ANNUAL REPORT 2006

For the Year Ended March 31, 2006

PEOPLE. TECHNOLOGY. COMMITMENT.™

TOKYO ELECTRON LIMITED ANNUAL REPORT 2006

Innovative Spirit
Geared for Growth

TOKYO ELECTRON

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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 Tokyo Electron's assumptions 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

For details, please refer to Business-related and Other Risks on page 27.

Innovative Spirit Geared

Profile

Tokyo Electron Limited (TEL) is a world-leading supplier of semiconductor production equipment (SPE) and flat panel display (FPD) production equipment. We provide a broad lineup of products that offer superior process performance and high productivity and related services to semiconductor and LCD panel manufacturers around the world.

An unwavering commitment to customer satisfaction that dates back to our founding in 1963 has cemented our position as the market leader. Our competitive strength lies in our capability to proactively and precisely identify real customer needs and respond to them with cutting-edge technology and products.

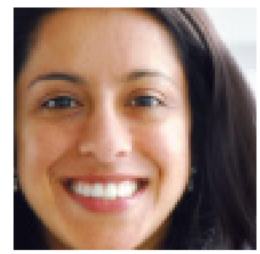
With a global network that spans Japan, the U.S., Europe and Asia, we are opening up new frontiers for digital networks by contributing to enhancing our customers' production lines through untiring dedication to technology innovation.

for Growth

TEL Values

We have defined and built TEL's values over the years, and we will continue to refine and build on them in the future.

Pride



We take pride in providing high-value products and services.

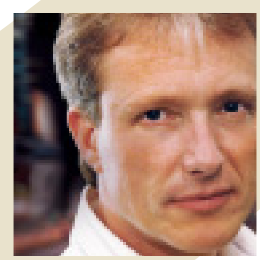
- We offer our customers cutting-edge technological products, along with the highest level of quality and technical service, in the pursuit of total customer satisfaction.
- We consider profit to be an important measure of value in our products and services.

Challenge

We accept the challenge of going beyond what others are doing in pursuing our goal of becoming number one globally.

- We view changes as opportunities, and respond to them flexibly and positively.
- We are tolerant of failure, and consider it important to learn from the process and results.

Ownership



We will keep ownership in mind as we think things through, and engage in thorough implementation in order to achieve our goals.

- We always have an awareness of problems, and tackle challenges with enthusiasm and a sense of responsibility.
- We make decisions quickly, and do what we consider to be the best course of action.

Teamwork

We respect each other's individuality and we place a high priority on teamwork.

- We create a workplace with an open atmosphere and positive communication.
- We establish relationships of trust with our business partners in order to facilitate mutual growth.

Awareness

We must have awareness and accept responsibility for our behavior as respectful members of society.

- We strictly comply with laws and regulations and the rules of society.
- We give top priority to safety, health, and the global environment.
- We strive to become a company that local communities hold in high esteem.

CONSOLIDATED FINANCIAL HIGHLIGHTS

FY1997
- Decline in semiconductor capital investment due to an oversupply of DRAM.

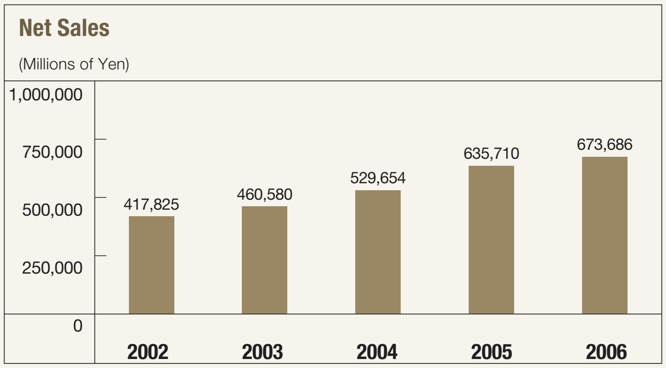
FY1998
- Commenced preparation for the 300mm era, completing the Process Technology Center (now Leading-edge Process Development Center) in Yamanashi Prefecture, Japan, to support equipment development for 300mm wafers.
- Asian economic crisis begins in second half of fiscal year.

FY1999
- Semiconductor manufacturers slash capital investment in response to the Asian economic crisis and another DRAM supply glut.
- Introduced corporate governance reforms that included reduction in the number of directors, establishment of a Compensation Committee, and separation of duties of directors and executive officers.

FY2000
- Semiconductor supply-demand balance improves as Asian economies recover. Capital investment in semiconductors picks up steam.

Years ended March 31	1997	1998	1999	2000
For the Year:				
Net sales	¥432,785	¥455,585	¥313,820	¥440,729
Operating income (loss)	60,389	63,296	6,383	35,816
Income (loss) before income taxes	54,222	56,060	6,038	29,689
Net income (loss)	29,975	30,009	1,866	19,848
Depreciation and amortization	10,167	12,652	17,921	19,446
Capital expenditures	18,456	33,302	23,478	18,999
R&D expenses	20,988	26,813	26,842	37,135
At Year-end:				
Total assets	¥387,077	¥493,600	¥414,903	¥499,499
Total shareholders' equity	207,476	261,009	257,716	273,603
Per Share:				
Net income (loss) — Basic	¥ 181.97	¥ 174.68	¥ 10.70	¥ 113.53
Cash dividends	28.00	30.00	12.00	14.00
Number of employees	6,277	7,287	7,835	8,946

Notes: 1. U.S. dollar amounts are translated from yen, solely for convenience, at the prevailing exchange rate on 31st March, 2006, of ¥117.47=U.S.$1.
2. Per share amounts for fiscal 1997 were restated to reflect a 1.1-for-1 stock split.
3. Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed in the notes to consolidated financial statements.



FY2001

- Tokyo Electron selected for inclusion in the Nikkei 225 index.
- Market entered a period of brisk IT investment.
- Expanded manufacturing capacity for 300mm equipment.
- Acquired Timbre Technologies, Inc., a U.S.-based firm with cutting-edge metrology software technology.
- Posted record net sales and net income.

FY2002

- IT bubble bursts triggering rapid market deterioration.
- Closures and consolidations of manufacturing facilities.

FY2003

- Booked ¥20.6 billion in restructuring-related expenses.
- Established Tokyo Electron (Shanghai) Limited to start direct operations in China.

FY2004

- Established TEL Technology Center, America, LLC (TTCA) in the U.S. to conduct research and development of advanced semiconductor materials and processes (to participate in the Albany NanoTech project, the R&D support program promoted by the New York State Government).

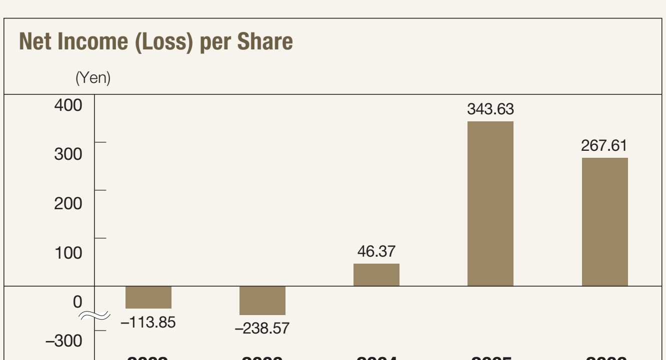
FY2005

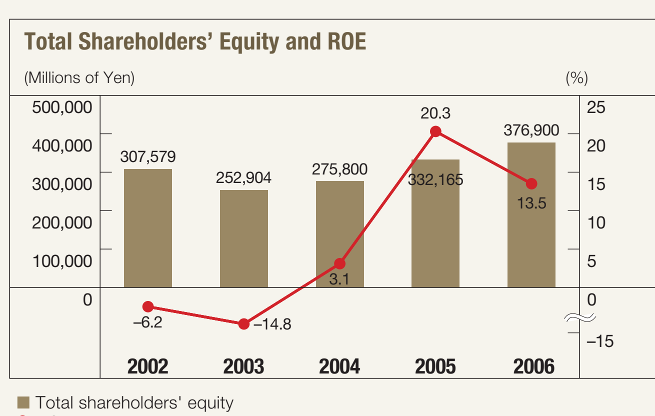
- Cash flow improves significantly as restructuring initiatives start to yield benefits.
- Changed accounting policies as discussed in the notes to consolidated financial statements.

FY2006

- Business expanded, lifted by active investment in semiconductor memory production facilities.
- Revised dividend policy and reviewed the directors' remuneration system.
- Established Tokyo Electron Korea Solution Limited to strengthen post-sales business in South Korea.

Millions of yen						Thousands of U.S. dollars
2001	2002	2003	2004	2005	**2006**	**2006**
¥723,880	¥417,825	¥460,580	¥529,654	¥635,710	**¥673,686**	**$5,734,965**
121,086	(18,310)	1,119	22,280	63,983	**75,703**	**644,446**
99,132	(22,919)	(23,010)	14,936	55,775	**75,328**	**641,256**
62,012	(19,938)	(41,554)	8,297	61,601	**48,006**	**408,663**
21,679	26,294	27,374	24,963	21,463	**19,170**	**163,191**
49,403	30,946	12,359	11,007	9,876	**13,335**	**113,517**
52,911	53,827	50,123	44,150	43,889	**49,182**	**418,673**
¥729,511	¥556,915	¥524,901	¥561,632	¥644,320	**¥663,243**	**$5,646,063**
333,281	307,579	252,904	275,800	332,165	**376,900**	**3,208,480**
Yen						U.S. dollars
¥ 353.76	¥ (113.85)	¥ (238.57)	¥ 46.37	¥ 343.63	**¥ 267.61**	**$ 2.28**
38.00	8.00	8.00	10.00	45.00	**55.00**	**0.47**
10,236	10,171	10,053	8,870	8,864	**8,901**	

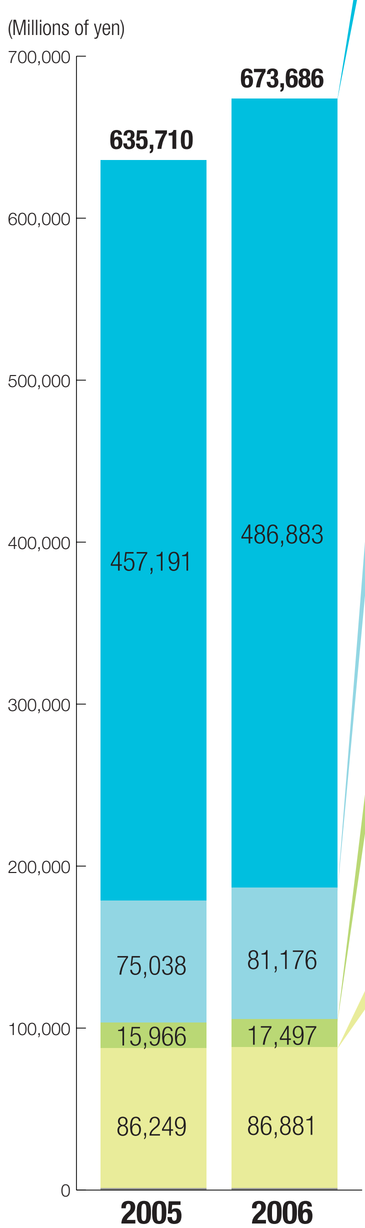




TOKYO ELECTRON AT A GLANCE

Net Sales

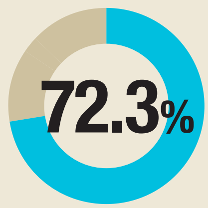
Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed in the notes to consolidated financial statements.



Besides the aforementioned businesses, the Company recorded sales in the Others business of ¥1,249 million in fiscal 2006, compared with ¥1,266 million in fiscal 2005.

Summary of Business

Semiconductor Production Equipment



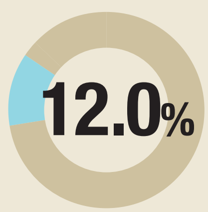
Tokyo Electron supplies a wide range of semiconductor production equipment (SPE) and provides outstanding service support to the world's manufacturers of semiconductor devices. Tokyo Electron's products and technologies support high productivity and diverse customer needs and are thus indispensable in the manufacture of increasingly sophisticated semiconductors.

Fiscal 2006 Overview

Division net sales were ¥486.9 billion, a 6.5% year-on-year increase.

The past fiscal year saw strong demand particularly for semiconductor memories on the back of surging demand for portable music players and other digital consumer electronics, in addition to PCs and mobile phones. Reflecting this demand, semiconductor manufacturers invested heavily in increasing production capacity. In turn, this generated brisk inquiries for the Company's products.

FPD Production Equipment



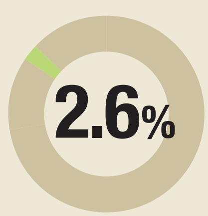
Tokyo Electron supplies flat panel display (FPD) production equipment that is used to manufacture displays for PCs, LCD TVs and other electronic devices. This equipment is supplied to LCD panel manufacturers concentrated in Japan and elsewhere in Asia. With its outstanding products and service support, Tokyo Electron is able to respond to customers' pursuit of high quality and lower costs.

Fiscal 2006 Overview

Sales in this division were ¥81.2 billion, an 8.2% year-on-year increase.

Due to the rapid uptake of large-screen LCD TVs by ordinary households, LCD panel manufacturers ramped up capital investment to boost production capacity. Sales to Taiwan were particularly strong in this environment. By generation, sixth-generation equipment contributed significantly to sales, while sales of models for seventh-generation glass substrates rose sharply.

Computer Network



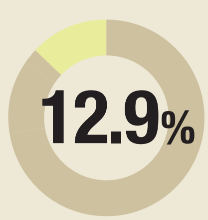
Tokyo Electron delivers business solutions for the broadband era with a wide assortment of superior network-related and other products that cater to the needs of the time. Backed by a worldwide marketing organization that enables the Company to stay abreast of the latest technological developments around the globe, Tokyo Electron provides integrated solutions from product introduction to support.

Fiscal 2006 Overview

Division sales were ¥17.5 billion, an increase of 9.6% compared to the previous fiscal year.

Among SAN (Storage Area Network)-related products, sales were strong of fibre channel fabric switches and other products that form the platform technologies for network construction. With respect to network-related products, business was strong for products that create highly secure websites.

Electronic Components



In this segment, Tokyo Electron Device Limited (TED) is developing a new business paradigm consisting of two functions. One is as a distributor of a wide array of sophisticated electronic components from around the world. The other is a "development business," whereby TED designs and develops components on contract according to customer needs as well as develops its own products.

Fiscal 2006 Overview

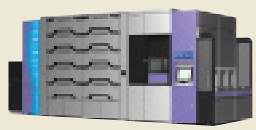
Sales in this division were ¥86.9 billion, a 0.7% year-on-year increase.

In semiconductor products, which account for approximately 90% of sales in this segment, sales of products for factory automation and for cell phone base stations were firm on the back of higher capital investments. Furthermore, sales of products used in flat panel TVs and car navigation systems were solid as consumer spending grew.

Main Products

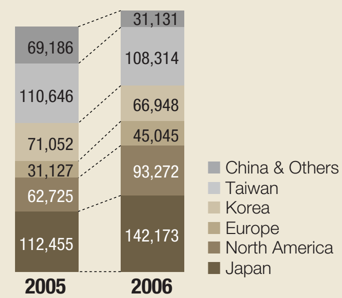
Sales by Region (Millions of yen)

- Coater/Developer
- Spin-on Dielectric Coater
- Plasma Etch System
  Dielectric Etch System, Silicon Etch System
- Thermal Processing System
- Single Wafer Deposition System
  CVD System, Plasma Processing System
- Surface Preparation System
  Auto Wet Station, Single Wafer Cleaning System, Pre-clean System, Scrubber System
- Wafer Prober
- Imported Products



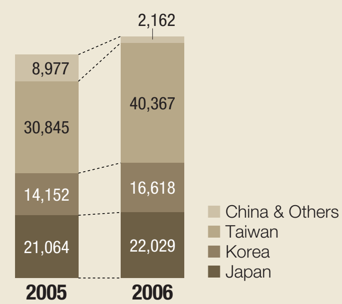
Coater/Developer CLEAN TRACK™ LITHIUS™

Plasma Etch System Telius™

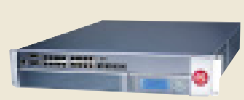


- FPD Coater/Developer
- FPD Plasma Etch/Ash System

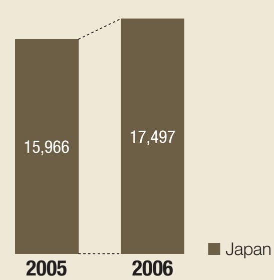
FPD Plasma Etch/Ash System Impressio™



- Business Network & Security Solutions
- Storage Area Network (SAN) Solutions
- Middleware Solutions
- Aerospace Products

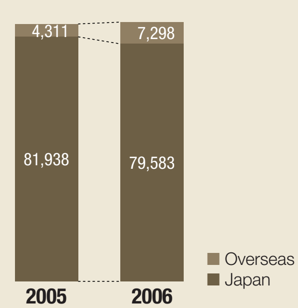


F5 Networks, Inc. BIG-IP Local Traffic Manager



- Semiconductor Products
- Board Computer Products
- Software
- Other Electronic Components

Xilinx, Inc.



