# CONSOLIDATED BALANCE SHEETS

Tokyo Electron Limited and Subsidiaries
March 31, 2007 and 2006

| ASSETS | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| **Current assets:** | | | |
| Cash and cash equivalents | **¥134,390** | ¥140,024 | **$1,138,414** |
| Trade notes and accounts receivable | **228,688** | 169,038 | **1,937,220** |
| Allowance for doubtful accounts | **(127)** | (165) | **(1,077)** |
| Inventories | **194,840** | 163,746 | **1,650,490** |
| Deferred income taxes | **28,326** | 21,356 | **239,947** |
| Prepaid expenses and other current assets | **24,246** | 23,489 | **205,385** |
| Total current assets | **610,363** | 517,488 | **5,170,379** |
| **Property, plant and equipment:** | | | |
| Land | **20,495** | 18,150 | **173,618** |
| Buildings | **121,318** | 112,225 | **1,027,685** |
| Machinery and equipment | **96,547** | 94,764 | **817,846** |
| Construction in progress | **6,062** | 2,216 | **51,349** |
| Total property, plant and equipment | **244,422** | 227,355 | **2,070,498** |
| Less: Accumulated depreciation | **139,492** | 132,617 | **1,181,637** |
| Net property, plant and equipment | **104,930** | 94,738 | **888,861** |
| **Investments and other assets:** | | | |
| Investment securities | **14,643** | 14,860 | **124,040** |
| Deferred income taxes | **13,691** | 13,175 | **115,977** |
| Intangible assets | **19,400** | 16,710 | **164,330** |
| Other assets | **7,487** | 6,272 | **63,426** |
| Total investments and other assets | **55,221** | 51,017 | **467,773** |
| **Total assets** | **¥770,514** | ¥663,243 | **$6,527,013** |

*See accompanying Notes to Consolidated Financial Statements.*

**LIABILITIES AND NET ASSETS**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| **Current liabilities:** | | | |
| Short-term borrowings | ¥ 1,712 | ¥ 2,100 | $ 14,506 |
| Current portion of long-term debt | 8,500 | 24,500 | 72,003 |
| Trade notes and accounts payable | 96,847 | 75,842 | 820,388 |
| Customer advances | 21,957 | 33,811 | 185,995 |
| Income taxes payable | 45,657 | 22,895 | 386,762 |
| Accrued employees' bonuses | 14,131 | 10,231 | 119,704 |
| Accrued warranty expenses | 14,114 | 12,219 | 119,560 |
| Accrued expenses and other current liabilities | 22,937 | 19,015 | 194,296 |
| Total current liabilities | 225,855 | 200,613 | 1,913,214 |
| **Long-term debt, less current portion** | 30,000 | 38,500 | 254,130 |
| **Accrued pension and severance costs** | 40,686 | 38,751 | 344,649 |
| **Other liabilities** | 4,162 | 2,743 | 35,258 |
| Total liabilities | 300,703 | 280,607 | 2,547,251 |
| **Contingent liabilities** | | | |
| **Net assets:** | | | |
| **Shareholders' equity** | | | |
| Common stock | 54,961 | 54,961 | 465,576 |
| Authorized: 300,000,000 shares | | | |
| Issued: 180,610,911 shares as of March 31, 2007 and 2006 | | | |
| Capital surplus | 78,347 | 78,079 | 663,674 |
| Retained earnings | 328,027 | 249,938 | 2,778,708 |
| Treasury stock, at cost | (12,168) | (15,117) | (103,073) |
| 1,812,976 and 2,336,475 shares as of March 31, 2007 and 2006, respectively | | | |
| **Valuation and translation adjustments** | | | |
| Unrealized gains on securities | 5,853 | 5,118 | 49,582 |
| Deferred gains or losses on hedges | (177) | – | (1,502) |
| Foreign currency translation adjustments | 5,333 | 3,921 | 45,175 |
| **Share subscription rights** | 584 | 1,014 | 4,949 |
| **Minority interests** | 9,051 | 4,722 | 76,673 |
| Total net assets | 469,811 | 382,636 | 3,979,762 |
| **Total liabilities and net assets** | ¥770,514 | ¥663,243 | $6,527,013 |

# CONSOLIDATED STATEMENTS OF INCOME

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2007 and 2006

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| **Net sales** | ¥ 851,975 | ¥ 673,686 | $7,217,072 |
| Cost of sales | 579,326 | 483,954 | 4,907,462 |
| **Gross profit** | 272,649 | 189,732 | 2,309,610 |
| Selling, general and administrative expenses | 128,670 | 114,029 | 1,089,967 |
| **Operating income** | 143,979 | 75,703 | 1,219,643 |
| **Other income (expenses):** | | | |
| Interest and dividend income | 910 | 504 | 7,712 |
| Interest expenses | (421) | (687) | (3,564) |
| Revenue from development grants | 2,640 | 1,537 | 22,365 |
| Foreign exchange losses | (3,373) | (1,676) | (28,581) |
| Gain on refund for foreign indirect taxes | – | 855 | – |
| Loss on impairment of fixed assets | – | (419) | – |
| Gain on sale of investment securities | 1,225 | – | 10,381 |
| Gain on sale of shares of consolidated subsidiary | 528 | – | 4,475 |
| Equity in loss of affiliated company | (1,442) | (403) | (12,212) |
| Gain on reversal of forfeited warrants | 526 | – | 4,458 |
| Loss on disposal of property, plant and equipment | (834) | (658) | (7,066) |
| Other, net | 676 | 572 | 5,722 |
| **Income before income taxes** | 144,414 | 75,328 | 1,223,333 |
| Income taxes: | | | |
| Current | 60,132 | 29,189 | 509,380 |
| Deferred | (7,535) | (2,352) | (63,825) |
| Minority interests | 554 | 485 | 4,691 |
| **Net income** | ¥ 91,263 | ¥ 48,006 | $ 773,087 |

