annual stock option plans for directors and selected employees. The cumulative number of shares authorized up to the year ended March 31, 2003 totaled 1,153,600, with the weighted average exercise price of ¥8,856. Under the stock option plans, 799,700 shares and 978,300 shares were authorized for the years ended March 31, 2005 and 2004, respectively. Options were granted with exercise prices of ¥5,884 ($54.79) and ¥6,794 for plans approved in August 2004 and 2003, respectively. The options under the plans vest immediately with restriction on exercise up to two years after the date of grant, and have exercise period of eight years from the date of grant.

Warrant plan

In June 2000 and June 2001, the Company issued unsecured bonds with detachable warrants. Upon issuance of the unsecured bonds with detachable warrants, the Company purchased all of the detachable warrants and distributed them to the directors and selected employees. By exercising the warrant, directors and selected employees can purchase the common stock of the Company, the original number of which were 319,829 shares and 572,439 shares at the exercise price of ¥14,070 and ¥9,608 for warrants issued in June 2000 and June 2001, respectively. The warrants vest immediately with restriction on exercise up to two years after the date of grant, and have exercise period of six years from the date of grant. For financial reporting purposes, these transactions were accounted for as an issuance of debt to third parties and separately as the issuance of warrants to directors and selected employees.

As of April 1, 2003, outstanding granted stock options, including the warrant plan, were 1,949,784 shares, with a weighted-average exercise price of ¥9,989. For the year ended March 31, 2004, 287,237 shares of the options were forfeited, and 20,000 shares of the options were exercised. For the year ended March 31, 2005, 67,747 shares of the options were forfeited with no exercise. As of March 31, 2005, outstanding granted stock options, including the warrant plan, were 3,352,800 shares with a weighted-average exercise price of ¥8,045 ($74.91).

12. Impairment of Goodwill

The impairment of goodwill was recognized as other expenses for the year ended March 31, 2004, due to the devaluation in a subsidiary, Supercritical Systems, Inc.

13. Restructuring Costs

Restructuring costs for the year ended March 31, 2004, represent impairment and disposal of property, plant and equipment and other related costs due to consolidation and closure of operating bases in accordance with the implementation of the business restructuring plan.

14. Leases

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance leases, and depreciation expense of finance leases that do not transfer ownership of leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2005 and 2004 is as follows:

Leased assets not recorded in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Acquisition cost	**¥1,216**	¥1,014	**$11,326**
Accumulated depreciation	**704**	412	**6,559**
Net leased property	**¥ 512**	¥ 602	**$ 4,767**

Future minimum lease payments:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Due within one year	**¥296**	¥176	**$2,757**
Due over one year	**216**	426	**2,009**
Total	**¥512**	¥602	**$4,766**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥292 million ($2,716 thousand) and ¥178 million, which approximated the corresponding depreciation on the respective leased property computed by the straight-line method over the lease terms for the years ended March 31, 2005 and 2004, respectively.

Future minimum lease payments on non-cancelable operating leases:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Due within one year	**¥ 514**	¥ 721	**$ 4,791**
Due over one year	**668**	700	**6,220**
Total	**¥1,182**	¥1,421	**$11,011**

15. Contingent Liabilities

Tokyo Electron did not hold any material contingent liabilities as of March 31, 2005.

16. Derivative Financial Instruments

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

The estimated fair values of the derivative financial instruments as of March 31, 2005 and 2004 are as follows:

		Millions of yen		
2005:		Contract amount	Fair value	Unrealized gains (losses)
Sell	U.S. dollars	–	–	–
Buy	U.S. dollars	–	–	–

		Millions of yen		
2004:		Contract amount	Fair value	Unrealized gains (losses)
Sell	U.S. dollars	4,594	4,557	36
Buy	U.S. dollars	6,725	6,616	(108)

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

17. Segment Information

Business segment information as of and for the years ended March 31, 2005 and 2004 is as follows:

	Millions of yen				
2005:	Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	¥549,461	¥86,249	¥635,710	¥ –	¥635,710
(2) Intersegment sales or transfers	1,053	1,831	2,884	(2,884)	–
Total	550,514	88,080	638,594	(2,884)	635,710
Operating expenses	489,724	84,973	574,697	(2,970)	571,727
Operating income	60,790	3,107	63,897	86	63,983
2. Assets, depreciation and amortization expenses and capital expenditure					
Assets	¥609,296	¥35,988	¥645,284	¥ (964)	¥644,320
Depreciation and amortization expenses	22,773	290	23,063	–	23,063
Capital expenditure, including intangible and other assets	12,088	603	12,691	(348)	12,343

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

2. Major products in each business segment:

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

3. Change in accounting policies

(1) Effective from the year ended March 31, 2005, Tokyo Electron changed its method of revenue recognition to the confirmation of set-up and testing of products basis. The effect of this change was to decrease net sales and operating income for the industrial electronic equipment segment by ¥80,956 million ($753,852 thousand) and ¥20,541 million ($191,278 thousand), respectively, for the year ended March 31, 2005 as compared with the corresponding amounts which would have been recorded if the previous method had been followed. The change did not affect the figures of the electronic components segment.