TO OUR STAKEHOLDERS

Advancing to a New Stage of Growth

Fiscal 2006, the year ended March 31, 2006, saw Tokyo Electron enter a phase of renewed sales and earnings growth. The year was also marked by the introduction of a range of new next-generation products.

Review of fiscal 2006 operating results: strengths in semiconductor memory field drive sales and earnings growth

Consolidated operating income for fiscal 2006 rose 18.3% year on year to ¥75.7 billion, on a net sales gain of 6.0% to ¥673.7 billion. Net income*, however, declined 22.1% to ¥48.0 billion.

* Net income for fiscal 2005 was ¥61.6 billion, mainly because of a one-time ¥27.9 billion reversal of valuation allowance on deferred tax assets that lifted net income.

As a company committed to boosting profits through meaningful contributions to our customers' businesses, we are also pleased to report a definite return to a phase of renewed sales and earnings growth. We are on the right track toward achieving the goals we set in our medium- to long-term growth plans. We are convinced that Tokyo Electron now stands at the turning point of a new stage of growth.

Capital investment in semiconductor and LCD production facilities remains high worldwide, as a true era of digital networks and mobile communications appears on the horizon. More particularly, accelerated capital investment in Japan, Taiwan and Korea provided Tokyo Electron with a tailwind, due to our strong customer base in the region, supporting our impressive financial results. Semiconductor applications are also experiencing change. The NAND flash memory, a trigger for the revolution in memory media, drove the market. We enjoy a competitive edge in semiconductor production equipment for such state-of-the-art semiconductors that require advanced process technologies. We have won a high level of customer confidence by supplying outstanding products with top caliber service. This, too, underpinned our strong performance in the past fiscal year.

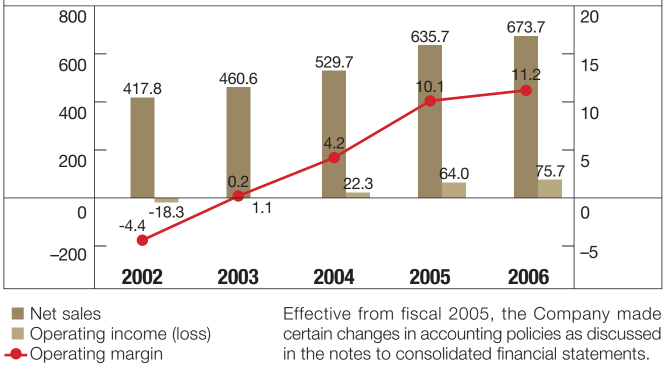
Building a strong company with cash flow immune to market cycles has been an important ongoing management priority. Initiatives to improve the asset turnover ratio and curb growth in working capital requirements have started to yield positive results, as evidenced by the significant increase in free cash flows for a second consecutive year. Some of this ample cash was used to retire interest-bearing debt, bringing down the debt-to-equity ratio (interest-bearing debt/shareholders' equity) to 17.3%. We also raised the balance of cash and cash equivalents to an appropriate level, putting our balance sheet on an even stronger footing, in view of the unique nature of business characterized by the silicon cycle.

Foremost achievement in fiscal 2006: the launch of several strategic products that will drive earnings

Growth at Tokyo Electron is underpinned by our ability to develop new products. But the true growth driver is our ability to precisely identify new technologies that our customers require, and to quickly develop and bring to market products that provide powerful support for technological advances at our customers.

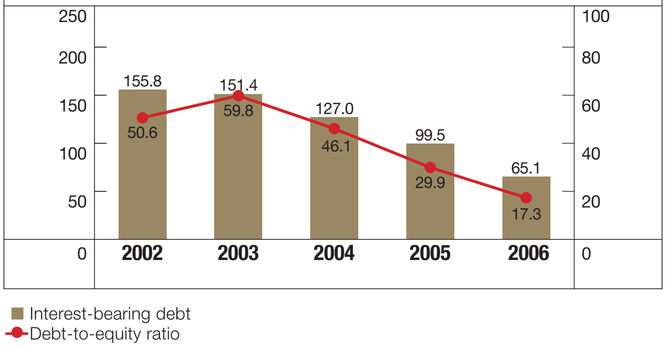
In the past fiscal year, we launched a range of new products for 65/45nm nodes, as we responded to the change to even finer design rules and the use of new materials in semiconductor manufacturing processes. Another significant development was the launch of the world's first eighth-generation FPD production equipment for the manufacture of large-sized LCD panels as growth in demand for large-screen LCD TVs is fast surpassing forecasts. Our efforts to develop new products

Net Sales and Operating Income (Loss)



Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed in the notes to consolidated financial statements.

Interest-bearing Debt and Debt-to-Equity Ratio



have started to bear fruit. We feel that this was the foremost achievement of the past year. We expect to see a large increase in shipments of new products based on our unique technologies from fiscal 2007 on, contributing significantly to sales and earnings growth.

Business strategy

Tokyo Electron is determined to continue its evolution to become an even more profitable enterprise by responding to the true needs of customers. The main thrusts of our growth strategy are to accelerate the launch of new, value-added products, strengthen cost competitiveness through the pursuit of higher productivity in our manufacturing, and offer the world's highest level of quality in both technology and services. We plan to develop a framework that smoothly integrates development, manufacturing and customer service, and to increase earnings and boost profit margins. We will use the cash this generates to invest in our next growth strategies. This will sustain a virtuous cycle of further growth.

While getting the most out of our original core technologies, we will focus on marketing and research and development with the view to entering new fields that harbor prospects for growth.

Tokyo Electron is committed to implementing business strategies that assure continuing medium- to long-term growth, and to becoming a company with a superior financial position.

Provide infrastructure for the digital age through untiring dedication to technological innovation

Tokyo Electron manufactures a broad range of production equipment used in the manufacture of semiconductors, LCDs and other cutting-edge products. These products help customers to manufacture key components that will be at the very core of the mobile communication and digital network era. The progress of a digital society is dependent on outstanding key components and the advanced production equipment required for their manufacture. Tokyo Electron is managed on the basis of the firm conviction that the primary mission of the Company and its business is to provide the backbone for comfortable lifestyles. By identifying and nurturing new technologies with an eye on the future, Tokyo Electron will continue to contribute profoundly to society through the supply of advanced manufacturing infrastructure to customers worldwide.

As a company operating on a global basis, Tokyo Electron recognizes that thoughtful consideration for environmental protection is one of today's most important management issues. As a leading supplier of semiconductor and FPD production equipment, Tokyo Electron is committed to fulfilling its responsibilities by aggressively working to lower the environmental loads of its equipment, while actively promoting other environment-related programs.

In corporate governance, Tokyo Electron was quick to adopt concepts and systems that promote compliance, and realize fair, transparent management that allows the Company to live up to the trust that society has placed in us.

Tokyo Electron is dedicated to providing its customers and society with high-value products developed through the unwavering pursuit of technological innovation. We will achieve this while continuing reforms that build a foundation for sustained growth, strong earnings and increased corporate value. Having entered a renewed growth stage, Tokyo Electron is a company to watch. We look forward to your continued support.

June 2006

Tetsuro Higashi, Chairman & CEO

Kiyoshi Sato, President & COO

INTERVIEW

TETSURO HIGASHI

Chairman & CEO

How has the business environment of the semiconductor production equipment sector changed in recent years, and what direction will it take in the future?

The driving force behind semiconductor demand has changed profoundly over the last five years. Mobile communications and digital consumer electronics are now the core applications in a market that, just five to six years ago, was mainly led by PCs. Also, we have seen the steady evolution of the PC into an item that has the features of a digital consumer product.

As a result, semiconductors are finding wider applications. The result is a large increase in demand for semiconductors. I expect this trend to continue to strengthen, driven by the emergence of various new semiconductor applications.

Another important trend is the continuing evolution of semiconductor memory. Along with the ever-improving performance of DRAM, NAND flash memory, which has emerged as an ideal storage media offering large capacity and low power consumption, is stepping into the limelight. NAND flash memory is expected to be used extensively in Third Generation (3G) mobile phones and a wide range of digital consumer items, on the strength of its ability to store lengthy digital music files and moving images. In fact, a compact PC with NAND flash memory replacing the conventional HDD as the storage device is just around the corner. With the shift toward more powerful devices, the volume and value of semiconductors going into each unit is bound to increase.

Furthermore, demand for PCs and mobile phones is growing rapidly in BRICs and other emerging markets. This geographical expansion will also work in favor of semiconductors, lifting total demand.

Taken together, this expanding range of applications, appearance of new key devices, increasing semiconductor content ratio in various products, and the geographical expansion of the demand base, will push semiconductor demand even further, suggesting that the semiconductor market will continue to experience dynamic growth. With this expanding demand, the importance and responsibilities of semiconductor production equipment (SPE) suppliers are bound to continue to increase. As a leading SPE supplier, Tokyo Electron is committed to supporting the quantitative growth and evolution of semiconductors through relentless technological innovation.

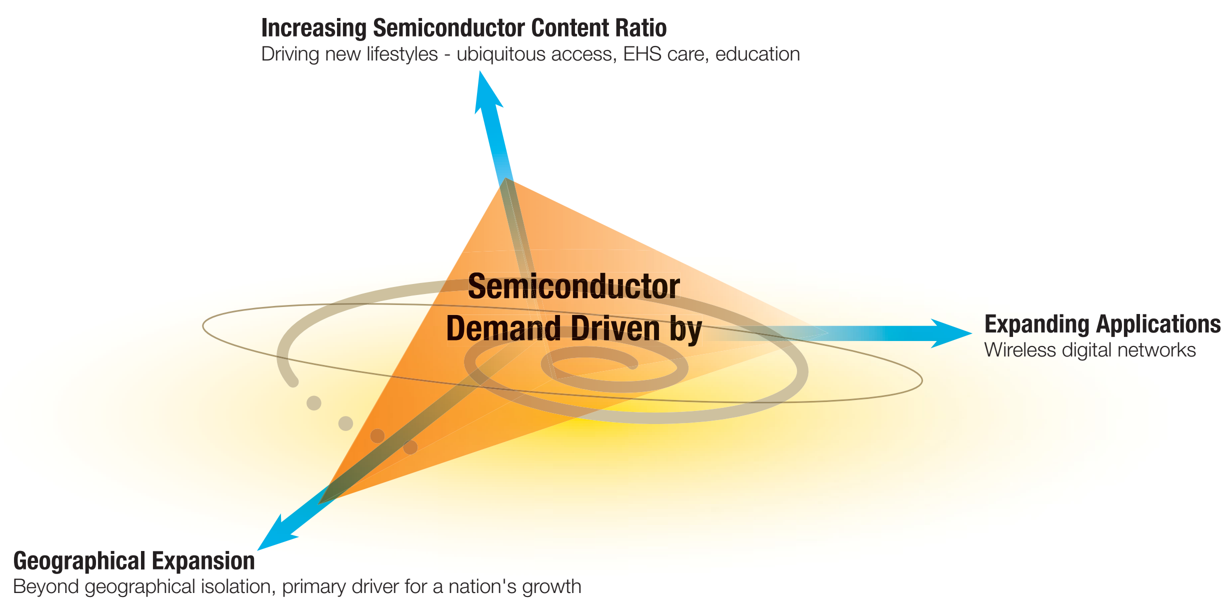
How do you view the prospects for flat panel display (FPD) production equipment, another core product of Tokyo Electron?

The PC monitor used to be the core application for the LCD panel. Recently, the demand for large-screen LCD TVs is witnessing explosive growth. Since many people choose large-screen TVs for viewing dynamic images of sports events, I see the Beijing 2008 Olympic Games as a trigger for replacement demand directed at larger-screen LCD TVs. There is also the worldwide transition from analog to digital broadcasting, which is also certain to generate explosive demand.

LCD manufacturers are already increasing capital investment in response to this demand, and that should keep us busy for at least the next two years.

The shift toward larger mother glass, from which LCD panels are cut, is driving investment in production equipment. However, from a long-term perspective, we must not overlook the fact that there is a limit to increasing the size of mother glass, which means that a new round of technology innovation will be necessary. We are very aware of these factors, and Tokyo Electron is working to develop a new business vision that builds on our existing technologies.

Three Waves of Growth in the Semiconductor Market



There is a concern that increasing use of semiconductors in consumer electronics could cause a decline in semiconductor prices and this could rebound on SPE suppliers in the form of price pressure from semiconductor manufacturers. How do you plan to deal with this?

The digital consumer market is characterized by a wide range of products and price volatility. In this environment, semiconductor manufacturers, our customers, need to step up new product launches to stay competitive. They have to raise productivity by cutting down the lead time for the start-up of new production lines, shorten manufacturing cycle times and boost yields. Furthermore, customers' expectations toward us to come up with technological advances in semiconductor processes are increasing, as seen in responding to lower power consumption demands.

It is very clear to me that responding with revolutionary new technologies and developing SPE with superior cost performance are the best ways to meet our customers' real needs. If we can supply highly reliable SPE with outstanding productivity and process performance, we can expect to win customer satisfaction and to get a fair price for our products.

But it goes without saying that we should not minimize the focus on cost reduction.

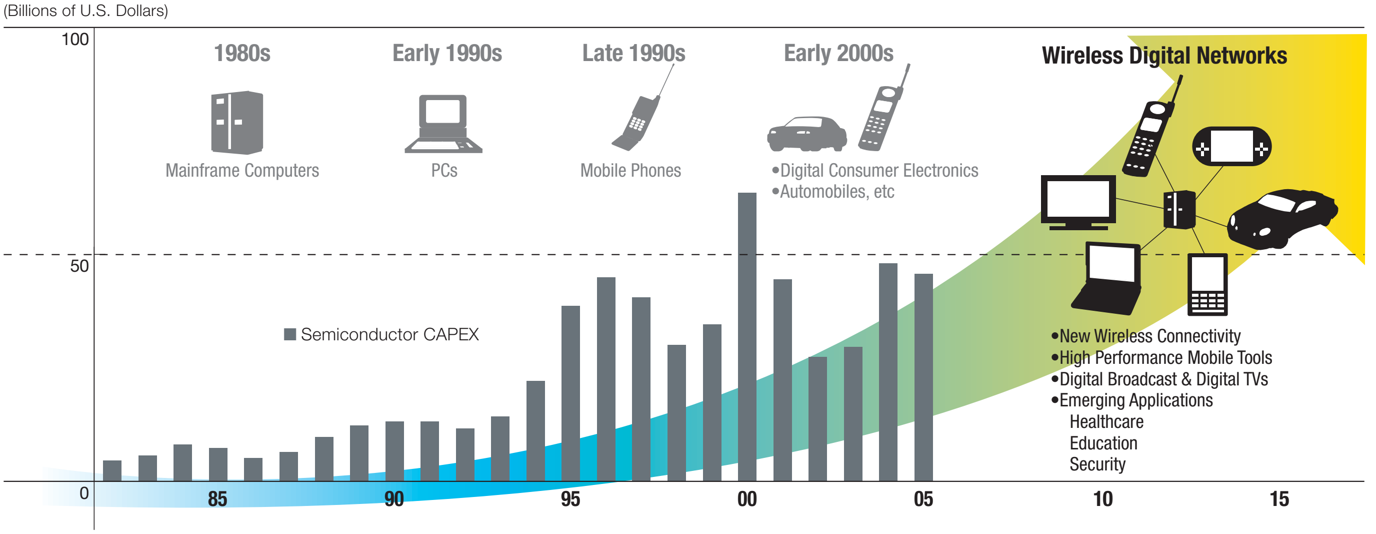
What do you see as currently the most important management issue?

As a business, our goal is to continually generate a high level of cash flow. In this context, raising the operating margin and asset turnover are the most pressing management issues. In the past fiscal year, our operating margin improved to 11.2% following a harsh recession in semiconductors. But we are far from satisfied with this. We will continue to make every effort possible to further raise our operating margin. Raising profit margins boils down to strengthening product development and manufacturing capabilities, the core activities of any manufacturing company. In view of these considerations, we need to further increase our R&D spending.

Tokyo Electron is committed to continuing to improve its technology and to creating new businesses. To achieve these goals, a sound corporate culture must be passed down to future generations. Tokyo Electron was established in 1963 by

Wireless digital networks will drive the market

(Billions of U.S. Dollars)



a few young people full of venture spirit. That spirit has been passed down through the years, making it possible for Tokyo Electron to launch innovative equipment for semiconductor and LCD panel manufacturing, areas characterized by rapid technological change. The environment in which we operate has changed profoundly since we entered the 21st century, and the speed of the technological innovation demanded has accelerated. As the global leader in SPE, Tokyo Electron must rise to the challenge of innovating still more. We must meet this challenge by ensuring that a venture spirit is instilled throughout our organization.