| **Per share of common stock:** | Yen | | U.S. dollars |
|---|---|---|---|
| Net income — basic | ¥ 511.27 | ¥ 267.61 | $ 4.33 |
| Net income — diluted | 509.84 | 267.32 | 4.32 |
| Net assets | 2,573.72 | 2,112.30 | 21.80 |
| Cash dividends | 103.00 | 55.00 | 0.87 |

*See accompanying Notes to Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2007 and 2006

| | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | Valuation and translation adjustments | | | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Unrealized gains on securities | Deferred gains or losses on hedges | Foreign currency translation adjustments | Share subscription rights | Minority interests | Total net assets |
| Balance as of March 31, 2005 | ¥54,961 | ¥78,023 | ¥212,094 | ¥(16,043) | ¥2,133 | ¥ – | ¥ 997 | ¥1,043 | ¥4,411 | ¥337,619 |
| Cash dividends | – | – | (9,796) | – | – | – | – | – | – | (9,796) |
| Bonuses to directors | – | – | (349) | – | – | – | – | – | – | (349) |
| Net income | – | – | 48,006 | – | – | – | – | – | – | 48,006 |
| Repurchase of treasury stocks | – | – | – | (39) | – | – | – | – | – | (39) |
| Disposal of treasury stocks | – | 56 | – | 965 | – | – | – | – | – | 1,021 |
| Other, net | – | – | (17) | – | 2,985 | – | 2,924 | (29) | 311 | 6,174 |
| Balance as of March 31, 2006 | ¥54,961 | ¥78,079 | ¥249,938 | ¥(15,117) | ¥5,118 | ¥ – | ¥3,921 | ¥1,014 | ¥4,722 | ¥382,636 |
| Cash dividends | **–** | **–** | **(12,843)** | **–** | **–** | **–** | **–** | **–** | **–** | **(12,843)** |
| Bonuses to directors | **–** | **–** | **(331)** | **–** | **–** | **–** | **–** | **–** | **–** | **(331)** |
| Net income | **–** | **–** | **91,263** | **–** | **–** | **–** | **–** | **–** | **–** | **91,263** |
| Repurchase of treasury stocks | **–** | **–** | **–** | **(64)** | **–** | **–** | **–** | **–** | **–** | **(64)** |
| Disposal of treasury stocks | **–** | **268** | **–** | **3,013** | **–** | **–** | **–** | **–** | **–** | **3,281** |
| Sale of shares of consolidated subsidiary and others | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **4,329** | **4,329** |
| Other, net | **–** | **–** | **–** | **–** | **735** | **(177)** | **1,412** | **(430)** | **–** | **1,540** |
| Balance as of March 31, 2007 | **¥54,961** | **¥78,347** | **¥328,027** | **¥(12,168)** | **¥5,853** | **¥(177)** | **¥5,333** | **¥ 584** | **¥9,051** | **¥469,811** |

| | Thousand of U.S. dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | Valuation and translation adjustments | | | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Unrealized gains on securities | Deferred gains or losses on hedges | Foreign currency translation adjustments | Share subscription rights | Minority interests | Total net assets |
| Balance as of March 31, 2006 | $465,576 | $661,405 | $2,117,222 | $(128,054) | $43,351 | $ – | $33,217 | $ 8,587 | $39,998 | $3,241,302 |
| Cash dividends | **–** | **–** | **(108,795)** | **–** | **–** | **–** | **–** | **–** | **–** | **(108,795)** |
| Bonuses to directors | **–** | **–** | **(2,806)** | **–** | **–** | **–** | **–** | **–** | **–** | **(2,806)** |
| Net income | **–** | **–** | **773,087** | **–** | **–** | **–** | **–** | **–** | **–** | **773,087** |
| Repurchase of treasury stocks | **–** | **–** | **–** | **(544)** | **–** | **–** | **–** | **–** | **–** | **(544)** |
| Disposal of treasury stocks | **–** | **2,269** | **–** | **25,525** | **–** | **–** | **–** | **–** | **–** | **27,794** |
| Sale of shares of consolidated subsidiary and others | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **36,675** | **36,675** |
| Other, net | **–** | **–** | **–** | **–** | **6,231** | **(1,502)** | **11,958** | **(3,638)** | **–** | **13,049** |
| Balance as of March 31, 2007 | **$465,576** | **$663,674** | **$2,778,708** | **$(103,073)** | **$49,582** | **$(1,502)** | **$45,175** | **$ 4,949** | **$76,673** | **$3,979,762** |

*See accompanying Notes to Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Tokyo Electron Limited and Subsidiaries
Years ended March 31, 2007 and 2006

