

Achievements

▶ Semiconductor production equipment (SPE) — an industry that enters a new stage of growth on upturns in the silicon cycle. Having been through what is said to be the worst slump in the history of the semiconductor industry, our industry is now in the midst of a notable recovery, and the direction and potential of new markets are becoming visible. Against this backdrop, Tokyo Electron (TEL)'s established technological strengths and strategic marketing are helping its performance growth outstrip that of the recovery in the industry.

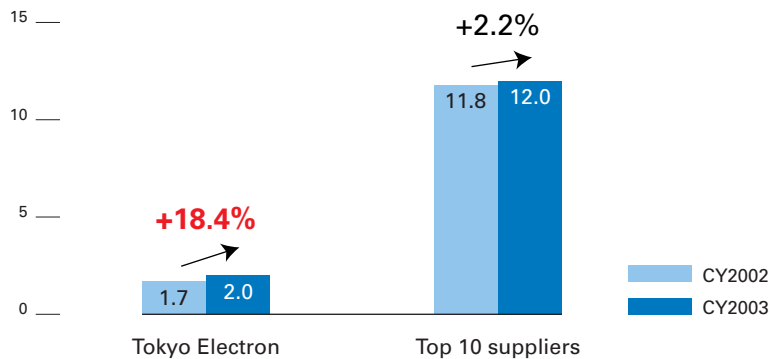
A Performance Rebound that Exceeds that of Market Recovery

18.4% growth

During the calendar year 2003, TEL's Wafer Fab Equipment sales surged 18.4% from the same period in 2002, substantially outperforming the 3.6% growth in the global Wafer Fab Equipment market. Starting from the second half of 2003, the semiconductor manufacturers began to invest robustly in memory chips and in chips for digital consumer electronics, one of the key drivers of the future. Our overwhelming technology leadership in these arenas enabled us to fully enjoy the benefits of the recovery.

CY2003 Growth of Wafer Fab Equipment Shipments Worldwide

(Billions of U.S. Dollars)

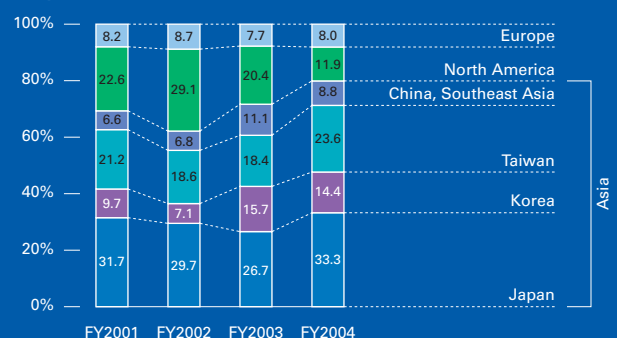


Source: Gartner Dataquest (April, 2004) GJ04312
Equipment sales only, excludes service and spare parts sales

Notes: 1. Growth rates described here are based on surveys by Gartner Dataquest.
2. TEL's Wafer Fab Equipment sales are equivalent to its Semiconductor Production Equipment sales excluding the sales of wafer probers.

TEL Basic Data

Composition of SPE Regional Sales

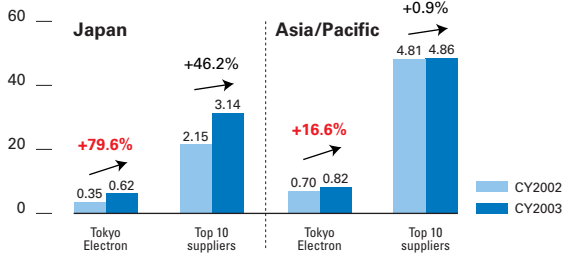


Note: Sales of FPD production equipment are included.

Booming SPE Sales in Asia

CY2003 Growth of Wafer Fab Equipment Shipments in Japan and Asia/Pacific

(Billions of U.S. Dollars)



Source: Gartner Dataquest (April, 2004) GJ04313
Equipment sales only, excludes service and spare parts sales

Note: Growth rates described here are based on surveys by Gartner Dataquest.

79.6 % growth in Japan
16.6 % growth in Asia/Pacific

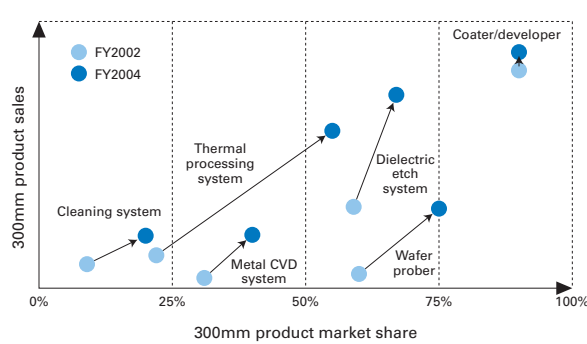
Our high presence in Asia, including Japan, made it possible for us to achieve our high-level recovery during the past year. On the threshold of the 21st century, many semiconductor manufacturers began shifting their mass-production bases to Asia to enable low cost production. Moreover, Japanese semiconductor manufacturers regained momentum by revising their product strategies.

These trends propelled TEL's performance upward thanks to our powerful marketing/sales and service network in Asia.

The Wafer Fab Equipment market in CY2003 grew 34.0% in Japan, and 3.4% in the rest of Asia. TEL's sales growth in these regions significantly outperformed the average growth.