(2) Effective from the year ended March 31, 2005, Tokyo Electron changed its method to account for after-sale repair expenses by implementing accrued warranty expenses for Semiconductor and FPD production equipment. The effect of this change was to decrease operating income for the industrial electronic equipment segment by ¥635 million ($5,916 thousand) for the year ended March 31, 2005 as compared with the corresponding amounts which would have been recorded if the previous method had been followed. The change did not affect the figures of the electronic components segment.

2004:	Millions of yen Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	¥445,425	¥84,229	¥529,654	¥ –	¥529,654
(2) Intersegment sales or transfers	996	1,509	2,505	(2,505)	–
Total	446,421	85,738	532,159	(2,505)	529,654
Operating expenses	427,473	82,556	510,029	(2,655)	507,374
Operating income	18,948	3,182	22,130	150	22,280
2. Assets, depreciation and amortization expenses and capital expenditure					
Assets	¥525,080	¥37,424	¥562,504	¥ (872)	¥561,632
Depreciation and amortization expenses	26,475	385	26,860	–	26,860
Capital expenditure, including intangible and other assets	14,442	208	14,650	–	14,650

2005:	Thousands of U.S. dollars Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	**$5,116,500**	**$803,140**	**$5,919,640**	**$ –**	**$5,919,640**
(2) Intersegment sales or transfers	**9,809**	**17,047**	**26,856**	**(26,856)**	**–**
Total	**5,126,309**	**820,187**	**5,946,496**	**(26,856)**	**5,919,640**
Operating expenses	**4,560,236**	**791,258**	**5,351,494**	**(27,654)**	**5,323,840**
Operating income	**566,073**	**28,929**	**595,002**	**798**	**595,800**
2. Assets, depreciation and amortization expenses and capital expenditure					
Assets	**$5,673,672**	**$335,120**	**$6,008,792**	**$ (8,982)**	**$5,999,810**
Depreciation and amortization expenses	**212,058**	**2,698**	**214,756**	**–**	**214,756**
Capital expenditure, including intangible and other assets	**112,566**	**5,612**	**118,178**	**(3,241)**	**114,937**

Domestic and overseas sales for the years ended March 31, 2005 and 2004 are as follows:

Net sales	Millions of yen **2005**	2004	Thousands of U.S. dollars **2005**
Japan	**¥232,678**	¥242,318	**$2,166,661**
Taiwan	**141,493**	100,458	**1,317,563**
Korea	**85,203**	61,412	**793,404**
Others	**176,336**	125,466	**1,642,012**
Total	**¥635,710**	¥529,654	**$5,919,640**

Others comprises primarily of the United States of America, China and European countries.

Total assets and sales outside Japan comprised less than 10% of the consolidated total assets and sales as of and for the years ended March 31, 2005 and 2004. Accordingly, geographical segment information has not been disclosed.

18. Subsequent Event

Grant of stock options under the stock option plans

On May 12, 2005, the Company's board of directors decided to submit a resolution to the shareholders' meeting for approval of the issuance of stock subscription rights to directors and selected employees of Tokyo Electron. This issuance of stock subscription rights is intended to enable the grant of stock options. Two types of stock subscription rights will be issued. For the first right, the maximum number of the options is 90,000 shares with a planned exercise price of ¥1 ($0.01). For the second right, the maximum number of the options is 120,000 shares for selected employees of foreign subsidiaries, and the exercise price is calculated by multiplying the closing price per share under an ordinary trade of shares on the Tokyo Stock Exchange on the day preceding the grant of the options by 1.05. This grant of stock options was approved at the annual general meeting of the shareholders of the Company on June 24, 2005.

INDEPENDENT AUDITORS' REPORT

KPMG

To the Board of Directors of
Tokyo Electron Limited:

We have audited the accompanying consolidated balance sheet of Tokyo Electron Limited and subsidiaries as of March 31, 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of Tokyo Electron Limited and subsidiaries as of March 31, 2004 and for the year then ended, were audited by other auditors whose report dated June 22, 2004, expressed an unqualified opinion on those statements, before the reclassifications described in note 2-(q) to the consolidated financial statements.

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

In our opinion, the 2005 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tokyo Electron Limited and subsidiaries as of March 31, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As discussed in note 3 to the consolidated financial statements, the Company changed its method of revenue recognition, accrued warranty expenses, and the classification of business segment in the year ended March 31, 2005.

We also audited the reclassifications described in note 2-(q) to the consolidated financial statements that were applied to reclassify the 2004 consolidated financial statements. In our opinion, such reclassifications are appropriate and have been properly applied.

The accompanying consolidated financial statements as of and for the year ended March 31, 2005 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 24, 2005