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| **Cash flows from operating activities:** | | | |
| Income before income taxes | ¥144,414 | ¥ 75,328 | $1,223,333 |
| Depreciation and amortization | 18,820 | 19,170 | 159,427 |
| Amortization of goodwill | 1,974 | 1,600 | 16,725 |
| Loss on impairment of fixed assets | – | 419 | – |
| Increase in accrued pension and severance costs | 1,926 | 2,340 | 16,315 |
| Increase in accrued employees' bonuses | 3,900 | 1,587 | 33,039 |
| Increase (decrease) in accrued warranty expenses | 1,614 | (985) | 13,672 |
| Interest expenses | 421 | 687 | 3,564 |
| Gain on refund for foreign indirect taxes | – | (855) | – |
| Gain on sale of investment securities | (1,225) | – | (10,381) |
| Gain on sale of shares of consolidated subsidiary | (528) | – | (4,475) |
| Equity in loss of affiliated company | 1,442 | 403 | 12,212 |
| Gain on reversal of forfeited warrants | (526) | – | (4,458) |
| Loss on disposal of property, plant and equipment | 834 | 658 | 7,066 |
| (Increase) decrease in trade notes and accounts receivable | (58,352) | 5,144 | (494,301) |
| Increase in inventories | (31,585) | (5,467) | (267,556) |
| (Increase) decrease in prepaid consumption tax | (1,775) | 2,657 | (15,033) |
| Increase in trade notes and accounts payable | 17,236 | 6,743 | 146,006 |
| Decrease in customer advances | (12,459) | (9,505) | (105,541) |
| Other, net | 5,551 | (1,309) | 47,023 |
| **Subtotal** | 91,682 | 98,615 | 776,637 |
| Receipts from interest and dividends | 853 | 503 | 7,229 |
| Interest paid | (453) | (739) | (3,836) |
| Income taxes paid | (37,785) | (19,525) | (320,081) |
| **Net cash provided by operating activities** | 54,297 | 78,854 | 459,949 |
| **Cash flows from investing activities:** | | | |
| Payment for purchase of property, plant and equipment | (25,154) | (8,601) | (213,078) |
| Proceeds from sale of property, plant and equipment | 1,069 | 1,280 | 9,054 |
| Payment for acquisition of intangible assets | (2,462) | (2,611) | (20,860) |
| Payment for acquisition of consolidated subsidiary, net of cash acquired | (4,524) | – | (38,325) |
| Proceeds from sale of shares in consolidated subsidiary | 4,169 | – | 35,311 |
| Proceeds from sale of investment securities | 2,460 | 36 | 20,841 |
| Other, net | (851) | (641) | (7,202) |
| **Net cash used in investing activities** | (25,293) | (10,537) | (214,259) |
| **Cash flows from financing activities:** | | | |
| Increase (decrease) in short-term borrowings | (404) | 1,037 | (3,424) |
| Repayment of long-term debt | – | (5,476) | – |
| Redemption of unsecured bonds | (24,500) | (30,000) | (207,539) |
| Decrease in treasury stock, net | 3,217 | 982 | 27,250 |
| Dividends paid | (12,843) | (9,796) | (108,795) |
| Other, net | (189) | (167) | (1,599) |
| **Net cash used in financing activities** | (34,719) | (43,420) | (294,107) |
| Effect of exchange rate changes on cash and cash equivalents | 81 | (341) | 690 |
| **Net increase (decrease) in cash and cash equivalents** | (5,634) | 24,556 | (47,727) |
| Cash and cash equivalents at beginning of year | 140,024 | 115,420 | 1,186,141 |
| Effect of newly consolidated subsidiary | – | 48 | – |
| **Cash and cash equivalents at end of year** | ¥134,390 | ¥140,024 | $1,138,414 |

*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 ¥118.05 to $1.00, the approximate rate as of March 31, 2007. 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 30 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 foreign subsidiaries are translated at average rates of exchange in effect during the year. Resulting translation adjustments are presented in net assets as a component of valuation and translation adjustments 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 in net assets as a component of valuation and translation adjustments. 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 by 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, loss on impairment of fixed assets amounting to ¥419 million was 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 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 general shareholders' meetings in June 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 and decision of payment amount for each director and statutory auditor was delegated to board meeting of directors and statutory auditors, respectively. As discussed in note 10, 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 and the domestic subsidiary do 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 hedge accounting. As described in note 3 (a), unrealized gains or losses on hedging derivatives, net of taxes as of March 31, 2007 are reported in net assets as a component of valuation and translation adjustments in accordance with newly adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" effective from the year ended March 31, 2007. Unrealized gains or losses on hedging derivatives as of March 31, 2006 were deferred as the assets or liabilities without considering the related income tax effects in accordance with presentation rule and accounting standards which had been effective until the year ended March 31, 2006. 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 and net assets per share are 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 ¥56,962 million ($482,522 thousand) and ¥49,182 million for the years ended March 31, 2007 and 2006, respectively.

#### (q) Accounting standard for statement of changes in net assets

Effective from the year ended March 31, 2007, the Company and its domestic subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No.9 issued by the Accounting Standards Board of Japan on December 27, 2005).

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with these standards.

#### (r) 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.

#### (s) 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, 2007. As described in note 3 (a), the consolidated balance sheet for 2006 has been modified to conform to the new presentation rules of 2007. Also, as described in note 2 (q), in lieu of the consolidated statement of shareholders' equity for the year ended March 31, 2006, the Company prepared the consolidated statements of changes in net assets for 2006 as well as that for 2007.

### 3. Changes in Accounting Policies

#### (a) Accounting standard for presentation of net assets on the balance sheet

Effective from the year ended March 31, 2007, the Company and its domestic subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises of three sections; assets, liabilities and net assets.