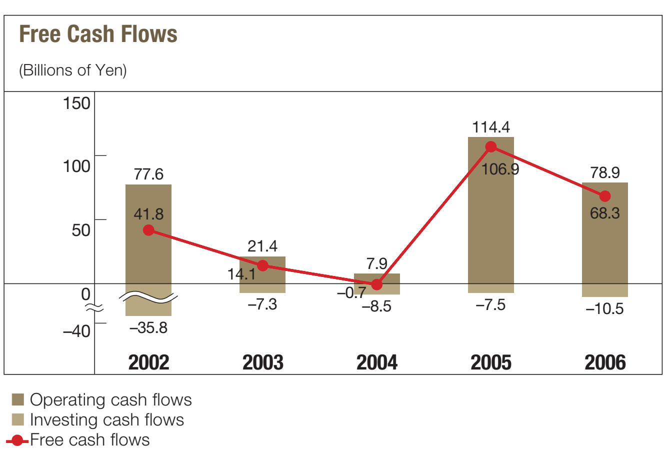
Tokyo Electron has a strong cash position through successful cash flow management. How do you plan to use this cash and what are your policies regarding the sharing of profits with your shareholders?

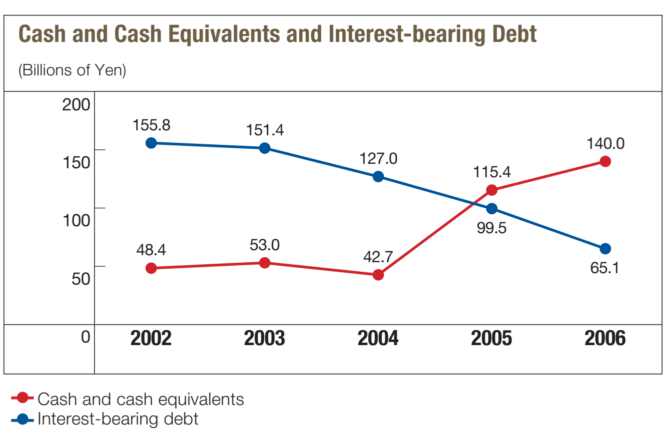
In fiscal 2006, we used part of the cash to retire debt, raise the cash position, and other moves to strengthen our financial base.

The use of cash flow is based on our comprehensive judgment of the operating environment and the company's financial position at that time. Since we believe that the best way to return profit to shareholders is to maximize corporate value through sustained growth, continuing investment in growth areas is given the highest priority in the allocation of cash flow. This is because, unlike other markets, the sheer speed of technological innovation in the markets in which Tokyo Electron operates is astounding.

Tokyo Electron will be quick to identify potential growth technologies. We also consider strategic alliances and M&As as important options for acquiring new technologies and intellectual property rights.

Dividends to shareholders are also an important management issue. Tokyo Electron's dividend policy is to continue linking dividends to consolidated net income, with the aim of a consolidated payout ratio of 20%. I am pleased to note that Tokyo Electron has increased its dividend for three consecutive years up to the fiscal year ended March 2006.





INTERVIEW

KIYOSHI SATO

President & COO

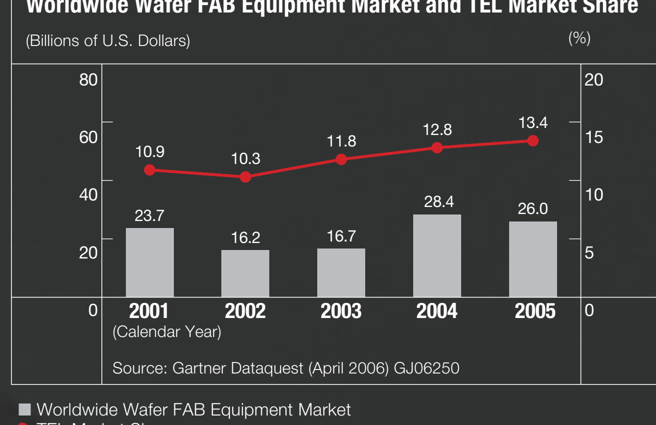
Q&A

Tokyo Electron's share of the global market for semiconductor wafer FAB equipment seems to be rising. What is driving this growth?

Asia's rising share of semiconductor capital investment in the global marketplace is one reason. Various semiconductor manufacturers such as memory manufacturers, logic IC manufacturers and foundries are making aggressive capital investments, anticipating future demand growth. Last year saw brisk capital investment in manufacturing equipment for DRAM and NAND flash memory that has high growth potential. Tokyo Electron is well established and well known for the strong support that it provides to customers in Asia. Its products have also won high marks for the advanced solutions they offer for leading-edge memory products and other high-end semiconductors. The combination of these factors is driving growth.

Looking back, surface preparation systems (cleaning systems) is an area that showed outstanding growth last year. The market share of our 300mm wet stations jumped from a single-digit figure three years ago to nearly 35%; we captured a growing share as design rules continued to shrink. Going forward, the products that we launched in the fiscal year to March 2006 are now ready to start contributing to the bottom line. I am confident that Tokyo Electron will be able to further raise its presence in the global market.

Worldwide Wafer FAB Equipment Market and TEL Market Share



Source: Gartner Dataquest (April 2006) GJ06250

Many of Tokyo Electron's products have leading market shares. How do you plan to increase the share of products with lower market rankings?

Market share is important, but profit margins must be given equal attention. Tokyo Electron is not interested in a high-sales, low-margin strategy. That said, a certain volume of sales is needed to boost profit margins to higher levels.

The key here is matching products with market needs. Customer needs are diversifying as semiconductor manufacturing processes become even more sophisticated. In this environment, if we don't focus on particular market segments, the product concept will suffer and will lead to poor execution of our differentiation policy. First, we must study the market and then introduce optimized models for each market segment—products that precisely reflect the real needs of our customers.

Tokyo Electron is a relative latecomer to the silicon etch market, but this is a product area where there is room to expand our market share. We achieved a market share of more than 10% in the last year and there is a clear, underlying upward trend. In the surface preparation systems market, we expanded the product line, developing the CELLESTA (single wafer cleaning system) and Certas™ (pre-clean system) to the wet station line. The new product lineup will meet the diversifying needs of our customers as design rules shrink.

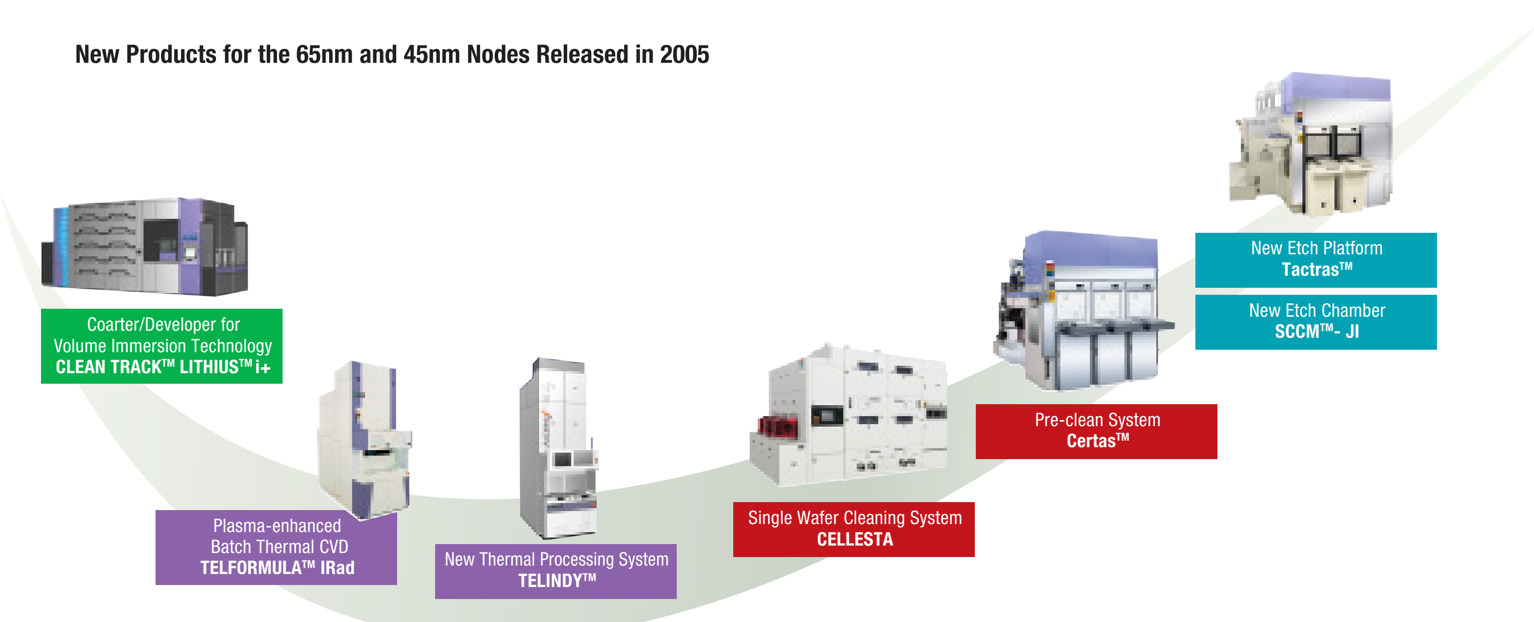
This year we also introduced Exceliner™, an eighth-generation FPD coater/developer. It offers high levels of performance and reliability based on an entirely new concept.

Please comment on Tokyo Electron's growth strategies.

The core concepts of our growth strategies are to nurture new technologies and develop new products. Enhancing process performance is one of the most important requirements of our customers. They demand a response to shrinking design rules and new materials, even as memory size continues to increase, processors become faster and demand for lower power consumption grows even stronger. On top of all this, customers are strongly emphasizing improved productivity for production equipment. Needless to say, quickly and correctly identifying customers' technology needs and creating new products to address them is extremely important. Growth is driven by the ability to introduce products with such added value at the right time.

From a medium- to long-term perspective, we also aim to increase the size of our business. For this, we have to develop

New Products for the 65nm and 45nm Nodes Released in 2005



new star products to supplement our existing product line. We are thus working in R&D on diversifying into new areas while giving full attention to existing technologies.

What new trends do you see emerging in the SPE industry? What is the key to success in the new environment?

First, a few players are increasingly dominating the semiconductor and LCD sectors, and there are few customers in the world capable of continuously making massive investments. Competition for orders is likely to become intensified in such a market. Our sales, service and manufacturing operations must provide exhaustive support to our customers, thus building business relationships rooted in trust. This can only be achieved through further raising product quality and by offering the best possible customer support, in addition to quick responses to customers' real needs.

Second, there is a fierce battle for growth and survival in the SPE industry. Major SPE suppliers, and we are no exception, are looking to new areas to drive future growth, and this could intensify competition in core product lines. We will have to further hone our technology development capabilities to take on new competition. Semiconductor production equipment with superior process performance and higher productivity is favored by customers since it helps them bring down costs. Alliances and M&As are also options to cope with the changing situation. Forming alliances with or partnering with universities and other firms is effective in accelerating product development in cases where development periods tend to be long. In some cases, M&A will also be an effective alternative.

Finally, can you comment on what you see as Tokyo Electron's corporate DNA?

I would say that our "Emphasis on the Customer," passed down throughout our history, our "Venture Spirit" and our "Readiness to Respond to Change" are the corporate genes that give Tokyo Electron its distinctive character. If you respond defensively to change, you end up retrenching, but if you adopt an aggressive stance, you open up opportunities for growth. Tokyo Electron has grown rapidly by responding positively to changing market needs. This has allowed us to evolve from being an import agency and local supplier to a global player. We will further hone our instinctive ability to respond to changing customer needs to find new opportunities for growth.

Accelerating R&D to Drive Growth
A High Level of R&D Expenses and a Global R&D Network

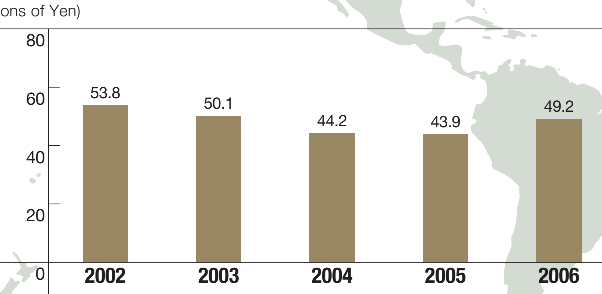
IMEC (Belgium)
Collaboration R&D with IMEC on immersion lithography and extreme ultraviolet (EUV) lithography

Kansai Technology Center
(Amagasaki City, Hyogo)

Leading-edge Process Development Center
(Nirasaki City, Yamanashi)

TEL Technology Center, America, LLC
(New York)

R&D Expenses
(Billions of Yen)



About IMEC
IMEC is a world-leading independent research center in nanoelectronics and nanotechnology. Its research focuses on the next generations of chips and systems, and on the enabling technologies for ambient intelligence.

ENVIRONMENTAL, HEALTH AND SAFETY ACTIVITIES

As a business enterprise, Tokyo Electron has an important mission: to give top priority to people's health and safety and consider environmental protection in the conduct of its business activities.

Fundamental Policy

Tokyo Electron positions environmental, health and safety activities as one of its most important management issues to achieve sustained corporate growth and continued development of society. With that in mind, Tokyo Electron is committed to reducing environmental loads across its activities, and to ensuring absolute safety in the Company's business premises and in those of its customers.

Tokyo Electron embodied these commitments in "TEL's Credo and Principles on Environmental Preservation" and "TEL's Safety and Health Credo and Principles" formulated in 1998. Both statements were reviewed and revised in May 2006 in light of the direction the business is taking and the Company's evolving approach to these issues. The recent revisions clarify a road map for environmental protection measures in product development; they mandate evaluation of environmental issues in the design, manufacture and utilization of our products, and disclosure of information to stakeholders through the publication of environmental and other reports.

EHS Management

Since 1997, Tokyo Electron has developed and implemented environmental management systems based on ISO 14001 standards, mainly for manufacturing operations, and obtained such certification. In fiscal 2006, Tokyo Electron Kyushu Limited completed integration of ISO 14001 certification for four plants: Saga, Kumamoto, Koshi and Ozu, which had already been certified.

Adoption of Environmental Accounting

Tokyo Electron has introduced an environmental accounting system that quantifies the cost of its activities in respect of environmental protection, and uses this as the basis for developing corporate action policies. For more information on achievements in fiscal 2006, please see the "Environmental and Social Report 2006" to be released in September 2006.

Environmental Activities With Regard to Products

Proactive Environmentally Conscious Product Design

As clearly set forth in our revised TEL's Credo and Principles on Environmental Preservation, Tokyo Electron believes that promotion of product designs sensitive to the environment is vital. Tokyo Electron has positioned promotion of energy conservation in its products, and reduction and replacement of hazardous chemicals in its products as priority issues.

1. Energy Conservation During Equipment Use

Since many of our products are manufactured and used in clean rooms, we take an all-inclusive approach that factors in the energy conservation aspect of the entire system, including the equipment and the clean room. The five major targets in this respect are as follows:

1. Reduce energy consumption of the equipment itself
2. Reduce energy consumption of peripheral devices
3. Use equipment in ways that conserve energy
4. Reduce energy consumption of the clean room
5. Overall clean room management (planned and appropriate operation)

Tokyo Electron played a central role in developing the 2005 SEMI S23 Guide for Conservation of Energy, Utilities and Materials Used by Semiconductor Manufacturing Equipment that was adopted as the global standard by the semiconductor industry.

2. Hazardous Substances in Products

Growing out of the concern that hazardous substances in parts and materials could affect the environment and the ecological system, regulations restricting the use of such substances in automotive and electrical products are being tightened throughout the world. The European Union's WEEE*1 and RoHS*2 directives and the China RoHS directive*3 are of particular interest to the electronics and related industries. These directives will have an impact on the products manufactured by Tokyo Electron. Tokyo Electron Group is thus responding proactively by taking measures on hazardous substances in advance of regulatory requirements.

*1 Waste Electrical and Electronic Equipment
*2 Restriction of the Use of Certain Hazardous Substances in electrical and electronic equipment
*3 The official name of the Chinese version of RoHS is Measures to Control Pollution From Electronic Information Products

Company/plant	Plant	Certification date	Certification number
Tokyo Electron AT Limited Tokyo Electron FE Limited	Sagami Plant	December 10, 1997	1110-1997-AE-KOB-RvA
Tokyo Electron Tohoku Limited	Tohoku Plant	February 19, 1998	1118-1998-AE-KOB-RvA Rev.2
Tokyo Electron Kyushu Limited	Kumamoto/Koshi/Ozu/Saga plants	March 26, 1998	1120-1998-AE-KOB-RvA Rev.2
Tokyo Electron AT Limited	Yamanashi Plant (Fujii/Hosaka area)	May 15, 1998	1124-1998-AE-KOB-RvA
	Miyagi Plant	March 1, 2005	01245-2005-AE-KOB-RvA
Tokyo Electron Device Limited	Yokohama Office	July 14, 2004	EC04J0144

Targeted Hazardous Substances

Priority 1 substances

- ■ Cadmium: pigments, stabilization agents, resins
- ■ Hexavalent chromium: chromium plating
- ■ Lead: solder, paints, electrical wire insulation, free-cutting metals
- ■ Mercury: batteries, fluorescent lamps
- ■ PBBs: resin parts
- ■ PBDEs: resin parts

Priority 2 substances

JIG Level A designated substances (includes many substances for which measures are already in place)

JIG: Joint Industry Guide. The JIG is a list of chemicals that require countermeasures, prepared jointly by U.S., European and Japanese private-sector organizations. The substances are classified as Level A or Level B. The Level A list contains 16 substances, such as cadmium, hexavalent chromium, lead, mercury, PBBs, and PBDEs. The Level B list contains more than 400 substances.

