## 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.

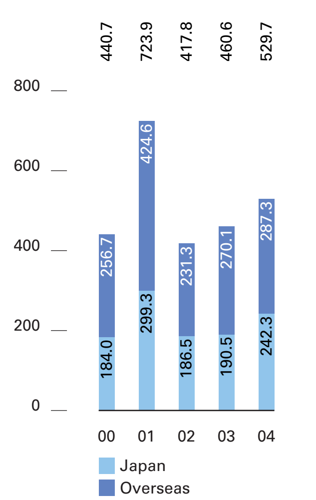
In terms of wafer sizes, capital investment in 300mm wafer manufacturing lines continued to increase among semiconductor manufacturers in Asia, including Japan. In total, the sales contribution of 300mm equipment accounted for approximately 60 percent of our SPE sales.

### Computer Network Division

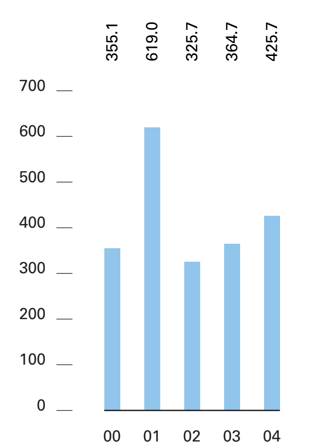
Net sales of the Computer Network (CN) Division advanced 7.3 percent, to 18.4 billion yen. The division's business is principally based on providing customers with storage area networks (SAN: high speed network that interconnects external data storage devices, and internal storage devices and computers),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

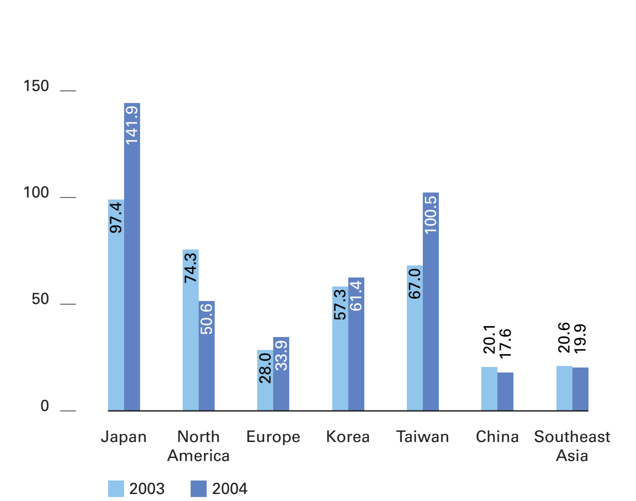
**Domestic and Overseas Sales**
(Billions of Yen)




**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

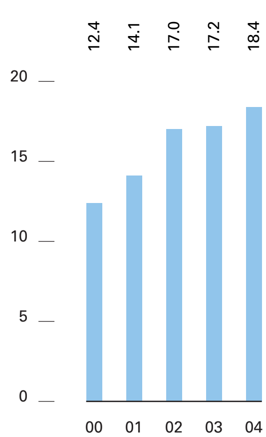
Net sales of Electronic Components Division, including sales of semiconductors, board products, software and general electronic components, rose 8.9 percent to 84.2 billion yen. During the fiscal year, the division concentrated on sales of high-value-added products that require technical support services. 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.

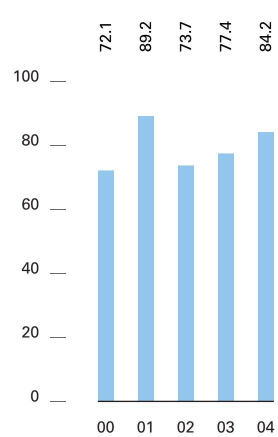
Sales of board products, such as motherboards, VME boards, and others sold well during the fiscal year. Sales of software rose as well, benefiting from by expanding sales of operating system software for embedded system devices. On the other hand, sales of general electronic components slightly declined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

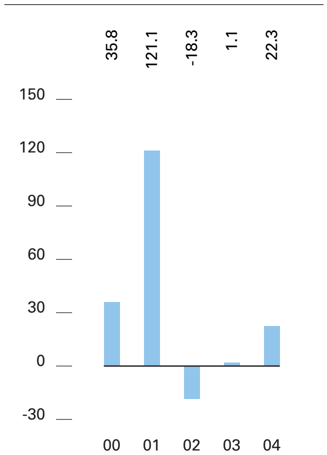
Selling, general and administrative expenses (SG&A) decreased 11.3 percent to 117.9 billion yen, and SG&A to net sales declined from 28.9 percent to 22.3 percent. Based on efforts to focus on selected R&D projects to shorten development period, R&D expenses decreased 11.9 percent to 44.1 billion yen, 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