Under the New Accounting Standards, the following items are required to be presented differently at March 31, 2007 compared to March 31, 2006. Unrealized gains or losses on hedging derivatives, net of taxes are included in net assets. Under the previous presentation rules, unrealized gains or losses on hedging derivatives were included in the assets or liabilities without considering the related income tax effects. Share subscription rights and minority interests are required to be included in net assets to confirm to the New Accounting Standards. Under the previous presentation rules, companies were required to present share subscription rights and minority interests in liabilities and between the non-current liabilities and the shareholders' equity, respectively.

The consolidated balance sheet as of March 31, 2006 has been restated to conform to the 2007 presentation. As a result, share subscription rights and minority interests amounting to ¥1,014 million and ¥4,722 million, respectively, are included in net assets as of March 31, 2006. On the other hand, unrealized gains and losses on hedging derivatives amounting to ¥689 million and ¥441 million, respectively, as of March 31, 2006 are included in accrued expenses and other current liabilities, and prepaid expenses and other current assets, respectively, without considering the related income tax effects in accordance with the previous accounting method.

The adoption of the New Accounting Standards had no impact on the consolidated statement of income for the year ended March 31, 2007. Also, the amount corresponding to total net assets as of March 31, 2007 and 2006 under previous standards were ¥460,353 million ($3,899,642 thousand) and ¥376,900 million, respectively.

**(b) Accounting standard for business combination**

Effective from the year ended March 31, 2007, "Accounting Standard for Business Combination" issued by the Business Accounting Standards Board of Japan has been adopted. The change had no significant impact on consolidated financial statements.

**(c) Accounting standard for decrease of treasury stock and legal reserve**

Effective from the year ended March 31, 2007, "Accounting Standard for Decrease of Treasury Stock and Legal Reserve" issued by the Accounting Standards Board of Japan has been adopted. The change had no impact on consolidated financial statements.

**(d) Accounting standard for stock option**

Effective from year ended March 31, 2007, "Accounting Standard for Stock Option" issued by the Accounting Standards Board of Japan has been adopted. Upon adoption, operating income and income before income taxes decreased by ¥118 million ($996 thousand) compared to the amount that would have been recorded under the previous accounting standards.

**(e) Accounting standard for director's bonus**

Effective from the year ended March 31, 2007, "Accounting Standard for Director's Bonus" issued by the Accounting Standards Board of Japan has been adopted. Upon adoption, operating income and income before income taxes decreased by ¥652 million ($5,519 thousand) compared to the amount that would have been recorded under the previous accounting standards.

**(f) Change in business segment classification**

As of October 1, 2006, the Company's computer systems and networks business was transferred to its subsidiary, Tokyo Electron Device Limited. The computer systems and networks business which was previously classified as part of "Industrial electronic equipment" segment was reclassified to "Electronic components" segment, which was renamed to "Electronic components and computer networks" segment, to more appropriately present the business segments in line with similarities types of products and operations.

Business segment information for the year ended March 31, 2006, is reclassified in accordance with the classification for the year ended March 31, 2007.

## 4. Acquisition

Tokyo Electron U.S. Holdings, Inc., a wholly-owned subsidiary of the Company, acquired all the shares of Epion Corporation (renamed TEL Epion, Inc.) in the amount of ¥4,526 million ($38,341 thousand) on December 19, 2006 (see note 17). The acquisition was accounted for using purchase method in accordance with U.S. generally accepted accounting standards. Negative goodwill generated from the acquisition was deducted from the intangible assets related to the acquired developed technology. The intangible assets, net amount of ¥4,985 million ($42,221 thousand), have been amortized over ten years.

## 5. Investment Securities

Investment securities, which solely comprise of other securities, as of March 31, 2007 and 2006 are as follows:

| | Millions of yen | |
|---|---|---|
| **2007** | Cost | Carrying value |
| Securities with market prices | | |
| Equity securities | **¥4,517** | **¥14,338** |
| Other (Note) | **114** | **120** |
| Securities without market value | | |
| Unlisted stock | **2,015** | **183** |
| Other | **21** | **21** |
| Total | **¥6,667** | **¥14,662** |

| | 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 |

| | Thousands of U.S. dollars | |
|---|---|---|
| **2007** | Cost | Carrying value |
| Securities with market prices | | |
| Equity securities | **$38,263** | **$121,461** |
| Other (Note) | **963** | **1,019** |
| Securities without market value | | |
| Unlisted stock | **17,070** | **1,551** |
| Other | **179** | **179** |
| Total | **$56,475** | **$124,210** |

*Note: Bond investment trust of ¥19 million ($170 thousand) classified as prepaid expenses and other current assets as of March 31, 2007 is included in the above.*

Gross realized gains and losses on sales of other securities are ¥1,244 million ($10,549 thousand) and ¥19 million ($168 thousand), respectively, for the year ended March 31, 2007.

## 6. Inventories

Inventories as of March 31, 2007 and 2006 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| Finished products | ¥102,515 | ¥ 95,564 | $ 868,404 |
| Work in process, raw materials and supplies | 92,325 | 68,182 | 782,086 |
| Total | ¥194,840 | ¥163,746 | $1,650,490 |

## 7. 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 in 2006. These charges were recorded in other income (expenses) in the consolidated statement of income for the year ended March 31, 2006.

No impairment loss of fixed assets was recognized in 2007.