Tokyo Electron group has established an Action Team for Substances Contained in Equipment comprised of representatives of manufacturing divisions. The goal is to share necessary information, seek active cooperation from suppliers, and investigate composition and to find and promote substitutes.

Health and Safety Activities

Tokyo Electron promotes health and safety in all of its operations. This includes giving top priority to the health and safety of our employees and customers, and designing products with safety in mind. TEL's Safety and Health Credo and Principles clearly state that all employees are responsible for being constantly aware of health and safety considerations in all their business activities. The Company held six safety training programs for top management at group sites in fiscal 2006, with the participation of executive officers and other employees, including those of affiliates. The program was divided into theory, practice, and discussion. The theory included such topics as the importance of systematic approaches to the human risk factor and risk management. The practice section included reports from sites and on issues from the standpoint of safety. The discussion session debated how best to establish a culture of safety at Tokyo Electron.

This section only discusses some of Tokyo Electron's environmental, safety and health activities. For further details, see "Environmental and Social Report 2006" (to be published in September 2006).
URL: http://www.tel.com/eng/about/ehs/ehsreport/ehsreport.htm

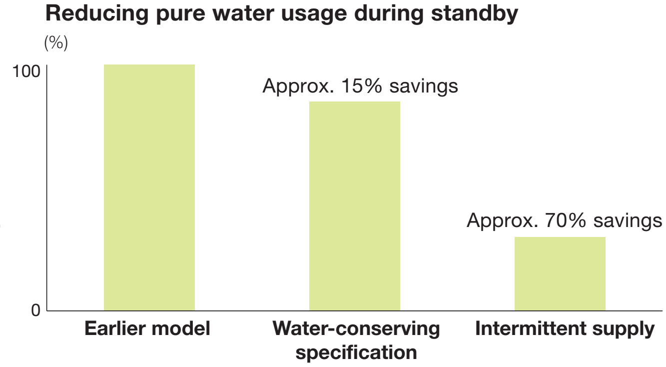
TOPICS

Approach to Reducing Environmental Burden in New Products

Tokyo Electron is reducing the environmental burden in each type of equipment it produces, as appropriate for the environmental characteristics of the equipment. The auto wet station, one of our main products, uses a large volume of pure water during the processes to remove dust and contamination adhering to the wafer surface. Reducing this consumption was one of the goals during the development of the new auto wet station EXPEDIUS. A new water-saving specification has been set for the supply flow during standby, which reduces water consumption by 15% compared to the previous model. Next, a valve was added to the pure water supply line to provide intermittent supply, and this allowed a 70% reduction compared to earlier models. Other new features we are working on at present are control of exhaust air during standby (to reduce the load on the air conditioner of the clean room), shortening of the cleaning time with pure water, and cleaning with a lower-power unit.

EXPEDIUS

Reducing pure water usage during standby



CORPORATE GOVERNANCE

Fundamental Policy Concerning Corporate Governance

Reflecting the ongoing globalization of management practices, our fundamental policy is to strictly observe standards for corporate ethics and comply with laws and regulations. We are also dedicated to establishing and reinforcing internal control and risk management systems, and to maintaining the transparency and objectivity of our business activities. The primary objective of this policy is to conduct management that prioritizes the creation of corporate value for the benefit of shareholders and all other stakeholders.

Measures Concerning Corporate Governance Framework

Tokyo Electron regards the strengthening of corporate governance as vital to increasing its corporate value and shareholder satisfaction. For this purpose, we concentrate on three aspects of corporate governance: 1) ensuring the transparency and soundness of business operations; 2) facilitating quick decision-making and the efficient execution of business operations; and 3) building an effective system for the timely and suitable disclosure of information.

The Corporate Governance Framework

Tokyo Electron has 11 directors, including two external directors. We have adopted the statutory auditor system, as we believe that statutory auditors are an effective means of conducting management that reflects the interests of shareholders. Accordingly, we have four statutory auditors, two of whom are from outside the company. In addition, we have separated the roles of the directors and the executive officers who oversee business operations. Additionally, we have established two committees on the board of directors. A Compensation Committee determines the remuneration paid to the Chairman & CEO and to the President & COO. The Nomination Committee selects candidates for directorships for submission to the annual shareholders' meeting, and a candidate to be elected as president by the board of directors. Through these measures we constantly work to improve corporate governance. The Compensation Committee and the Nomination Committee both have three members each, excluding the Chairman & CEO and the President & COO.

Tokyo Electron discloses the remuneration paid to each of the representative directors, since the Company regards the transparency of management to its shareholders as essential from the standpoint of an emphasis on shareholders. The annual meeting of the shareholders held in June 2002 reduced the term of office of Tokyo Electron directors from two years to one, in order to speed up responsiveness to the changing operating environment and to establish a framework for clearly defining directors' responsibilities. In April 2003, we adopted the executive officer system to further clarify the roles of the board of directors and executives in charge of business operations. This system facilitates the quick establishment and execution of business strategies.

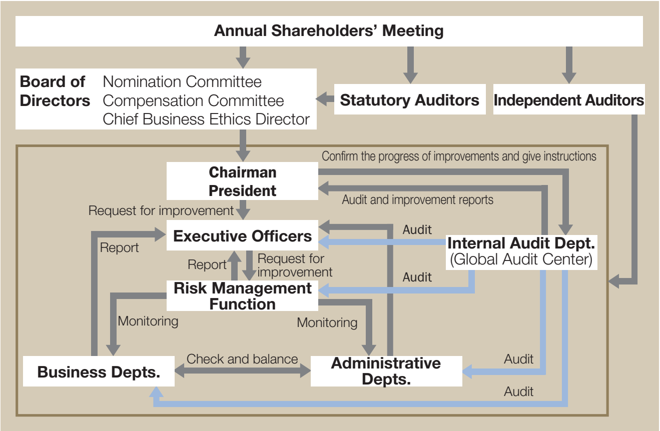
Internal Controls and Risk Management

All activities at Tokyo Electron are based on adherence to the highest standards of corporate ethics and compliance with laws, regulations and international rules. To oversee and ensure this, a director has been appointed Chief Business Ethics Director. Ethical standards have been established and measures are taken to see that these standards are strictly observed. Reflecting the fact that we now place even greater importance on internal control and risk management systems, we have upgraded the internal audit functions of the Global Audit Center. We have also added crisis management functions to the General Affairs Department, including measures involving business risk and operational risk. This department is responsible for establishing the necessary internal regulations for managing each category of risk, as well as for activities for training and raising employees' awareness of risk management.

The Global Audit Center, an organization that reports directly to the President, is responsible for conducting audits of the Group's domestic and overseas bases. The Group's internal control system works to ensure that the Group's management and other policies are shared, communicates information, evaluates risks and the effectiveness of business activities based on risk evaluation, and, if necessary, provides guidance to operating divisions. The Global Audit Center also reports the results of its audits to management on a monthly basis, and holds meetings to promote exchanges of information with the statutory auditors and to report its findings.

Statutory auditors, most of whom are full time auditors, attend meetings of the board of directors, Management Committee, and

Diagram of the Corporate Governance, Internal Control System and Risk Management System



all other important meetings, and conduct operations audits, accounting audits and risk evaluation, in addition to auditing the performance of duties by directors.

Tokyo Electron has engaged KPMG AZSA & Co. as its independent auditor. The Company provides this independent auditor with all required information and data to ensure that it can conduct its audits with speed and precision. The names of the certified public accountants and the number of years they have continuously audited the Company's financial statements are as follows: Tsutomu Takahashi (one year) and Kentaro Onishi (two years). Five certified public accountants, six junior CPAs and one other person assisted the above auditors during their audit.

Responsibilities of External Directors and External Statutory Auditors

External director Hiroshi Inoue is the President of Tokyo Broadcasting System, Inc. He was elected as an external director with the intent of obtaining his objective opinion on decisions of the board of directors, in light of his experience and insight as a corporate manager.

External director Yasuhiro Tsunemi was involved in research studies of society, technology and the economy as chief researcher of a private-sector think tank. With his wide-ranging insight, he was elected as an external director to objectively secure the effectiveness of the decisions of the board of directors.

External statutory auditor Togo Tajika has extensive experience in overseas operations, having worked overseas for another corporation. He was elected as an external statutory auditor to bring an objective eye to the effectiveness of audits.

External statutory auditor Hiroshi Maeda is an attorney in the Nishimura & Partners law firm. He was also elected as an external statutory auditor to bring an objective eye to the effectiveness of audits.

Remuneration for Directors, Executive Officers and Statutory Auditors

The Company and its subsidiaries (excluding listed companies) have introduced incentive systems, such as business results-based remuneration, and stock options linked to share prices. Effective from fiscal 2006, the Company revised its executive remuneration system to link remuneration more closely to consolidated net income and shareholder value and also improve management transparency and its competitive strength.

Under the new system, retirement allowances for directors, statutory auditors and executive officers, part of their fixed remuneration, were abolished at the end of fiscal 2005. In addition, executive remuneration will be more closely linked to consolidated results and stock prices by clearly tying the portion of remuneration that is linked to business performance to consolidated net income. The new system consists of fixed monthly remuneration, annual cash bonuses linked to business performance, and stock options.

Part of the remuneration for directors and executive officers of the Company and its subsidiaries is linked to operating results, with an upper limit of 3% of consolidated net income. The remuneration is split between annual cash bonuses and stock option-based remuneration at a ratio of almost two to one. We believe that this system incentivizes officers to improve the Company's performance and share price because they share with shareholders the risk of a decrease as well as the benefits of higher earnings and a higher share price.

The Company discloses remuneration paid to each of the representative directors and the aggregate remuneration paid to directors and statutory auditors in its business report. Moreover, the aggregate remuneration paid to internal and external directors and internal and external statutory auditors, respectively, is disclosed in the securities report.

Remuneration for directors and statutory auditors

Amount paid to internal directors	¥360 million
Amount paid to external directors	¥10 million
Amount paid to internal statutory auditors	¥51 million
Amount paid to external statutory auditors	¥26 million

Note: The above amounts do not include annual bonuses and retirement allowances paid to directors.

Remuneration for auditing

Amount paid for audit	¥49 million

Note: The above amount is paid in accordance with an audit contract between the Company and KPMG AZSA & Co.

Shareholder Measures

Tokyo Electron mails a "Notice of Annual General Meeting of Shareholders" to shareholders more than three weeks in advance of the meeting, as one of its measures to vitalize these meetings and to promote smooth and efficient voting. It also sets the date of the Company's meeting to avoid days on which many such meetings are concentrated. Shareholders are also free to cast their votes via the Internet. Tokyo Electron also participates in the web-based voting platform for institutional investors operated by Investor Communications Japan Inc. (ICJ). To supplement the above shareholder meeting-related initiatives, Tokyo Electron's web site carries notices, resolutions and presentation materials of shareholders' meetings. An English version of the "Notice of Annual General Meeting of Shareholders" is also provided.

Tokyo Electron holds quarterly results presentation meetings for analysts and institutional investors as a part of its IR program. The presentation materials used in these meetings can be viewed on the Company's web site. The Company backs up these activities by holding IR road shows three or four times a year. These road shows, led by the director responsible for IR, are provided for the convenience of overseas investors.

BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVE OFFICERS

(As of June 23, 2006)

Board of Directors


Tetsuro Higashi
Chairman & CEO


Tetsuo Tsuneishi [2]
Vice Chairman of the Board


Kiyoshi Sato
President & COO


Mamoru Hara [1]
Corporate Director


Kengo Kuroiwa
Corporate Director


Masao Kubodera
Corporate Director


Yuichi Honda [1,3]
Corporate Director

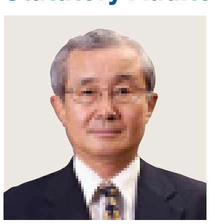

Keiichi Furugaki [2]
Corporate Director


Haruo Iwatsu [2]
Corporate Director


Hiroshi Inoue [1]*
Corporate Director/ President, Tokyo Broadcasting System, Inc.


Yasuhiro Tsunemi *
Corporate Director

Statutory Auditors


Taketoshi Itoyama
Statutory Auditor


Takeo Tanaka
Statutory Auditor


Togo Tajika *
Statutory Auditor


Hiroshi Maeda *
Statutory Auditor/ Nishimura & Partners

Notes:
1. Member of Compensation Committee
2. Member of Nomination Committee
3. Chief Business Ethics Director
** External director, external statutory auditor*

Executive Officers

Chairman & CEO

Tetsuro Higashi

Vice Chairman of the Board

Tetsuo Tsuneishi

President & COO

Kiyoshi Sato

Senior Vice Presidents

Kengo Kuroiwa
Manufacturing & IT

Masao Kubodera
Technology & Development

Yuichi Honda
Finance & Accounting

Haruo Iwatsu
General Manager, SPE-1 Division

Hiroki Takebuchi
Corporate Strategic Planning Dept.

Makoto Mizokuchi
General Manager, Sales & Services Division, and General Manager, Sales & Services, Japan

Mitsuru Onozato
General Manager, FPD Division

Ben Tsai
Technology

Vice Presidents

Yoshiteru Harada
General Manager, Administration

Yoshikazu Nunokawa
General Manager, HR, HR Development Center and Finance

Hikaru Ito
Deputy General Manager, SPE-1 Division, and General Manager, Clean Track BU

Masaaki Hata
Deputy General Manager, SPE-1 Division, and General Manager, Surface Preparation Systems BU

Kozo Hara
General Manager, SPE-2 Division

Takashi Ito
Deputy General Manager, SPE-2 Division, and General Manager, Etch Systems BU

Kenji Washino
Deputy General Manager, SPE-2 Division, and General Manager, Single Wafer Deposition BU

Hirofumi Kitayama
General Manager, SPE-3 Division

Hiroshi Takenaka
Deputy General Manager, SPE-3 Division, and General Manager, Thermal Processing Systems BU

Tsuyoshi Aruga
General Manager, SPE-4 Division

Syunro Nagasawa
Deputy General Manager, SPE-4 Division, and General Manager, Test Systems BU

Kiyoshi Sunohara
General Manager, Sales & Services, North America & Europe

Yasuyuki Kuriki
General Manager, Sales & Services, Korea

Chiaki Yamaguchi
General Manager, Sales & Services, Asia

Jinzaburo Sakamoto
Deputy General Manager, Sales & Services Division, and General Manager, Post Sales

Katsuyuki Amano
General Manager, Computer Network Division

Yoichi Ishikawa
General Manager, Marketing

Shigetoshi Hosaka
General Manager, Technology & Development Center

Hiroshi Tomita
General Manager, MEMS Business

BU: Business Unit

INTELLECTUAL PROPERTY REPORT

Process and mechatronic technologies used in the manufacture of semiconductors and flat panel displays represent Tokyo Electron's core technologies. Tokyo Electron devotes considerable resources to developing technologies that bolster the competitiveness of its products. Since the beginning of the fiscal year under review, as measures to raise profitability, Tokyo Electron has been promoting three themes: (1) launching new products imbuing high added value, (2) raising manufacturing capabilities, and (3) expanding after-sales businesses. Protecting the intellectual property rights of independently developed proprietary technologies and products is vital in this context to ensure the smooth growth of businesses.

The integration of our intellectual property strategy with our technological and product strategies is thus important to realizing maximum benefits from development efforts.

With the increasing division of roles between semiconductor manufacturers and SPE suppliers, Tokyo Electron is playing an expanding role that goes beyond the supply of production equipment and embraces processing, multiple process integration and process control technologies. This situation makes protection of intellectual property rights all the more complex. Tokyo Electron places high priority on protecting intellectual property by actively filing patent applications for equipment schematics, software technologies, several process management technologies for manufacturing equipment and other patents.

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

Tokyo Electron has a set of internal rules that define the management of its intellectual property. These rules were revised based on the purport of the Revised Patent Law that came into force last year. Under these rules, Tokyo Electron provides incentives for inventors and creators within Tokyo Electron. We make lump-sum payments at the time of submission of applications for patents, utility model rights, designs and other property rights. Bonuses are also given as incentives if such creations are implemented at Tokyo Electron or licensed to third parties. The latter bonuses are scaled to the earnings record of such licenses and other rights. We also established awards to honor inventors and creators.

Management of trade secrets is handled according to Tokyo Electron's "Internal Rules on Managing Technology and Marketing Information" and "Manual for Managing Technology and Marketing Information." The provisions of these measures are approximately equivalent to those of the government's "Policies Regarding Managing Trade Secrets" and "Policies Regarding the Prevention of Technology Leakage."

By promoting greater cooperation with the materials and procurement divisions, Tokyo Electron is strengthening measures against imitation and pirated technologies at the component level. Furthermore, outside of Japan, Tokyo Electron is strengthening tie-ups with local law offices in the U.S. and in Asia and actively conducting other activities to counter imitation and pirated products. These include cooperating with Japan's Ministry of Economy, Trade and Industry, Japan External Trade Organization, Japan Intellectual Property Association and other organizations, and participating in various activities.