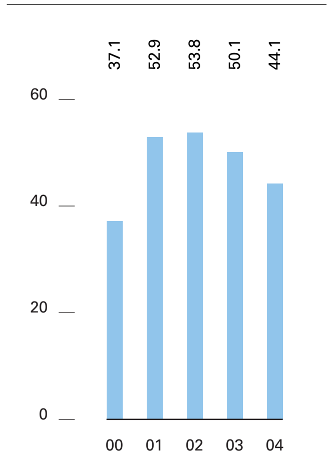
Net non-operating expenses improved 16.8 billion yen from the previous fiscal year, to 7.3 billion yen. The decline in non-operating expenses primarily resulted from a reduction in restructuring expenses from 20.6 billion yen to 2.5 billion yen, down 18.1 billion yen from the prior fiscal year. Income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

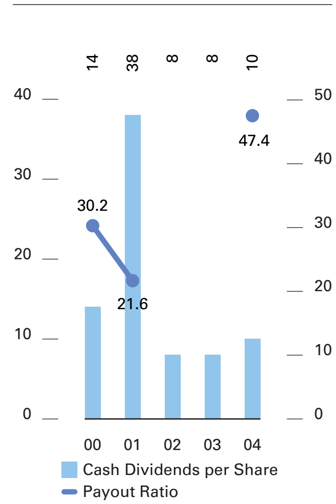
**Operating Income**
(Billions of Yen)




**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.

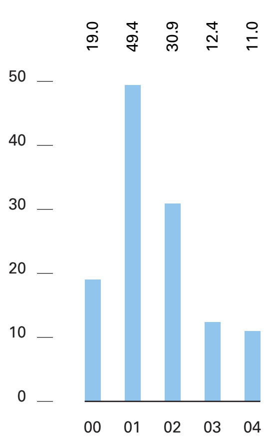
Long-term debt increased 32.7 billion yen year-on-year to 140.4 billion yen due to a 20 billion yen 10th unsecured bond issue and a 30 billion yen 11th unsecured bond issue.

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.

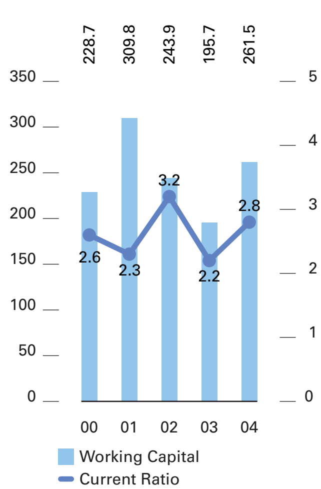
### Cash Flows

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

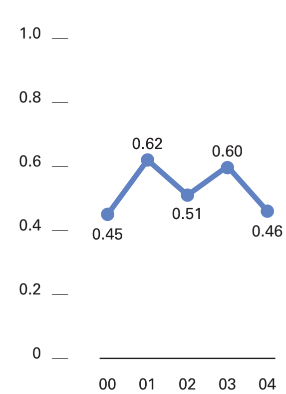
**Capital Expenditure for Property, Plant and Equipment** (Billions of Yen)




**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.

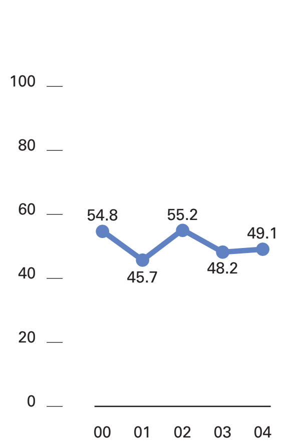
Net cash used in investing activities was 8.5 billion yen, increasing from 7.3 billion yen the previous fiscal year. Investment in property, plant and equipment totaling 7.5 billion yen was mainly comprised of the purchase of equipment for R&D.

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.

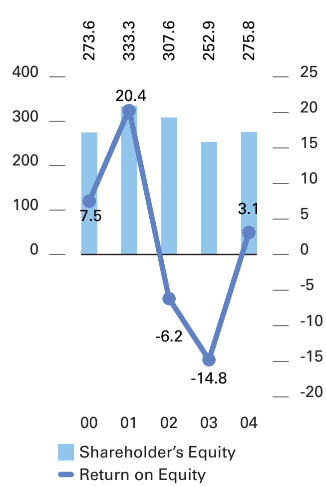
Cash and cash equivalents at the end of the year were 42.7 billion yen, down 10.3 billion yen from 53.0 billion yen at the end of the previous fiscal year.

| | 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** |

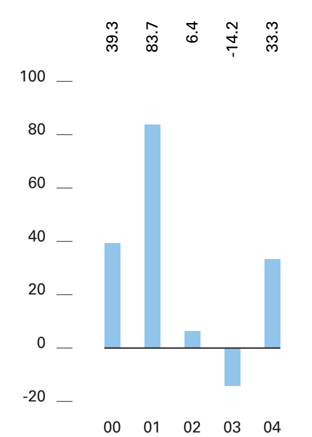
**Shareholder's Equity Ratio**
(%)




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




**Net Cash Flow**
(Billions of Yen)




Net Cash Flow =
Net Income + Depreciation and Amortization

## 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.