## 8. Pledged Assets

Tokyo Electron did not hold any assets pledged as collateral as of March 31, 2007 and 2006.

## 9. 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 2.61% and 1.58% as of March 31, 2007 and 2006, respectively.

Long-term debt as of March 31, 2007 and 2006 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| 0.42% unsecured bonds due 2006 | ¥ – | ¥ 20,000 | $ – |
| 0.72% unsecured bonds due 2008 | 30,000 | 30,000 | 254,130 |
| 1.59% unsecured bonds with warrants due 2006 | – | 4,500 | – |
| 0.86% unsecured bonds with warrants due 2007 | 5,500 | 5,500 | 46,590 |
| Other loans from banks | 3,000 | 3,000 | 25,413 |
| Current portion | (8,500) | (24,500) | (72,003) |
| Total | ¥ 30,000 | ¥ 38,500 | $254,130 |

As of March 31, 2007, Tokyo Electron has unused lines of credit amounting to ¥125,842 million ($1,066,006 thousand).

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

| Year ending March 31 | Millions of yen 2007 | Thousands of U.S. dollars 2007 |
|---|---|---|
| 2008 | ¥ 8,500 | $ 72,003 |
| 2009 | 30,000 | 254,130 |
| 2010 | – | – |
| 2011 | – | – |
| 2012 and thereafter | – | – |
| Total | ¥38,500 | $326,133 |

## 10. Accrued Pension and Severance Costs

The Company and its domestic subsidiaries have a defined benefit plan (cash balance plan) and noncontributory retirement and severance benefit plans covering substantially their employees who meet eligibility requirements. The benefits under the plans are based on length of service and certain other factors.

The cash balance plan provides for pension or lump-sum payment benefits to employees with ten or more years of service who retired or terminated their employment for reasons other than dismissal for cause. Under the cash balance pension plan, each participant has an account which is credited yearly based on the current rate of pay and market-related interest rate. The noncontributory plans provide for lump-sum payment benefits to employees who retired or terminated their employment for reasons other than dismissal for cause. Certain foreign subsidiaries have noncontributory retirement and severance benefit plans 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, 2007 and 2006 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| Benefit obligation | ¥(69,414) | ¥(64,689) | $(588,005) |
| Fair value of plan assets | 30,812 | 24,962 | 261,011 |
| Unrecognized benefit obligation | (38,602) | (39,727) | (326,994) |
| Unrecognized actuarial difference | (2,113) | (1,496) | (17,904) |
| Unrecognized prior service cost | 1,662 | 3,188 | 14,078 |
| Net amount recognized | (39,053) | (38,035) | (330,820) |
| Amounts recognized in the consolidated balance sheets consist of: | | | |
| Prepaid pension and severance costs | 966 | – | 8,180 |
| Accrued pension and severance costs (Note) | (40,019) | (38,035) | (339,000) |
| Net amount recognized | ¥(39,053) | ¥(38,035) | $(330,820) |

*Note: The provision for accrued pension and severance costs for directors and statutory auditors (¥667 million ($5,649 thousand) in 2007 and ¥716 million in 2006) is not included in the above.*

Net pension cost of the plans is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| Service cost | ¥4,912 | ¥4,757 | $41,610 |
| Interest cost | 1,281 | 1,186 | 10,855 |
| Expected return on plan assets | (499) | (276) | (4,229) |
| Amortization of actuarial difference | 391 | 1,876 | 3,310 |
| Amortization of prior service cost | 1,526 | 1,526 | 12,929 |
| Net pension cost | 7,611 | 9,069 | 64,475 |
| Other | – | (24) | – |
| Net | ¥7,611 | ¥9,045 | $64,475 |

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

| | 2007 | 2006 |
|---|---|---|
| Allocation method of benefit obligation | Straight-line method | |
| Discount rate | **2.00%** | 2.00% |
| Expected rate of return on plan assets | **2.00%** | 2.00% |
| Amortization period of prior service cost | **4 years** | 4 years |
| Amortization period of actuarial difference | **4 years** | 4 years |

## 11. Income Taxes

Significant components of the deferred tax assets and liabilities of Tokyo Electron as of March 31, 2007 and 2006 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| **Deferred tax assets** | | | |
| Accrued pension and severance costs | **¥ 16,032** | ¥ 15,134 | **$135,810** |
| Elimination of unrealized profit on inventories | **10,463** | 8,298 | **88,631** |
| Accrued employees' bonuses | **5,736** | 4,140 | **48,590** |
| Accrued warranty expenses | **4,737** | 4,737 | **40,127** |
| Accrued business taxes | **3,890** | 1,555 | **32,952** |
| Devaluation of inventories | **2,713** | 1,954 | **22,981** |
| Net operating loss carryforwards | **1,966** | 1,123 | **16,658** |
| Depreciation and amortization | **1,598** | 3,653 | **13,536** |
| Other | **5,981** | 5,957 | **50,662** |
| Total gross deferred tax assets | **53,116** | 46,551 | **449,947** |
| Less valuation allowance | **(1,952)** | (2,848) | **(16,535)** |
| Total deferred tax assets | **51,164** | 43,703 | **433,412** |
| **Deferred tax liabilities** | | | |
| Net unrealized gains on securities | **(3,975)** | (3,480) | **(33,672)** |
| Undistributed earnings of foreign subsidiaries | **(3,517)** | (2,766) | **(29,792)** |
| Reserves under Special Taxation Measures Law, etc | **(1,932)** | (2,547) | **(16,373)** |
| Prepaid start-up expenses | **(1,659)** | (1,856) | **(14,050)** |
| Other | **(626)** | (288) | **(5,299)** |
| Total gross deferred tax liabilities | **(11,709)** | (10,937) | **(99,186)** |
| Net deferred tax assets | **¥ 39,455** | ¥ 32,766 | **$334,226** |

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

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, 2007 and 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, 2007 and 2006.