Intellectual Property by Major Country

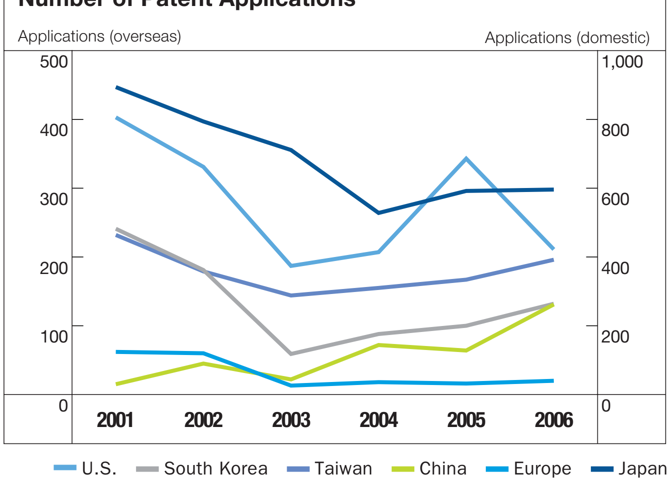
The graph in this section shows historical data on the number of patent applications filed in Japan by Tokyo Electron up to the end of March 2006. With it becoming more difficult to acquire patents in Japan and other countries, Tokyo Electron is reviewing its policy regarding the country of application, including Japan, from the standpoint of key manufacturing bases and the markets of its operating divisions. In particular, in addition to the recent policy of emphasizing filing applications in the U.S., Tokyo Electron is also stressing the need to file applications in China, South Korea, Taiwan and other countries as a countermeasure against imitation and pirated products, mainly in East Asia.

Contribution of License-related Activities

In developing and implementing our intellectual property rights strategy, we do not see intellectual property rights acquired by filing applications and securing rights for proprietary products and development technologies as a source of income from licensing to other companies. Rather we view this as a method of differentiating our own products and bolstering our competitive advantages. Semiconductor and FPD production technologies are becoming increasingly advanced and sophisticated. To effectively develop new products incorporating leading-edge technologies, and bring them to market as quickly as possible, it is essential to utilize all available intellectual properties. Tokyo Electron places high value on introducing cutting-edge technology and constantly enhancing the efficiency of research and development, and on quickly launching new products. We also respect the intellectual property rights of others, just as we do our own, and effectively use them through licensing.

Tokyo Electron is also exploring the feasibility of licensing or selling its proprietary technology to third parties in other business fields and to cooperating partners.

Number of Patent Applications



MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial results in this MD&A refer to fiscal 2006, the year ended March 31, 2006. Percentage comparisons refer to year-on-year changes from fiscal 2005.

Effective from fiscal 2005, the Company made certain changes in accounting policies and segment classifications as discussed in the notes to consolidated financial statements.

- The policy for revenue recognition of semiconductor and FPD production equipment was changed from the time of shipment of products to, in principle, the time of confirmation of set-up and testing of products.
- The accounting treatment of after-sale repair expenses incurred during the warranty period for semiconductor and FPD production equipment was changed. In the past, the Company charged such expenses to income as incurred. Effective from the fiscal year ended March 31, 2005, the Company provides accrued warranty expenses for estimated expenses, calculated on the basis of after-sale repair expenses incurred in the past.
- In past fiscal years, Tokyo Electron's businesses were classified as a single segment. Effective from the fiscal year ended March 31, 2005, however, Tokyo Electron's businesses were reclassified into two segments, "Industrial Electronic Equipment" and "Electronic Components," based on the similarities between products and services as well as sales methods.

Sales and Income

Operating Environment

The overall global economic picture during the past fiscal year was favorable, led by brisk U.S. and Chinese economies, despite concerns about the economic impact from damage wreaked by major hurricanes in the U.S. and high crude oil prices. In Japan, there were continued signs of a steady recovery, including robust capital expenditure and an improvement in the employment situation bolstered by strong corporate performances.

With regard to the electronics industry, in which the Company participates, sales were strong of digital consumer electronics, such as portable music players, digital cameras, DVD recorders and flat panel TVs, expanding demand for semiconductors. PCs and mobile phones are starting to make rapid inroads into newly developed emerging markets, including the BRICs countries, which is also lifting semiconductor demand. In response to this favorable environment, semiconductor manufacturers and LCD panel manufacturers made substantial capital investments.

Sales

Consolidated net sales increased 6.0% from the previous fiscal year to ¥673.7 billion.

By region, sales of semiconductor production equipment in Japan and the United States exceeded the previous year by a wide margin and were also solid in South Korea and Taiwan. In addition, sales of FPD production equipment in Taiwan remained strong. As a result, net sales in Japan were up 12.8% over the previous fiscal year to ¥262.5 billion, and overseas net sales were up 2.0% to ¥411.2 billion. Overseas net sales accounted for 61.0% of consolidated net sales, down from the 63.4% recorded in the previous fiscal year.

Consolidated orders received during the fiscal year increased 7.0% over the previous fiscal year to ¥721.6 billion, and the consolidated order backlog at the end of the fiscal year increased 15.3% to ¥361.0 billion. Both figures were historical records.

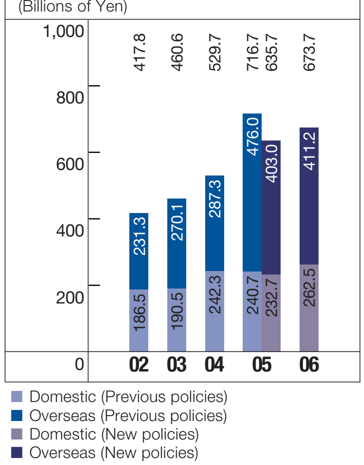
Gross Profit, SG&A Expenses and Operating Income

The cost of sales was ¥484.0 billion, an increase of 5.3% compared to the previous fiscal year, and gross profit was ¥189.7 billion, an increase of 7.9% over the previous fiscal year. As a result, the gross profit margin was 28.2%, an improvement of 0.5 percentage point, due mainly to higher sales of semiconductor production equipment .

Selling, general and administrative (SG&A) expenses were ¥114.0 billion, an increase of 1.9% from the previous fiscal year, and the ratio of SG&A expenses to net sales was 17.0%. R&D expenses included in general and administrative expenses increased 12.1% to ¥49.2 billion.

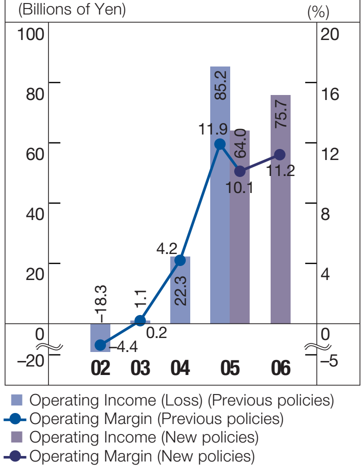
Domestic and Overseas Sales

(Billions of Yen)



Operating Income (Loss) and Operating Margin

(Billions of Yen) (%)



Despite this increase in R&D expenses, there was only a slight overall increase in total SG&A expenses due to lower depreciation and tighter control over variable expenses.

As a result of the above and other factors, operating income for fiscal 2006 was ¥75.7 billion, up 18.3% year on year. The operating margin was 11.2%, an increase of 1.1 percentage points.

Research and Development

R&D expenses, as noted above, were ¥49.2 billion in fiscal 2006, up 12.1% from the previous fiscal year.

In semiconductor production equipment, in addition to design rule shrink, customers are demanding responses to new materials for realizing higher speeds and lower power consumption. In the past fiscal year, Tokyo Electron focused on the development of technologies and products that respond to these customer needs. As a result of ongoing R&D efforts, the Company was able to launch new products in five of six product categories. In FPD production equipment, the focus was on the development of equipment designed for large glass substrates. Tokyo Electron was successful in launching new models for handling eighth-generation glass substrates.

Another important R&D theme was lowering the environmental load of production equipment based on their individual environmental characteristics. A certain portion of the R&D budget is allocated for this purpose.

In addition to R&D spending to develop new technologies and products in existing areas of operation, the Company also invested in creating new businesses derived from its core technologies.

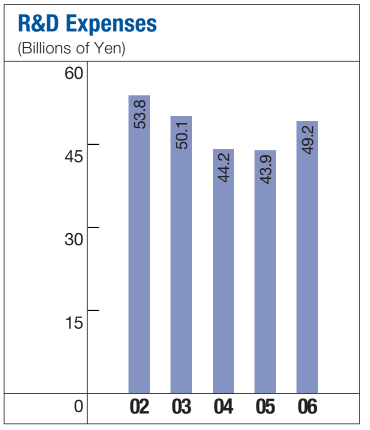
Other Income (Expenses) and Net Income

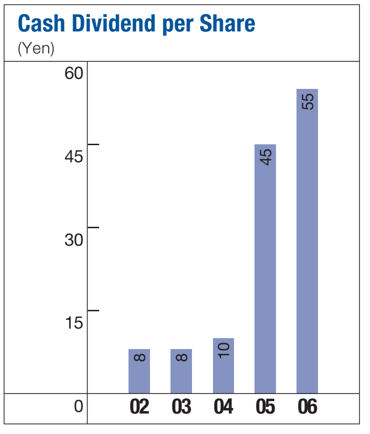
Net non-operating expenses were ¥0.4 billion, since there were no significant extraordinary gains or losses during fiscal 2006 while the net non-operating expenses of the previous fiscal year were ¥8.2 billion due to ¥12.5 billion of provision for warranty expenses for the prior year. Income before income taxes was ¥75.3 billion, up 35.1%.

Net income was ¥48.0 billion, down 22.1%, mainly because of a one-time ¥27.9 billion reversal of valuation allowance on deferred tax assets that lifted net income in the previous fiscal year. Net income per share was ¥267.61 (net income per share was ¥343.63 in the previous fiscal year).

Dividend Policy and Dividend

The fundamental policy regarding return of profit to shareholders is to pay dividends linked to business performance and backed by earnings. Effective from fiscal 2006, the Company adopted a new dividend policy that aims at a payout ratio of 20% of consolidated net income. In line with this policy, the Company declared a cash dividend per share of ¥55, up ¥10 from the previous fiscal year. This translates into a dividend payout ratio of 20.6% on a consolidated basis.





(Millions of Yen)

	2002	2003	2004	2005	**2006**
Net sales	¥417,825	¥460,580	¥529,654	¥635,710	**¥673,686**
Gross profit	115,555	134,040	140,155	175,913	**189,732**
Gross profit margin	27.7%	29.1%	26.5%	27.7%	**28.2%**
Selling, general and administrative expenses	133,865	132,921	117,875	111,930	**114,029**
Operating income (loss)	(18,310)	1,119	22,280	63,983	**75,703**
Operating margin	(4.4)%	0.2%	4.2%	10.1%	**11.2%**
Income (loss) before income taxes	(22,919)	(23,010)	14,936	55,775	**75,328**
Net income (loss)	(19,938)	(41,554)	8,297	61,601	**48,006**

Effective from fiscal 2005, the Company made certain changes in accounting policies as discussed in the notes to consolidated financial statements.

Performance by Segment

Industrial Electronic Equipment Segment

Due to continued strong net sales in the mainstay SPE Division, net sales (including inter-segment sales) during the past fiscal year were ¥587.8 billion, an increase of 6.8% over the previous fiscal year. Operating income rose 19.4% to ¥72.6 billion. The operating margin was 12.3%, up 1.3 percentage points.

■ Semiconductor Production Equipment

Sales to external customers were ¥486.9 billion, a 6.5% year-on-year increase.

Despite some slightly pessimistic views at the beginning of the fiscal year, shipments of PCs and mobile phones remained strong, and portable music players and automotive electronic products have been experiencing rapid growth. As a result, there was strong demand for NAND flash memory, DRAM and other semiconductors used in these electronic devices. Reflecting this demand, semiconductor manufacturers invested heavily in increasing production capacity and developing cutting-edge semiconductors. In turn, this generated brisk inquiries for the Company's products.

By equipment type, backed by strong capital investment by semiconductor memory manufacturers, particularly in Asia, sales increased of etch systems, thermal processing systems, CVD systems, and surface preparation systems. Tokyo Electron saw sales growth of CLEAN TRACK™ LITHIUS™, a coater/developer compatible with next-generation design rule technologies; of EXPEDIUS, a new auto wet station; and of Telius™, a plasma etch system equipped with SCCM™–JI, the latest etch chamber.

In terms of wafer diameter, 85% of sales were for 300mm wafer plants and 15% of sales were for 200mm wafer plants.

Division orders declined 2.1% to ¥499.9 billion, and the order backlog at the end of fiscal 2006 was ¥249.2 billion, up 5.5% compared to the end of the previous fiscal year.

■ FPD Production Equipment

Sales to external customers were ¥81.2 billion, an 8.2% year-on-year increase.

In conjunction with the shift to digital and high-definition broadcasting, large-screen flat panel TVs, including LCD TVs, are rapidly finding their way into homes. Given this, LCD panel manufacturers ramped up capital investment to develop cutting-edge display panels and boost production capacity. In this environment, sales rose of FPD production equipment, particularly in Taiwan. By generation, FPD production equipment for sixth-generation glass substrates contributed significantly to sales, while sales of FPD production equipment for seventh-generation glass substrates rose sharply.

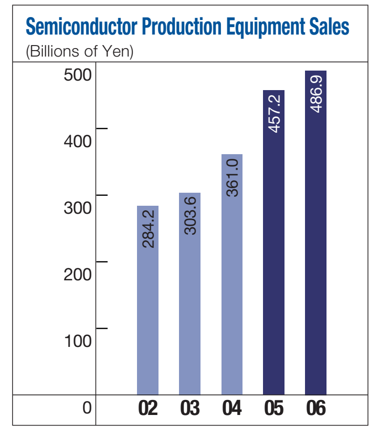
Division orders received increased 82.2% to ¥113.5 billion, and the order backlog at the end of fiscal 2006 was ¥99.1 billion, up 48.4% compared to the end of the previous fiscal year.

■ Computer Network

Sales to external customers were ¥17.5 billion, an increase of 9.6% compared to the previous fiscal year.

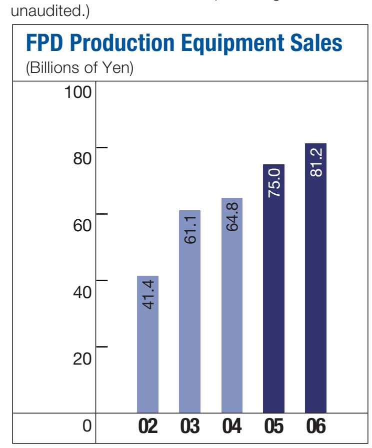
Among SAN (Storage Area Network)-related products, which account for 40% of net sales in this division, sales were strong of fibre channel fabric switches and fibre channel host bus adapters, which form the platform technologies for network construction. With respect to network-related products, the website construction business, centered on products that make possible the creation of highly secure websites, recorded solid sales, and sales related to support and maintenance increased.

Division orders received increased 13.5% to ¥18.7 billion and the order backlog at the end of the fiscal year was ¥5.3 billion, up 28.7%.



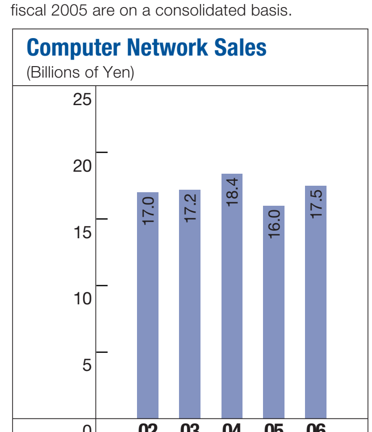
■ Previous policies
■ New policies

Since fiscal 2005, sales of FPD production equipment have been shown separately from SPE Division sales, in which they were previously included. In the above graph, SPE sales for fiscal 2004 and prior years exclude FPD production equipment sales on a non-consolidated basis for the convenience of readers. (These figures are unaudited.)



■ Previous policies
■ New policies

Since fiscal 2005, sales of FPD production equipment have been shown separately from SPE Division sales, in which they were previously included. In the above graph, FPD production equipment sales for fiscal 2004 and prior years are on a non-consolidated basis, while those from fiscal 2005 are on a consolidated basis.



The Computer Network Division (excluding Aero Component Business) is scheduled to be transferred to Tokyo Electron Device Limited by simple separation through absorption in October 2006.

■ Others

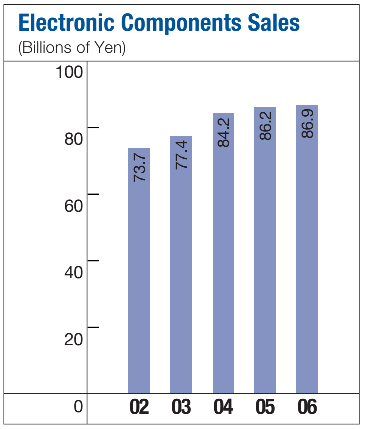
Other sales largely comprise in-house services, such as insurance and travel services. Sales for fiscal 2006 declined 1.4% year on year to ¥1.2 billion.