Significant components of the difference between the statutory and effective tax rates for the years ended March 31, 2007 and 2006 are as follows:

| | 2007 | 2006 |
|---|---|---|
| Statutory tax rate in Japan | **40.69%** | 40.69% |
| Adjustments: | | |
| Tax credits for research and development costs, etc. | **(5.21)** | (5.70) |
| Difference in statutory tax rates of consolidated subsidiaries | **(1.06)** | (1.33) |
| Gain on sale of shares of consolidated subsidiary | **0.73** | – |
| Change in valuation allowance | **(0.60)** | 0.95 |
| Dividends from foreign subsidiaries | **0.57** | 0.59 |
| Expenses not deductible for tax purpose | **0.56** | 0.62 |
| Amortization of goodwill | **0.54** | 0.86 |
| Increase in deferred tax liabilities on undistributed earnings of foreign subsidiaries | **0.52** | 0.43 |
| Others, net | **(0.32)** | (1.48) |
| Effective tax rate | **36.42%** | 35.63% |

## 12. Net Assets

Net assets comprises four subsections, which are shareholders' equity, valuation and translation adjustments, share subscription rights and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the board of directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital which is included in capital surplus.

Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal reserve must be set aside as additional paid-in capital or legal reserve. Legal reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal reserve until the total of legal reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the board of directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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 laws and regulations.

At the general shareholders' meeting on June 23, 2006, in accordance with the 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.

At the board of directors' meeting held on May 11, 2007, the distribution of cash dividends amounting to ¥10,907 million ($92,390 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are resolved at the board of directors' meeting.

## 13. Share Subscription Rights

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 general shareholders' meeting in June 2005. The cumulative number of shares authorized up to the year ended March 31, 2005 totaled 2,723,100, with the weighted average exercise price of ¥7,326. Options to purchase 85,200 and 92,000 shares of the Company were authorized and granted at exercise prices of ¥1 and ¥6,468, respectively for the year ended March 31, 2006. Options to purchase 66,900 shares of the Company were authorized and granted at an exercise price of ¥1 for the year ended March 31, 2007. 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 to twenty years from the date of grant.

Shareholders of Tokyo Electron Device Limited ("TED"), a domestic listed subsidiary, have approved annual stock option plans for directors and selected employees since the year ended March 31, 2005. As of April 1, 2005, outstanding granted stock options were 300 shares, with a weighted-average exercise price of ¥340,439. Options to purchase 350 shares of TED were authorized and granted at an exercise price of ¥281,492 for the year ended March 31, 2006. As of March 31, 2007, outstanding granted stock options were 650 shares with a weighted-average exercise price of ¥308,698 ($2,614.98).

### Warrant plan

In June 2000 and 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, which were forfeited and recognized a gain of ¥526 million ($4,458 thousand) in 2007, and June 2001, respectively. As noted above, the stock option plan granted stock options at an exercise price of ¥1 and to be in accordance with the Warrant plan, the exercise prices of these warrants issued in 2001 were adjusted to ¥9,601 ($81.33) and ¥9,604 in 2007 and 2006, respectively. The number of outstanding granted options increased by 139 shares and 283 shares in 2007 and 2006, respectively as a result of these adjustments 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 an 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, 2005, outstanding granted stock options, including warrants were 3,418,020 shares of the Company, with a weighted-average exercise price of ¥8,108. For the year ended March 31, 2006, 28,705 shares of the options were forfeited and 198,900 shares of the options were exercised. For the year ended March 31, 2007, 322,560 shares of the options were forfeited and 530,900 shares of the options were exercised. As of March 31, 2007, outstanding granted stock options, including the warrants were 2,581,477 shares with a weighted-average exercise price of ¥7,609 ($64.46).

## 14. Leases

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance leases, and depreciation expense of finance leases that do not transfer ownership of leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2007 and 2006 are as follows:

Leased assets not recorded in the consolidated balance sheets:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| Acquisition cost | ¥1,538 | ¥1,448 | $13,029 |
| Accumulated depreciation | 1,104 | 797 | 9,353 |
| Net leased property | ¥ 434 | ¥ 651 | $ 3,676 |

Future minimum lease payments:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| Due within one year | ¥121 | ¥247 | $1,023 |
| Due over one year | 313 | 404 | 2,653 |
| Total | ¥434 | ¥651 | $3,676 |

Lease payments relating to finance leases accounted for as operating leases amounted to ¥274 million ($2,321 thousand) and ¥318 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, 2007 and 2006, respectively.

Future minimum lease payments on non-cancelable operating leases:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| Due within one year | ¥ 733 | ¥ 690 | $ 6,206 |
| Due over one year | 920 | 696 | 7,795 |
| Total | ¥1,653 | ¥1,386 | $14,001 |

## 15. Derivative Financial Instruments

The Company and a domestic subsidiary enter 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 only enter into transactions with financial institutions with high credit ratings. Execution and management of all derivative transactions are conducted pursuant to the internal management rule for derivatives by the finance division and the effectiveness of derivative transactions is reported on a semiannual basis to the board of directors.

The estimated fair values of the derivative financial instruments as of March 31, 2007 and 2006 are as follows:

| | Millions of yen | | |
|---|---|---|---|
| **2007:** | Contract amount | Fair value | Unrealized gains (losses) |
| Sell U.S. dollars | **41,648** | **44,142** | **(2,494)** |
| Buy U.S. dollars | **1,770** | **1,870** | **100** |

| | 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 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| **2007:** | Contract amount | Fair value | Unrealized gains (losses) |
| Sell U.S. dollars | **352,797** | **373,921** | **(21,124)** |
| Buy U.S. dollars | **14,991** | **15,842** | **851** |

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. Other income (expenses)

Equity in loss of affiliated company of ¥1,442 million ($12,212 thousand) which is included in other income (expenses) for the year ended March 31, 2007 mainly consists of the liquidation of a 42.9% owned affiliated company (e-BEAM Corporation).

The 19,247 shares of Tokyo Electron Device Limited, a domestic listed subsidiary, were sold in the amount of ¥4,169 million ($35,311 thousand) in March 2007, and a gain of ¥528 million ($4,475 thousand) was recognized. As a result, the Company's ownership interests in Tokyo Electron Device Limited decreased to 55.4%.

## 17. Cash Flows Information

As discussed in note 4, Tokyo Electron U.S. Holdings, Inc., acquired all the shares of Epion Corporation (renamed TEL Epion, Inc.) in December 2006. The summary of the assets and liabilities of TEL Epion, Inc. on the date of acquisition was as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | **2007** | **2007** |
| Current assets | **¥ 548** | **$ 4,642** |
| Intangible and other non-current assets | **6,159** | **52,178** |
| Current liabilities | **(168)** | **(1,427)** |
| Non-current liabilities | **(2,013)** | **(17,052)** |
| Acquisition costs | **4,526** | **38,341** |
| Cash and cash equivalents of TEL Epion, Inc. | **(2)** | **(16)** |
| Net: payment for acquisition | **4,524** | **38,325** |

## 18. Segment Information

Business segment information as of and for the years ended March 31, 2007 and 2006 is as follows:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| **2007:** | Industrial electronic equipment | Electronic components and computer networks | Total | Eliminations and corporate | Consolidated |
| 1. Net sales and operating income | | | | | |
| Net sales | | | | | |
| (1) Sales to external customers | **¥744,512** | **¥107,463** | **¥851,975** | **¥ –** | **¥851,975** |
| (2) Intersegment sales or transfers | **2,382** | **1,247** | **3,629** | **(3,629)** | **–** |
| Total | **746,894** | **108,710** | **855,604** | **(3,629)** | **851,975** |
| Operating expenses | **606,540** | **104,740** | **711,280** | **(3,283)** | **707,996** |
| Operating income | **140,354** | **3,970** | **144,324** | **(346)** | **143,979** |
| 2. Assets, depreciation and amortization expenses and capital expenditure | | | | | |
| Assets | **¥728,236** | **¥ 46,730** | **¥774,966** | **¥(4,452)** | **¥770,514** |
| Depreciation and amortization expenses | **20,061** | **360** | **20,421** | **–** | **20,421** |
| Capital expenditure, including intangible and other assets | **34,795** | **274** | **35,069** | **–** | **35,069** |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| 2006: | Industrial electronic equipment | Electronic components and computer networks | Total | Eliminations and corporate | Consolidated |
| 1. Net sales and operating income | | | | | |
| Net sales | | | | | |
| (1) Sales to external customers | ¥569,308 | ¥104,378 | ¥673,686 | ¥ – | ¥673,686 |
| (2) Intersegment sales or transfers | 2,220 | 1,426 | 3,646 | (3,646) | – |
| Total | 571,528 | 105,804 | 677,332 | (3,646) | 673,686 |
| Operating expenses | 500,002 | 101,623 | 601,625 | (3,642) | 597,983 |
| Operating income | 71,526 | 4,181 | 75,707 | (4) | 75,703 |
| 2. Assets, depreciation and amortization expenses and capital expenditure | | | | | |
| Assets | ¥618,265 | ¥ 45,662 | ¥663,927 | ¥ (684) | ¥663,243 |
| Depreciation and amortization expenses | 20,375 | 395 | 20,770 | – | 20,770 |
| Loss on impairment of fixed assets | 419 | – | 419 | – | 419 |
| Capital expenditure, including intangible and other assets | 16,014 | 353 | 16,367 | – | 16,367 |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| **2007:** | Industrial electronic equipment | Electronic components and computer networks | Total | Eliminations and corporate | Consolidated |
| 1. Net sales and operating income | | | | | |
| Net sales | | | | | |
| (1) Sales to external customers | **$6,306,756** | **$910,316** | **$7,217,072** | **$ –** | **$7,217,072** |
| (2) Intersegment sales or transfers | **20,173** | **10,564** | **30,737** | **(30,737)** | **–** |
| Total | **6,326,929** | **920,880** | **7,247,809** | **(30,737)** | **7,217,072** |
| Operating expenses | **5,137,988** | **887,251** | **6,025,239** | **(27,809)** | **5,997,429** |
| Operating income | **1,188,941** | **33,629** | **1,222,570** | **(2,928)** | **1,219,643** |
| 2. Assets, depreciation and amortization expenses and capital expenditure | | | | | |
| Assets | **$6,168,882** | **$395,846** | **$6,564,728** | **$(37,715)** | **$6,527,013** |
| Depreciation and amortization expenses | **169,932** | **3,050** | **172,982** | **–** | **172,982** |
| Capital expenditure, including intangible and other assets | **294,751** | **2,321** | **297,072** | **–** | **297,072** |