Electronic Components Segment (Tokyo Electron Device Limited)

Net sales in this segment, including intersegment sales, for fiscal 2006 rose 0.2% to ¥88.3 billion. Operating income was flat at ¥3.1 billion, and the operating margin was 3.5%. Sales to external customers were ¥86.9 billion, a 0.7% year-on-year increase.

Semiconductor products represented 88.6% of segment sales, board computer products 4.7%, software 3.6% and other electronic components 3.1%. In semiconductor products, sales of products for factory automation-related equipment and for cell phone base stations were firm on the back of higher capital investments. Furthermore, sales of products used in flat panel TVs and car navigation systems were solid as consumer spending grew.

This segment is working to expand its customer base by focusing on sales of high value-added products, such as custom ICs and general-purpose ICs (analog ICs), that require advanced technical support. At the same time, efforts are being made to expand contract design services, whereby Tokyo Electron Device Limited undertakes the design of semiconductors while raising the profile of its proprietary products under the *inrevium* brand.



The above graph shows the sales to external customers

Business segment information

(Millions of Yen)

2006	Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
Net sales and operating income					
Net sales					
(1) Sales to external customers	¥586,805	¥86,881	¥673,686	¥ –	¥673,686
(2) Intersegment sales or transfers	1,004	1,409	2,413	(2,413)	–
Total	587,809	88,290	676,099	(2,413)	673,686
Operating expenses	515,241	85,190	600,431	(2,448)	597,683
Operating income	72,568	3,100	75,668	35	75,703
Assets, depreciation and amortization expenses and capital expenditure					
Assets	¥626,838	¥37,089	¥663,927	¥ (684)	¥663,243
Depreciation and amortization expenses	20,512	258	20,770	–	20,770
Loss on impairment of fixed assets	419	–	419	–	419
Capital expenditure, including intangible and other assets	16,223	144	16,367	–	16,367

Financial Position and Cash Flows

Assets, Liabilities and Shareholders' Equity

Total assets as of March 31, 2006 were ¥663.2 billion, ¥18.9 billion higher than as of March 31, 2005.

Current assets at the end of the fiscal year increased by ¥22.3 billion to ¥517.5 billion. Major changes included increases in cash and cash equivalents of ¥24.6 billion, decreased trade notes and accounts receivable of ¥3.5 billion, and increased inventories of ¥2.3 billion. As the Company focused on shortening the asset turnover period, the turnover period of trade notes and accounts receivable (excluding non-trade accounts receivable) shortened from 99 days to 92 days and inventory turnover improved from 93 days to 89 days.

Net property, plant and equipment decreased by ¥3.7 billion to ¥94.7 billion. The major reason for this was further equipment depreciation.

Investments and other assets increased by ¥0.3 billion to ¥51.0 billion, the net result of a ¥4.5 billion increase in investment securities due to a valuation gain as the stock market rallied and a decline in deferred income taxes and intangible assets.

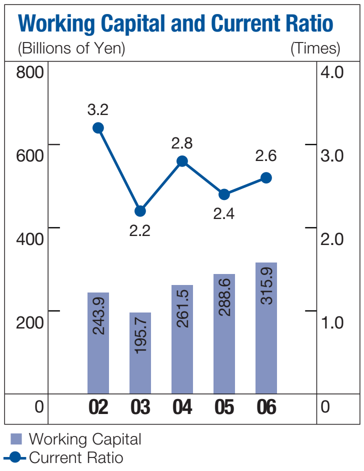
Total liabilities as of March 31, 2006 were ¥281.6 billion, ¥26.1 billion lower than as of March 31, 2005.

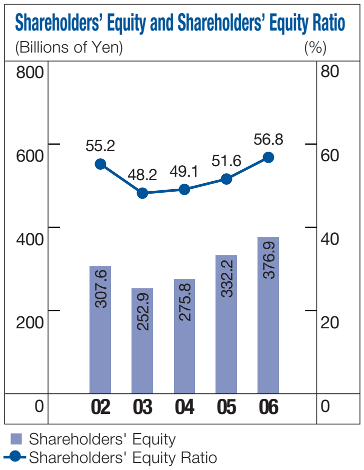
Continuing from the previous fiscal year, the Company concentrated on reducing interest-bearing debt. As a result, interest-bearing debt, including short-term borrowings, the current portion of corporate bonds, long-term debt and corporate bonds, declined ¥34.4 billion to ¥65.1 billion. This reflected a ¥30.0 billion drop in straight corporate bonds and a ¥4.3 billion decline in bank borrowings. The result was a marked improvement in the debt-to-equity ratio from 29.9% to 17.3%.

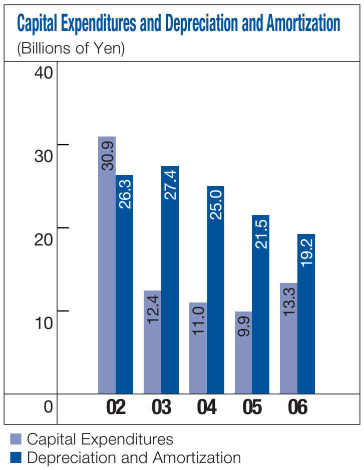
Shareholders' equity increased ¥44.7 billion to ¥376.9 billion, due mainly to favorable business results, which pushed up retained earnings by ¥37.8 billion. As a result, shareholders' equity, as a percentage of total assets, improved by 5.2 percentage points to 56.8%, but the return on average total shareholders' equity (ROE) declined 6.8 percentage points to 13.5%.

Capital Expenditures and Depreciation

Capital expenditures were ¥13.3 billion, an increase of 35.0% compared to the previous fiscal year. The cost of evaluation equipment and measuring devices for semiconductor production equipment and FPD production equipment-related research and development, in addition to IT-related investments, were the most significant items of capital expenditures. Depreciation and amortization expenses declined 10.7% to ¥19.2 billion.







Cash Flows

Net cash provided by operating activities was ¥78.9 billion, ¥35.5 billion lower compared to the previous fiscal year. The principal sources of cash from operating activities included income before income taxes of ¥75.3 billion, depreciation and amortization of ¥19.2 billion, a decrease in trade notes and accounts receivable of ¥5.1 billion, and an increase in trade notes and accounts payable of ¥6.7 billion. The principal uses of cash from operating activities included a decrease in customer advances of ¥9.5 billion and payment of income taxes of ¥19.5 billion.

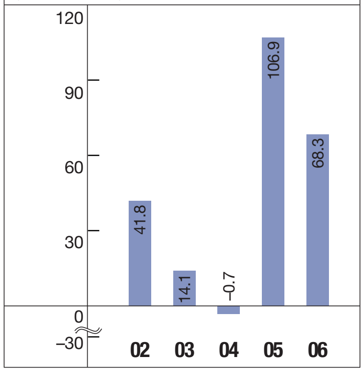
Net cash used in investing activities was ¥10.5 billion, ¥3.1 billion more than in the previous fiscal year. The principal use of cash was ¥8.6 billion for the purchase of property, plant and equipment, mainly for the purchase of evaluation, measuring and other equipment for research and development.

Net cash used in financing activities was ¥43.4 billion, ¥9.1 billion more than in the previous fiscal year. The principal uses of cash were ¥30.0 billion for the redemption of the 9th series of unsecured straight bonds, ¥5.5 billion in repayment of long-term debt, and dividend payments of ¥9.8 billion.

As a result, cash and cash equivalents at March 31, 2006 were ¥140.0 billion, an increase of ¥24.6 billion from the end of the previous fiscal year.

Free Cash Flows

(Billions of Yen)



Free Cash Flows=Cash Flows From Operating Activities+Cash Flows From Investing Activities

Business-related and Other Risks

The following are possible risks that may have an impact on Tokyo Electron's business performance, stock price, or financial position.

(1) Impact of Fluctuating Foreign Exchange Rates

Success in the development of overseas operations has increased the share of sales generated overseas. As a rule, Tokyo Electron conducts export transactions on a yen basis to avert exposure to foreign currency risks. However, some exports are denominated in foreign currencies. In these cases, Tokyo Electron hedges foreign currency risk by using a forward foreign exchange contract when an order is received or by other means. However, foreign exchange rate risks can arise from fluctuations in prices due to sudden foreign exchange movements, which could have an indirect adverse effect on Tokyo Electron's business performance.

(2) Impact From Research and Development

Through ongoing and proactive R&D investment and activities in cutting-edge technologies—miniaturization, vacuum, plasma, thermal-processing, coating/developing, cleaning, wafer-transfer and clean technologies—Tokyo Electron has created advanced technologies. At the same time, by quickly bringing to market new products incorporating these technologies, Tokyo Electron has successfully captured a high market share in each of the product fields it has entered and generated a high profit margin. However, delays in the launch of new products and other factors could adversely affect Tokyo Electron's business performance.

(3) Impact From Changes in the Semiconductor Market

Tokyo Electron has achieved a high profit margin by concentrating resources in high-tech fields, including semiconductor production equipment, where technological innovation is rapid but Tokyo Electron can effectively use its strengths. Although technological change is responsible for the semiconductor market's rapid growth, Tokyo Electron has actively undertaken structural reforms to be able to generate profits under any circumstances, such as when the market contracts temporarily due to imbalance of supply and demand. However, order cancellations, excess capacity and personnel and increased inventories resulting from an unexpectedly large market contraction could adversely affect Tokyo Electron's business performance.

(4) Impact From Concentration of Transactions on Particular Customers

Tokyo Electron has been successful at increasing transactions with the leading semiconductor manufacturers worldwide, including those in Japan, through the provision of products featuring outstanding, cutting-edge technology and of services offering a high level of customer satisfaction. However, Tokyo Electron's sales may from time to time be temporarily concentrated on particular customers due to the timing of large capital investments of major semiconductor manufacturers. The resulting escalation in sales competition could adversely affect Tokyo Electron's business performance.

(5) Safety-related Impacts

Tokyo Electron's basic philosophy is to always bear in mind safety and health in the execution of business activities, including development, manufacturing, sales, services and management. In accordance with this philosophy, Tokyo Electron works actively and continuously to improve the safety of its products and to eliminate any harmful impact on health. However, harm to customers, order cancellations or other circumstances resulting from safety problems or other problems related to Tokyo Electron's products could adversely affect Tokyo Electron's business performance.

(6) Impact From Quality Issues

Tokyo Electron actively develops outstanding, cutting-edge technologies for incorporation in new products that are brought quickly to market. At the same time, Tokyo Electron works to establish a quality assurance system, efforts that include obtaining ISO 9001 certification, as well as to establish a world-class service system. These actions have resulted in a large number of customers adopting Tokyo Electron's products. However, because Tokyo Electron's products are based on cutting-edge technologies, and due to other factors, many of the technologies developed are in unfamiliar fields. The occurrence of unforeseen defects or other issues could adversely affect Tokyo Electron's business performance.

(7) Impact of Intellectual Property Rights

In order to distinguish its products and make them more competitive, Tokyo Electron has promoted its R&D strategy for the early development of cutting-edge technologies together with its business and intellectual property strategies. This approach has enabled Tokyo Electron to obtain sole possession of many proprietary technologies that have been instrumental to Tokyo Electron's ability to capture a high market share and generate high profit margins in each of its product fields. However, Tokyo Electron's products incorporate and optimize many of these proprietary cutting-edge technologies. There may be cases, whereby avoiding the use of third-party technologies and intellectual property rights, Tokyo Electron's business performance could be adversely affected.

(8) Other Risks

Tokyo Electron is actively involved in reforming the corporate structure so that it can generate profits even when markets contract. These reforms have entailed creating new high-growth, high-return businesses and pursuing higher earnings from existing businesses. At the same time, Tokyo Electron has promoted activities to preserve the environment and worked to restructure its compliance and risk management systems. However, as long as it conducts business activities, as with peer companies or companies in different industries, Tokyo Electron is subject to the effect of many other factors. These include the world and regional economic environments, natural disasters, war, terrorism, unavoidable occurrences (such as infectious diseases), financial or stock markets, government or other regulations, supply systems of suppliers, market conditions for products and real estate, the ability to recruit personnel in Japan and overseas, competition over standardization, and loss of key personnel. Any of these factors could adversely affect Tokyo Electron's business performance.

CONSOLIDATED SIX-YEAR SUMMARY

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2006, 2005, 2004, 2003, 2002 and 2001

	Thousands of U.S. dollars	Millions of yen					
	2006	**2006**	2005	2004	2003	2002	2001
Net sales[1]	**$5,734,965**	**¥673,686**	¥635,710	¥529,654	¥460,580	¥417,825	¥723,880
Semiconductor production equipment[2]	**4,144,743**	**486,883**	457,191	425,747	364,689	325,715	619,001
FPD production equipment[2]	**691,040**	**81,176**	75,038	–	–	–	–
Computer network[2]	**148,951**	**17,497**	15,966	18,448	17,193	17,031	14,054
Electronic components	**739,599**	**86,881**	86,249	84,229	77,380	73,658	89,211
Other	**10,632**	**1,249**	1,266	1,230	1,318	1,421	1,614
Operating income (loss)	**644,446**	**75,703**	63,983	22,280	1,119	(18,310)	121,086
Income (loss) before income taxes	**641,256**	**75,328**	55,775	14,936	(23,010)	(22,919)	99,132
Net income (loss)	**408,663**	**48,006**	61,601	8,297	(41,554)	(19,938)	62,012
Domestic sales	**2,234,883**	**262,532**	232,678	242,318	190,513	186,516	299,272
Overseas sales	**3,500,082**	**411,154**	403,032	287,336	270,067	231,309	424,608
Depreciation and amortization	**163,191**	**19,170**	21,463	24,963	27,374	26,294	21,679
Capital expenditures	**113,517**	**13,335**	9,876	11,007	12,359	30,946	49,403
R&D expenses	**418,673**	**49,182**	43,889	44,150	50,123	53,827	52,911
Total assets	**5,646,063**	**663,243**	644,320	561,632	524,901	556,915	729,511
Total shareholders' equity	**3,208,480**	**376,900**	332,165	275,800	252,904	307,579	333,281
Number of employees		**8,901**	8,864	8,870	10,053	10,171	10,236
	U.S. dollars	Yen					
Net income (loss) per share of common stock:[3]							
Basic	**$ 2.28**	**¥ 267.61**	¥ 343.63	¥ 46.37	¥ (238.57)	¥(113.85)	¥ 353.76
Diluted[4]	**2.28**	**267.32**	343.54	45.78	–	–	344.75
Cash dividends per share of common stock	**0.47**	**55.00**	45.00	10.00	8.00	8.00	38.00
Number of shares outstanding (thousands)		**180,611**	180,611	180,611	175,698	175,691	175,691
Number of shareholders		**46,272**	60,857	60,873	49,259	37,116	42,781
		Percent					
ROE		**13.5**	20.3	3.1	(14.8)	(6.2)	20.4
Operating margin		**11.2**	10.1	4.2	0.2	(4.4)	16.7
Shareholders' equity ratio		**56.8**	51.6	49.1	48.2	55.2	45.7
Asset turnover (times)		**1.03**	1.05	0.97	0.85	0.65	1.18
	U.S. dollars	Thousands of yen					
Net sales per employee	**$ 644,309**	**¥ 75,687**	¥ 71,718	¥ 59,713	¥ 45,815	¥ 41,080	¥ 70,719

1 Until 2004, revenue from Semiconductor and FPD (Flat Panel Display) production equipment had been recognized at the time of shipment. But starting from 2005, such revenue is principally recognized at the time of the confirmation of set-up and testing of products.
2 Until 2004, the FPD division had been included in Semiconductor production equipment. The Computer systems division was renamed the Computer network division starting from April 1, 2000.
3 From 2003, the Company applied "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 31, 2003 and 2002.