*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 and others* |
| *Electronic components and computer networks* | *Semiconductor products, boards, software, computer systems and networks, and other electronic components* |

*3. Depreciation expenses and capital expenditure include those of long-term prepaid expenses.*

*4. Business segment information for the year ended March 31, 2006, which would have been classified in accordance with the classification for the year ended March 31, 2007.*

*5. Changes in accounting policies*

*(1) Accounting standard for stock options*

*Effective from the year ended March 31, 2007, "Accounting Standard for Stock Option" issued by the Accounting Standards Board of Japan has been adopted. The adoption of the new standards increased operating expenses and decreased operating income for the industrial electronic equipment by ¥118 million ($996 thousand) for the year ended March 31, 2007, compared with the corresponding amount which would have been recorded if the previous method had been applied. The change did not affect the figures of the electronic components and computer networks segment.*

*(2) Accounting standard for director's bonus*

*Effective from the year ended March 31, 2007, "Accounting Standard for director's bonus" issued by the Accounting Standards Board of Japan has been adopted. The effect of change increased operating expenses and decreased operating income for the industrial electronic equipment segment and the electronic components and computer networks segment by ¥626 million ($5,299 thousand) and ¥26 million ($220 thousand), respectively, for the year ended March 31, 2007, compared with the corresponding amount which would have been recorded if the previous method had been applied.*

Geographical segment information as of and for the years ended March 31, 2007 and 2006 are as follows:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| **2007:** | Japan | Other regions | Total | Eliminations and corporate | Consolidated |
| 1. Net sales and operating income | | | | | |
| Net sales | | | | | |
| (1) Sales to external customers | **¥749,282** | **¥102,693** | **¥851,975** | **¥ –** | **¥851,975** |
| (2) Intersegment sales or transfers | **69,936** | **48,526** | **118,462** | **(118,462)** | **–** |
| Total | **819,218** | **151,219** | **970,437** | **(118,462)** | **851,975** |
| Operating expenses | **683,389** | **140,782** | **824,171** | **(116,175)** | **707,996** |
| Operating income | **135,829** | **10,437** | **146,266** | **(2,287)** | **143,979** |
| 2. Assets | **¥740,970** | **¥ 95,183** | **¥836,153** | **¥ (65,639)** | **¥770,514** |

| | 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 | | | | |
|---|---|---|---|---|---|
| **2007:** | Japan | Other regions | Total | Eliminations and corporate | Consolidated |
| 1. Net sales and operating income | | | | | |
| Net sales | | | | | |
| (1) Sales to external customers | **$6,347,157** | **$ 869,915** | **$7,217,072** | **$ –** | **$7,217,072** |
| (2) Intersegment sales or transfers | **592,428** | **411,061** | **1,003,489** | **(1,003,489)** | **–** |
| Total | **6,939,585** | **1,280,976** | **8,220,561** | **(1,003,489)** | **7,217,072** |
| Operating expenses | **5,788,976** | **1,192,567** | **6,981,543** | **(984,114)** | **5,997,429** |
| Operating income | **1,150,609** | **88,409** | **1,239,018** | **(19,375)** | **1,219,643** |
| 2. Assets | **$6,276,747** | **$ 806,290** | **$7,083,037** | **$ (556,024)** | **$6,527,013** |

*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.*

Domestic and overseas sales for the years ended March 31, 2007 and 2006 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Net sales | **2007** | 2006 | **2007** |
| Japan | **¥313,816** | ¥262,532 | **$2,658,334** |
| Taiwan | **182,918** | 150,322 | **1,549,497** |
| Korea | **122,628** | 83,571 | **1,038,780** |
| United States of America | **105,717** | 93,314 | **895,527** |
| Others | **126,896** | 83,947 | **1,074,934** |
| Total | **¥851,975** | ¥673,686 | **$7,217,072** |

*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 China, Singapore, Germany and Ireland.*

## 19. Subsequent Event

### Grant of stock options under the stock option plans

On May 11, 2007, the Company's board of directors decided to submit a resolution to the general shareholders' meeting for approval of the issuance of stock subscription rights to directors and selected employees of Tokyo Electron. The 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 40,000 shares will be granted to directors of the Company (excluding outside directors) and the options to purchase the shares of the Company at an exercise price of ¥1 ($0.01), up to 90,000 shares will be granted to executive officers of the Company, directors and executive officers of domestic subsidiaries, the chairman, presidents, vice presidents, executives (including corporate officers) and senior executives of its overseas subsidiaries as of March 31, 2007 and directors of the Company resigning at the general shareholders' meeting on June 22, 2007. This grant of stock options was approved at the general meeting of the shareholders of the Company on June 22, 2007.

# INDEPENDENT AUDITORS' REPORT

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, 2007 and 2006, and the related consolidated statements of income, changes in net assets 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 consolidated financial position of Tokyo Electron Limited and subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
(1) As discussed in note 3 (f) to the consolidated financial statements, the Company changed its classification of business segments in the year ended March 31, 2007.
(2) 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 22, 2007