CONSOLIDATED BALANCE SHEETS

Tokyo Electron Limited and Subsidiaries
March 31, 2006 and 2005

ASSETS	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars 2006
Current assets:			
Cash and cash equivalents	**¥140,024**	¥115,420	**$1,191,998**
Trade notes and accounts receivable	**169,038**	172,488	**1,438,989**
Allowance for doubtful accounts	**(165)**	(114)	**(1,403)**
Inventories	**163,746**	161,489	**1,393,938**
Deferred income taxes	**21,356**	18,173	**181,802**
Prepaid expenses and other current assets	**23,489**	27,730	**199,953**
Total current assets	**517,488**	495,186	**4,405,277**
Property, plant and equipment:			
Land	**18,150**	18,351	**154,504**
Buildings	**112,225**	111,119	**955,351**
Machinery and equipment	**94,764**	90,497	**806,712**
Construction in progress	**2,216**	1,786	**18,863**
Total property, plant and equipment	**227,355**	221,753	**1,935,430**
Less: Accumulated depreciation	**132,617**	123,337	**1,128,941**
Net property, plant and equipment	**94,738**	98,416	**806,489**
Investments and other assets:			
Investment securities	**14,860**	10,381	**126,502**
Deferred income taxes	**13,175**	15,313	**112,153**
Intangible assets	**16,710**	18,612	**142,246**
Other assets	**6,272**	6,412	**53,396**
Total investments and other assets	**51,017**	50,718	**434,297**
Total assets	**¥663,243**	¥644,320	**$5,646,063**

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current liabilities:			
Short-term borrowings	¥ 2,100	¥ 976	$ 17,877
Current portion of long-term debt	24,500	35,476	208,564
Trade notes and accounts payable	75,842	70,472	645,627
Customer advances	33,811	42,970	287,824
Income taxes payable	22,895	13,357	194,902
Accrued employees' bonuses	10,231	8,645	87,093
Accrued warranty expenses	12,219	13,106	104,024
Accrued expenses and other current liabilities	20,029	21,609	170,504
Total current liabilities	201,627	206,611	1,716,415
Long-term debt, less current portion	38,500	63,000	327,743
Accrued pension and severance costs	38,751	36,382	329,880
Other liabilities	2,743	1,751	23,349
Total liabilities	281,621	307,744	2,397,387
Minority interests	4,722	4,411	40,196
Contingent liabilities			
Shareholders' equity:			
Common stock	54,961	54,961	467,874
Authorized: 300,000,000 shares			
Issued: 180,610,911 shares as of March 31, 2006 and 2005			
Capital surplus	78,079	78,023	664,670
Retained earnings	249,938	212,094	2,127,676
Unrealized gains on securities	5,118	2,133	43,565
Foreign currency translation adjustments	3,921	997	33,381
Treasury stock, at cost	(15,117)	(16,043)	(128,686)
2,336,475 and 2,529,672 shares as of March 31, 2006 and 2005, respectively			
Total shareholders' equity	376,900	332,165	3,208,480
Total liabilities and shareholders' equity	¥663,243	¥644,320	$5,646,063

CONSOLIDATED STATEMENTS OF INCOME

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Net sales	**¥673,686**	¥635,710	**$5,734,965**
Cost of sales	**483,954**	459,797	**4,119,814**
Gross profit	**189,732**	175,913	**1,615,151**
Selling, general and administrative expenses	**114,029**	111,930	**970,705**
Operating income	**75,703**	63,983	**644,446**
Other income (expenses):			
Interest and dividend income	**504**	236	**4,289**
Interest expenses	**(687)**	(1,094)	**(5,846)**
Income from development grants	**1,537**	2,194	**13,081**
Foreign exchange losses	**(1,676)**	(723)	**(14,266)**
Gain on refund for foreign indirect taxes	**855**	–	**7,282**
Loss on impairment of fixed assets	**(419)**	–	**(3,566)**
Gain on return of substitutional portion of employees' pension fund	**–**	7,084	**–**
Provision for warranty expenses for prior years	**–**	(12,470)	**–**
Loss on business reorganization	**–**	(2,783)	**–**
Loss on impairment of investment securities	**(94)**	(573)	**(804)**
Loss on disposal of property, plant and equipment	**(658)**	(1,388)	**(5,604)**
Other, net	**263**	1,309	**2,244**
Income before income taxes	**75,328**	55,775	**641,256**
Income taxes:			
Current	**29,189**	15,540	**248,490**
Deferred	**(2,352)**	(21,970)	**(20,025)**
Minority interests	**485**	604	**4,128**
Net income	**¥ 48,006**	¥ 61,601	**$ 408,663**
Per share of common stock:	Yen		U.S. dollars
Net income — basic	**¥ 267.61**	¥ 343.63	**$ 2.28**
Net income — diluted	**267.32**	343.54	**2.28**
Cash dividends	**55.00**	45.00	**0.47**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Common stock			
Balance at beginning of year	**¥ 54,961**	¥ 54,961	**$ 467,874**
Balance at end of year	**54,961**	54,961	**467,874**
Capital surplus			
Balance at beginning of year	**78,023**	78,023	**664,196**
Gain on sale of treasury stock	**56**	–	**474**
Balance at end of year	**78,079**	78,023	**664,670**
Retained earnings			
Balance at beginning of year	**212,094**	154,343	**1,805,515**
Net income	**48,006**	61,601	**408,663**
Cash dividends	**(9,796)**	(3,743)	**(83,391)**
Directors' bonuses	**(350)**	(107)	**(2,973)**
Effect of newly consolidated subsidiary	**(16)**	–	**(138)**
Balance at end of year	**249,938**	212,094	**2,127,676**
Unrealized gains on securities			
Balance at beginning of year	**2,133**	2,396	**18,155**
Net changes during the year	**2,985**	(263)	**25,410**
Balance at end of year	**5,118**	2,133	**43,565**
Foreign currency translation adjustments			
Balance at beginning of year	**997**	(720)	**8,488**
Net changes during the year	**2,924**	1,717	**24,893**
Balance at end of year	**3,921**	997	**33,381**
Treasury stock, at cost			
Balance at beginning of year	**(16,043)**	(13,203)	**(136,568)**
Purchase	**(39)**	(2,840)	**(330)**
Resale for stock option plan	**965**	–	**8,212**
Balance at end of year	**(15,117)**	(16,043)	**(128,686)**
Total shareholders' equity	**¥376,900**	¥332,165	**$3,208,480**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Cash flows from operating activities:			
Income before income taxes	**¥ 75,328**	¥ 55,775	**$ 641,256**
Depreciation and amortization	**19,170**	21,463	**163,191**
Amortization of goodwill	**1,600**	1,600	**13,622**
Loss on impairment of fixed assets	**419**	–	**3,566**
Increase in accrued pension and severance costs	**2,340**	5,158	**19,919**
Increase in accrued employees' bonuses	**1,587**	2,258	**13,503**
Increase (decrease) in accrued warranty expenses	**(985)**	13,106	**(8,387)**
Interest expenses	**687**	1,094	**5,846**
Gain on refund for foreign indirect taxes	**(855)**	–	**(7,282)**
Loss on disposal of property, plant and equipment	**658**	1,388	**5,604**
Gain on return of substitutional portion of employees' pension fund	**–**	(7,084)	**–**
Loss on business reorganization	**–**	2,783	**–**
Decrease in trade notes and accounts receivable	**5,144**	59,115	**43,790**
Increase in inventories	**(5,467)**	(59,914)	**(46,542)**
Increase (decrease) in trade notes and accounts payable	**6,743**	(7,440)	**57,402**
Increase (decrease) in customer advances	**(9,505)**	30,816	**(80,911)**
Other, net	**1,751**	1,482	**14,910**
Subtotal	**98,615**	121,600	**839,487**
Receipts from interest and dividends	**503**	241	**4,281**
Interest paid	**(739)**	(1,159)	**(6,289)**
Payment for business reorganization	**–**	(1,558)	**–**
Income taxes paid	**(19,525)**	(4,774)	**(166,213)**
Net cash provided by operating activities	**78,854**	114,350	**671,266**
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment	**(8,601)**	(8,680)	**(73,218)**
Proceeds from sale of property, plant and equipment	**1,280**	3,798	**10,893**
Payment for acquisition of intangible assets	**(2,611)**	(1,780)	**(22,224)**
Other, net	**(605)**	(788)	**(5,148)**
Net cash used in investing activities	**(10,537)**	(7,450)	**(89,697)**
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	**1,037**	(5,864)	**8,831**
Repayment of long-term debt	**(5,476)**	(1,754)	**(46,613)**
Redemption of unsecured bonds	**(30,000)**	(20,000)	**(255,384)**
(Increase) decrease in treasury stock	**982**	(2,840)	**8,356**
Dividends paid	**(9,796)**	(3,743)	**(83,391)**
Other	**(167)**	(143)	**(1,431)**
Net cash used in financing activities	**(43,420)**	(34,344)	**(369,632)**
Effect of exchange rate changes on cash and cash equivalents	**(341)**	214	**(2,899)**
Net increase in cash and cash equivalents	**24,556**	72,770	**209,038**
Cash and cash equivalents at beginning of year	**115,420**	42,650	**982,550**
Effect of newly consolidated subsidiary	**48**	–	**410**
Cash and cash equivalents at end of year	**¥140,024**	¥115,420	**$1,191,998**

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, which is 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 ¥117.47 to $1.00, the approximate rate as of March 31, 2006. 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 24 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 is 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 under the declining balance method, except for buildings acquired subsequent to March 31, 1998 which were depreciated under 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

(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) Impairment of fixed assets

Tokyo Electron evaluates the carrying value of fixed assets to be held for use in the business.

If the carrying value of a fixed asset is impaired, a loss is recognized based on the amount by which the carrying value exceeds its recoverable amount, higher of the net selling price or the value in use of the assets, which are determined using the fair value less disposal costs and the total amount of discounted cash flows generated from the continuing use of the individual assets or the asset group and the disposal of these assets, respectively.

The Company adopted "Accounting Standard for Impairment of Fixed Assets", issued by the Business Accounting Deliberation Council 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 Standard Board of Japan), effective from the fiscal year beginning April 1, 2005.

As a result of this change, impairment losses on fixed assets amounting to ¥419 million ($3,566 thousand) were recognized for the year ended March 31, 2006, and therefore income before income taxes decreased by the same amount as compared with before the change.

(h) 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.

(i) 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 calculated in accordance with internal regulations.

The Company and certain domestic subsidiaries decided to discontinue the severance pay for directors and statutory auditors after April 1, 2005, and at the shareholders' meetings on June 24, 2005 it was resolved that the severance pay for their directors and statutory auditors until March 31, 2005 would be paid at the termination of their service. As discussed in note 9, the accruals for the severance costs for directors and statutory auditors were included in accrued pension and severance costs in the consolidated balance sheets.

(j) 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.

(k) Leases

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases), except for leases that have transfer of ownership condition to the lessee at the end of the lease which are accounting for as finance leases.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) Research and development expenses

Research and development expenses are charged to income as incurred, and amounted to ¥49,182 million ($418,673 thousand) and ¥43,889 million for the years ended March 31, 2006 and 2005, respectively.

(q) 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.

(r) 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, 2006. 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, ¥20,541 million and ¥20,563 million, 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 and ¥13,106 million, 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 comprise of other securities, as of March 31, 2006 and 2005 are as follows:

	Millions of yen	
2006:	Cost	Carrying value
Securities with market prices		
Equity securities	**¥5,348**	**¥13,940**
Other	**114**	**119**
Securities without market value		
Unlisted stock	**1,708**	**778**
Other	**23**	**23**
Total	**¥7,193**	**¥14,860**

	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

	Thousands of U.S. dollars	
2006:	Cost	Carrying value
Securities with market prices		
Equity securities	**$45,528**	**$118,670**
Other	**968**	**1,015**
Securities without market value		
Unlisted stock	**14,545**	**6,623**
Other	**194**	**194**
Total	**$61,235**	**$126,502**

5. Inventories

Inventories as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Finished products	**¥ 95,564**	¥102,418	**$ 813,514**
Work in process, raw materials and supplies	**68,182**	59,071	**580,424**
Total	**¥163,746**	¥161,489	**$1,393,938**

6. Impairment of Fixed Assets

For the fixed asset impairment test, the Company generally groups fixed assets used for normal operations at a business unit level of which profits are reasonably controllable. Also, the Company assesses the recoverability of individual assets not used in normal operations or that are idle.

The Company recorded impairment losses for the lands used for employees' welfare of ¥419 million ($3,566 thousand) in 2006. These charges were recorded in other income (expenses) in the consolidated statement of income.

7. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2006 and 2005.

8. 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 1.58% and 1.80% as of March 31, 2006 and 2005, respectively.

Long-term debt as of March 31, 2006 and 2005 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
1.30% unsecured bonds due 2005	**¥ –**	¥ 30,000	**$ –**
0.42% unsecured bonds due 2006	**20,000**	20,000	**170,256**
0.72% unsecured bonds due 2008	**30,000**	30,000	**255,384**
1.59% unsecured bonds with warrants due 2006	**4,500**	4,500	**38,308**
0.86% unsecured bonds with warrants due 2007	**5,500**	5,500	**46,821**
Other loans from banks	**3,000**	8,476	**25,538**
Current portion	**(24,500)**	(35,476)	**(208,564)**
Total	**¥ 38,500**	¥ 63,000	**$ 327,743**

As of March 31, 2006, Tokyo Electron has unused lines of credit amounting to ¥113,500 million ($966,204 thousand).

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

	Millions of yen	Thousands of U.S. dollars
Year ending March 31	**2006**	**2006**
2007	**¥24,500**	**$208,564**
2008	**8,500**	**72,359**
2009	**30,000**	**255,384**
2010	**–**	**–**
2011 and thereafter	**–**	**–**
Total	**¥63,000**	**$536,307**

9. Accrued Pension and Severance Costs

Prior to January 2005, the Company and its domestic subsidiaries had noncontributory retirement and severance benefit plans that provided for pension or lump-sum payment benefits to employees who retired or terminated their employment for reasons other than dismissal for cause. In addition, the majority of the employees of the Company and its domestic subsidiaries were covered by a contributory pension plan, whose benefits were based on length of service and certain other factors. This pension plan included a substitutional portion representing the government social security welfare pension.

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 was related to past employees services. The transfer to the government was completed on July 22, 2005.

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, 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, and the resulting prior service cost was amortized over four years.

The additional gain derived from the difference in the fair value of plan assets between approval date and transfer completion date was recorded for the year ended March 31, 2006. The effect of the additional gain to the consolidated financial statements was not material.

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

The funded status of the defined benefit plans, a substantial portion of which consists of domestic benefit plans, as of March 31, 2006 and 2005 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Benefit obligation	**¥(64,689)**	¥(59,984)	**$(550,690)**
Fair value of plan assets	**24,962**	18,388	**212,500**
Unrecognized benefit obligation	**(39,727)**	(41,596)	**(338,190)**
Unrecognized actuarial difference	**(1,496)**	1,249	**(12,731)**
Unrecognized prior service cost	**3,188**	4,714	**27,140**
Amount recognized in the consolidated balance sheets (Note)	**¥(38,035)**	¥(35,633)	**$(323,781)**

Note: The annual provision for accrued pension and severance costs for directors and statutory auditors (¥716 million ($6,095 thousand) in 2006 and ¥749 million in 2005) is not included in the above.

Net pension cost of the plans is as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Service cost	**¥4,757**	¥4,724	**$40,488**
Interest cost	**1,186**	1,397	**10,095**
Expected return on plan assets	**(276)**	(317)	**(2,348)**
Amortization of actuarial difference	**1,876**	4,677	**15,973**
Amortization of prior service cost	**1,526**	350	**12,993**
Net pension cost	**9,069**	10,831	**77,201**
Gain on return of substitutional portion of employees' pension fund	**–**	(7,084)	**–**
Other	**(24)**	–	**(199)**
Net	**¥9,045**	¥3,747	**$77,002**

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

	2006	2005
Allocation method of benefit obligation	Straight-line method	
Discount rate	**2.00%**	2.00%
Expected rate of return on plan assets	**2.00%**	1.50%
Amortization period of prior service cost	**4 years**	4 years
Amortization period of actuarial difference	**4 years**	4 years

10. Income Taxes

Significant components of the deferred tax assets and liabilities of Tokyo Electron as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred tax assets			
Accrued pension and severance costs	**¥ 15,134**	¥13,469	**$128,834**
Elimination of unrealized profit on inventories	**8,298**	6,293	**70,641**
Accrued warranty expenses	**4,737**	5,333	**40,326**
Accrued employees' bonuses	**4,140**	3,498	**35,240**
Depreciation and amortization	**3,653**	2,501	**31,095**
Devaluation of inventories	**1,954**	3,751	**16,634**
Accrued business taxes	**1,555**	1,030	**13,234**
Net operating loss carryforwards	**1,123**	2,082	**9,564**
Elimination of unrealized profit on fixed assets	**1,002**	1,104	**8,533**
Other	**4,955**	4,690	**42,176**
Total gross deferred tax assets	**46,551**	43,751	**396,277**
Less valuation allowance	**(2,848)**	(2,112)	**(24,239)**
Total deferred tax assets	**43,703**	41,639	**372,038**
Deferred tax liabilities			
Net unrealized gains on securities	**(3,480)**	(1,443)	**(29,623)**
Undistributed earnings of foreign subsidiaries	**(2,766)**	(2,444)	**(23,544)**
Reserves under Special Taxation Measures Law, etc.	**(2,547)**	(2,568)	**(21,685)**
Prepaid start-up expenses	**(1,856)**	(2,783)	**(15,804)**
Other	**(288)**	(254)	**(2,449)**
Total gross deferred tax liabilities	**(10,937)**	(9,492)	**(93,105)**
Net deferred tax assets	**¥ 32,766**	¥32,147	**$278,933**

Effective from the year ended March 31, 2006, the Company and its wholly-owned domestic subsidiaries adopted the tax consolidation for national corporate tax purposes.

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. For assessment of the realizability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, future taxable income, tax planning strategies and level of net operating loss carryforwards, if any, in accordance with accounting principles generally accepted in Japan.

In 2005, the Company and its certain subsidiaries utilized a significant portion of net operating loss carryforwards as of March 31, 2004 with operating income earned under the favorable semiconductor industry and significant portion of valuation allowance of ¥31,431 million as of March 31, 2004 was reversed. Management believes Tokyo Electron will realize the benefits of deferred tax assets, net of remaining valuation allowance as of March 31, 2005.

In 2006, based on the level of historical taxable income and future taxable income over the periods which the deferred tax assets are deductible, management believes Tokyo Electron will realize the benefits of these deferred tax assets, net of valuation allowance as of March 31, 2006.

The Company is subject to a corporate tax, an inhabitant tax and a deductible business tax, which in the aggregate resulted in a statutory income tax rate of approximately 40.69% for the years ended March 31, 2006 and 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 years ended March 31, 2006 and 2005 are as follows:

	2006	2005
Statutory tax rate in Japan	40.69%	40.69%
Adjustments:		
Tax credits for research and development costs, etc.	(5.70)	(2.81)
Change in valuation allowance other than net operating loss carryforwards	0.95	(24.79)
Elimination of unrealized profit on inventories	(0.94)	(3.17)
Utilization of net operating loss carryforwards	–	(27.77)
Increase in deferred tax liabilities on undistributed earnings of foreign subsidiaries	0.43	4.38
Others, net	0.20	1.94
Effective tax rate	35.63%	(11.53)%

11. 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 total amount of legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or may be capitalized by a 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 the shareholders' meeting. Legal reserve as of March 31, 2006 amounted to ¥5,660 million ($48,183 thousand), and is included in retained earnings in the accompanying consolidated financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese Commercial Code. Cash dividends charged to retained earnings for the years ended March 31, 2006 and 2005 represent dividends paid out during those years. The total amount of legal reserve and additional paid-in capital of the Company has reached to 25% of common stock, and therefore, the Company is not required to provide legal reserve any more. Appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the approval has been obtained. Retained earnings at March 31, 2006 include amounts representing the year-end cash dividends of ¥30 ($0.26) per share and bonuses to directors approved at the shareholders' meeting held on June 23, 2006.

Under the Japanese Commercial Code, the entire amount of the issue price of shares is required to be designated as common stock, although a company may, by a resolution of the board of directors, designate 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.

The Japanese Corporate Law enforced on May 1, 2006 provides that earnings in an amount equal to 10% of appropriations of retained earnings that are paid in cash shall be appropriated as a capital surplus or a legal reserve until the total amount of legal reserve and capital surplus equal 25% of common stock.

At the shareholders' meeting on June 23, 2006, in accordance with the Japanese Corporate Law, the Company altered the articles to allow for the distribution of earnings to shareholders on dates, other than the mid-term and year-end by a resolution of the board of directors.

12. 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

The Company's shareholders have approved annual stock option plans for directors and selected employees since the year ended March 31, 1999. In addition, a stock option plan for statutory auditors was additionally approved at the Company's shareholders' meeting in June 2005. The cumulative number of shares authorized up to the year ended March 31, 2004 totaled 2,131,900, with the weighted average exercise price of ¥7,909. Options to purchase 85,200 and 92,000 shares were authorized and granted at exercise prices of ¥1 ($0.01) and ¥6,468 ($55.06), respectively for the year ended March 31, 2006. Options to purchase 799,700 shares were authorized and granted at an exercise price of ¥5,884 for the year ended March 31, 2005. The options under the plans vest immediately with restriction on exercise up to two or three years after the date of grant, and have an exercise period of eight or twenty 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 numbers 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. As noted above, the stock option plan granted stock options at exercise price of ¥1 and to be in accordance with the Warrant plan, the exercise prices of these warrants were adjusted to ¥14,064 ($120) and ¥9,604 ($82), respectively. The number of outstanding granted options increased by 283 shares as a result of this adjustment to the exercise price of the warrant.

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, 2004, outstanding granted stock options, including the warrant plan, were 2,680,590 shares, with a weighted-average exercise price of ¥8,790. For the year ended March 31, 2005, 67,770 shares of the options were forfeited with no exercise. For the year ended March 31, 2006, 28,705 shares of the options were forfeited and 198,900 shares of the options were exercised. As of March 31, 2006, outstanding granted stock options, including the warrant plan, were 3,362,398 shares with a weighted-average exercise price of ¥8,014 ($68.22).

13. 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, 2006 and 2005 are as follows:

Leased assets not recorded in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Acquisition cost	**¥1,448**	¥1,216	**$12,325**
Accumulated depreciation	**797**	704	**6,782**
Net leased property	**¥ 651**	¥ 512	**$ 5,543**

Future minimum lease payments:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Due within one year	**¥247**	¥296	**$2,104**
Due over one year	**404**	216	**3,439**
Total	**¥651**	¥512	**$5,543**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥318 million ($2,709 thousand) and ¥292 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, 2006 and 2005, respectively.

Future minimum lease payments on non-cancelable operating leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Due within one year	**¥ 690**	¥ 514	**$ 5,875**
Due over one year	**696**	668	**5,927**
Total	**¥1,386**	¥1,182	**$11,802**

14. Contingent Liabilities

Tokyo Electron did not have any material contingent liabilities as of March 31, 2006.

15. 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 semi-annual basis to the board of directors.

The estimated fair values of the derivative financial instruments as of March 31, 2006 and 2005 are as follows:

	Millions of yen		
2006:	Contract amount	Fair value	Unrealized gains (losses)
Sell U.S. dollars	**45,872**	**46,313**	**(441)**
Buy U.S. dollars	**1,909**	**1,922**	**13**

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

	Thousands of U.S. dollars		
2006:	Contract amount	Fair value	Unrealized gains (losses)
Sell U.S. dollars	**390,500**	**394,253**	**(3,753)**
Buy U.S. dollars	**16,251**	**16,364**	**113**

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.

16. Segment Information

Business segment information as of and for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen				
2006:	Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	**¥586,805**	**¥86,881**	**¥673,686**	**¥ –**	**¥673,686**
(2) Intersegment sales or transfers	**1,004**	**1,409**	**2,413**	**(2,413)**	**–**
Total	**587,809**	**88,290**	**676,099**	**(2,413)**	**673,686**
Operating expenses	**515,241**	**85,190**	**600,431**	**(2,448)**	**597,983**
Operating income	**72,568**	**3,100**	**75,668**	**35**	**75,703**
2. Assets, depreciation and amortization expenses and capital expenditure					
Assets	**¥626,838**	**¥37,089**	**¥663,927**	**¥ (684)**	**¥663,243**
Depreciation and amortization expenses	**20,512**	**258**	**20,770**	**–**	**20,770**
Loss on impairment of fixed assets	**419**	**–**	**419**	**–**	**419**
Capital expenditure, including intangible and other assets	**16,223**	**144**	**16,367**	**–**	**16,367**

	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

	Thousands of U.S. dollars				
2006:	Industrial electronic equipment	Electronic components	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	**$4,995,366**	**$739,599**	**$5,734,965**	**$ –**	**$5,734,965**
(2) Intersegment sales or transfers	**8,542**	**11,997**	**20,539**	**(20,539)**	**–**
Total	**5,003,908**	**751,596**	**5,755,504**	**(20,539)**	**5,734,965**
Operating expenses	**4,386,149**	**725,206**	**5,111,355**	**(20,836)**	**5,090,519**
Operating income	**617,759**	**26,390**	**644,149**	**297**	**644,446**
2. Assets, depreciation and amortization expenses and capital expenditure					
Assets	**$5,336,159**	**$315,731**	**$5,651,890**	**$ (5,827)**	**$5,646,063**
Depreciation and amortization expenses	**174,617**	**2,196**	**176,813**	**–**	**176,813**
Loss on impairment of fixed assets	**3,566**	**–**	**3,566**	**–**	**3,566**
Capital expenditure, including intangible and other assets	**138,104**	**1,224**	**139,328**	**–**	**139,328**

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 others*
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 and ¥20,541 million, 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 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.

Geographical segment information as of and for the year ended March 31, 2006 is as follows:

	Millions of yen				
2006:	Japan	Other regions	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	**¥602,564**	**¥ 71,122**	**¥673,686**	**¥ –**	**¥673,686**
(2) Intersegment sales or transfers	**61,443**	**43,811**	**105,254**	**(105,254)**	**–**
Total	**664,007**	**114,933**	**778,940**	**(105,254)**	**673,686**
Operating expenses	**588,933**	**107,639**	**696,572**	**(98,589)**	**597,983**
Operating income	**75,074**	**7,294**	**82,368**	**(6,665)**	**75,703**
2. Assets	**¥636,559**	**¥ 85,730**	**¥722,289**	**¥ (59,046)**	**¥663,243**

	Thousands of U.S. dollars				
2006:	Japan	Other regions	Total	Eliminations and corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	**$5,129,517**	**$605,448**	**$5,734,965**	**$ –**	**$5,734,965**
(2) Intersegment sales or transfers	**523,050**	**372,955**	**896,005**	**(896,005)**	**–**
Total	**5,652,567**	**978,403**	**6,630,970**	**(896,005)**	**5,734,965**
Operating expenses	**5,013,476**	**916,312**	**5,929,788**	**(839,269)**	**5,090,519**
Operating income	**639,091**	**62,091**	**701,182**	**(56,736)**	**644,446**
2. Assets	**$5,418,909**	**$729,800**	**$6,148,709**	**$(502,646)**	**$5,646,063**

Note: 1. For the reporting of geographical segment information, net sales and operating income are separated based on the location of the Company and its subsidiaries. Assets are separated by geographic location.
2. Others comprises primarily of the United States of America, Europe and Korea.

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

Domestic and overseas sales for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
Net sales	**2006**	2005	**2006**
Japan	**¥262,532**	¥232,678	**$2,234,883**
Taiwan	**150,322**	141,493	**1,279,664**
United States of America	**93,314**	62,769	**794,365**
Korea	**83,571**	85,203	**711,424**
Others	**83,947**	113,567	**714,629**
Total	**¥673,686**	¥635,710	**$5,734,965**

Note: 1. For the reporting of domestic and overseas sales, overseas sales (other than Japan) include export sales of the Company and its domestic subsidiaries and sales of the foreign subsidiaries, except for export sales to Japan.
2. Others comprises primarily of Singapore, Ireland and China.

17. Subsequent Event

Grant of stock options under the stock option plans

On May 12, 2006, 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. Under this stock option plan, the options to purchase the shares of the Company at an exercise price of ¥1 ($0.01), up to 65,000 shares will be granted to directors and selected employees of the Company and its domestic subsidiaries and senior directors of foreign subsidiaries, and the options to purchase the shares of the Company at an exercise price of ¥1 ($0.01), up to 8,000 shares will be granted to directors and selected employees of foreign subsidiaries. This grant of stock options was approved at the annual general meeting of the shareholders of the Company on June 23, 2006.

INDEPENDENT AUDITORS' REPORT

KPMG

To the Board of Directors of
Tokyo Electron Limited:

We have audited the accompanying consolidated balance sheets of Tokyo Electron Limited and subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in note 2 (g) to the consolidated financial statements, the Company adopted "Accounting Standard for Impairment of Fixed Assets", issued by the Business Accounting Deliberation Council, for the year beginning April 1, 2005.

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 segments in the year ended March 31, 2005.

The accompanying consolidated financial statements as of and for the year ended March 31, 2006 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 23, 2006

TOKYO ELECTRON GLOBAL OPERATIONS

(As of July 1, 2006)

All locations marked on the map include branches and offices of affiliated companies listed below.

JAPAN

TOKYO ELECTRON LIMITED

World Headquarters

TBS Broadcast Center
3-6 Akasaka 5-chome, Minato-ku, Tokyo 107-8481
Tel: 03-5561-7000
Fax: 03-5561-7400
URL: http://www.tel.com

TOKYO ELECTRON AT LIMITED

TOKYO ELECTRON TOHOKU LIMITED

TOKYO ELECTRON TS LIMITED

TOKYO ELECTRON KYUSHU LIMITED

TOKYO ELECTRON SOFTWARE TECHNOLOGIES LIMITED

TOKYO ELECTRON FE LIMITED

TOKYO ELECTRON DEVICE LIMITED

TOKYO ELECTRON BP LIMITED

TOKYO ELECTRON AGENCY LIMITED

AMERICA

TOKYO ELECTRON U.S. HOLDINGS, INC.

TOKYO ELECTRON AMERICA, INC.

TOKYO ELECTRON MASSACHUSETTS, LLC

TEL TECHNOLOGY CENTER, AMERICA, LLC

TIMBRE TECHNOLOGIES, INC.

TEL VENTURE CAPITAL, INC.

EUROPE

TOKYO ELECTRON EUROPE LIMITED

TOKYO ELECTRON ISRAEL LIMITED

ASIA

TOKYO ELECTRON KOREA LIMITED

TOKYO ELECTRON KOREA SOLUTION LIMITED

TOKYO ELECTRON TAIWAN LIMITED

TOKYO ELECTRON (SHANGHAI) LIMITED

TOKYO ELECTRON (SHANGHAI) LOGISTIC CENTER LIMITED

INVESTOR INFORMATION

(As of March 31, 2006)

Corporate Name:
Tokyo Electron Limited

Established:
November 11, 1963

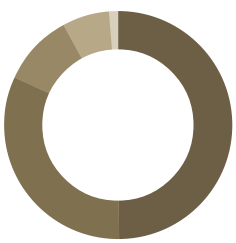
Annual General Meeting of Shareholders:
June

Common Stock:

Stock trading unit	100 shares
Authorized	300,000,000 shares
Issued and outstanding	180,610,911 shares
Number of shareholders	46,272

Common Stock Listed on:
The Tokyo Stock Exchange 1st Section (#8035)

Distribution of Ownership Among Shareholders:



Foreign institutions and others
90,081,184 shares 49.88%
Japanese financial institutions
57,747,864 shares 31.97%
Individuals and others
18,407,945 shares 10.19%
Other Japanese corporations
12,037,443 shares 6.67%
Treasury stock
2,336,475 shares 1.29%

Administrator of Shareholders' Register:
The Chuo Mitsui Trust and Banking Co., Ltd.
33-1 Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

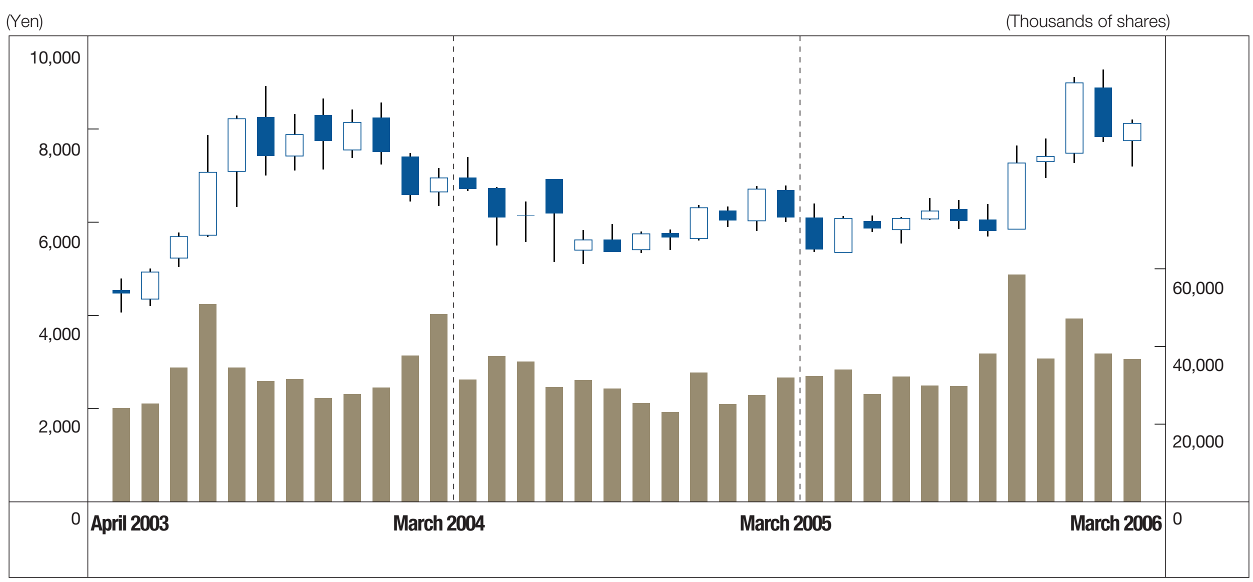
For Further Information, Contact:
Investor Relations
Corporate Communications Department
Tokyo Electron Limited
TBS Broadcast Center
3-6 Akasaka 5-chome, Minato-ku
Tokyo 107-8481
Tel: +81-3-5561-7003
Fax: +81-3-5561-7400
http://www.tel.com

Principal Shareholders:

	Number of shares held (thousands)	Voting share ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	15,296	8.46
The Chase Manhattan Bank, NA London	10,736	5.94
Tokyo Broadcasting System, Inc.	10,227	5.66
Japan Trustee Services Bank, Ltd. (Trust Account)	9,403	5.20
The Dai-ichi Mutual Life Insurance Company	4,800	2.65
State Street Bank and Trust Company	4,639	2.56
State Street Bank and Trust Company 505103	4,337	2.40
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,000	1.66
JPMCB Omnibus US Pension Treaty JASDEC 380052	2,939	1.62
Japan Trustee Services Bank, Ltd. (Trust Account No. 4)	2,497	1.38

Shares of less than one thousand have been rounded down in the "Number of shares held"

Stock Price Range:



TOKYO ELECTRON LIMITED

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Printed in Japan on recycled paper
PR44–132