Equipment for Handling 300mm Wafers – No.1 Market Share in Multi-segments

Market Shares of TEL Products for 300mm Wafers

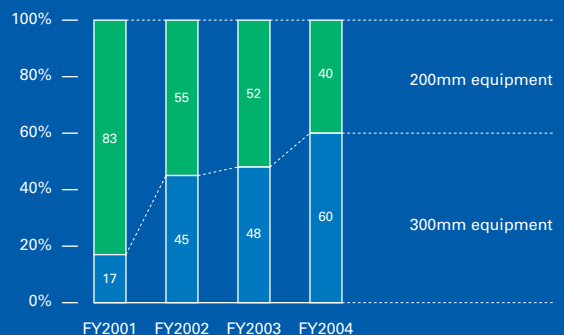


Note: Product market shares are based on surveys by TEL

No. 1

To reduce overall chip manufacturing costs, semiconductor manufacturers have now shifted their capital investment from 200mm to 300mm wafer equipment. Anticipating the full-scale start of the 300mm era in the wake of the market recovery, we have been focusing our efforts on building a competitive 300mm product lineup. Over the past two years, all of TEL's 300 mm wafer products have substantially increased their market shares as shown in the chart.

**Proportion of New Orders Received
200mm Equipment Vs. 300mm Equipment**



Achievements

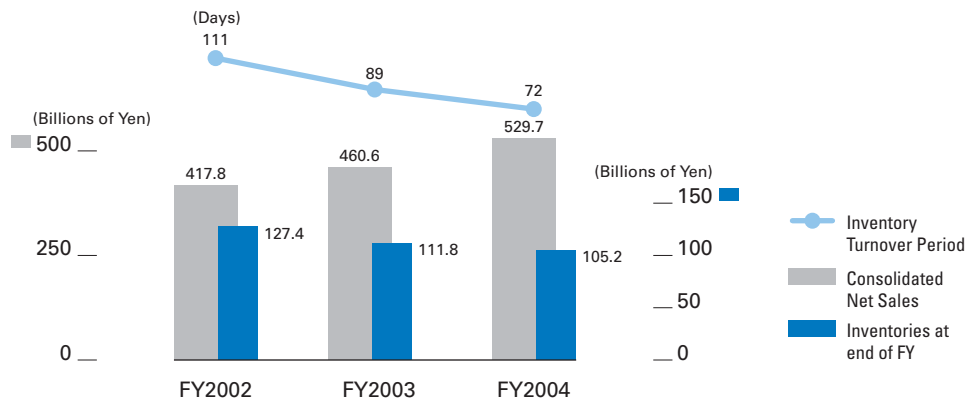
▶ After the collapse of the IT bubble, TEL carried out various groupwide restructuring measures to downsize costs and surplus assets to accommodate with current scale of the business. We accelerated all our business cycles through such efforts as shortening production leadtime and development period, aiming to be able to respond quickly to changes in market needs and achieve high operating efficiency.

Inventory Turnover Accelerated by 39 Days (FY2002 Vs. FY2004)

-39 days

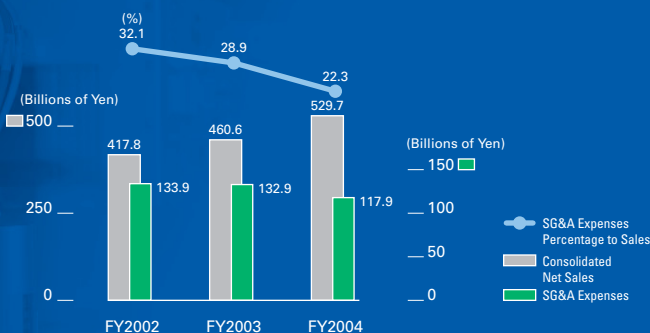
To improve TEL's cash flow, we have thoroughly pursued inventory reduction. While working to restore the healthy status of inventories by writing-off obsolete ones, we also strengthened efforts to sell our accumulated in-stock products. As a result, inventory assets fell by ¥22.2 billion compared with the end of FY2002. The inventory turnover period contracted dramatically to 72 days from 111 days. The reduction of production leadtime project currently under way is also proceeding smoothly, and our near-term goal 60 days is well within sight.

Inventories and Inventory Turnover



TEL Basic Data

Selling, General and Administrative Expenses and Percentage to Sales



Note:
From FY2004, some of field engineering related expenses previously included in SG&A expenses were reclassified to cost of goods sold. Disregarding the reclassification for the purpose of comparison with performances in previous fiscal years yields an SG&A to net sales ratio of 25.0%.

Fixed Cost Reduced by 14 Billion Yen (FY2004)

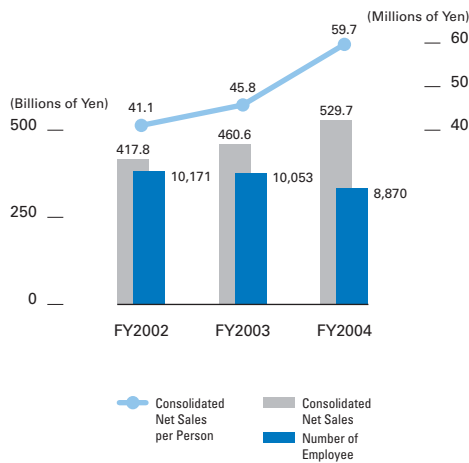
14 billion yen

Over the last three years, we have been reducing our fixed costs, which had increased along with the sharp growth in the market up to 2000. In FY2004, we cut fixed costs by ¥14 billion mainly through reductions in labor costs and depreciation expenses. In addition, we reduced our R&D costs by adhering to “selection-and-focus” strategies. Among the measures taken were an exit from a business no longer core for us and consolidation of our production bases in Japan and the United States. Furthermore, commencing with the past fiscal year, we have been reviewing and optimizing our manufacturing processes with the goal of decreasing manufacturing costs by 30% over three years.

Operational Efficiency Boosted (FY2001/3Q Vs. FY2004/4Q)

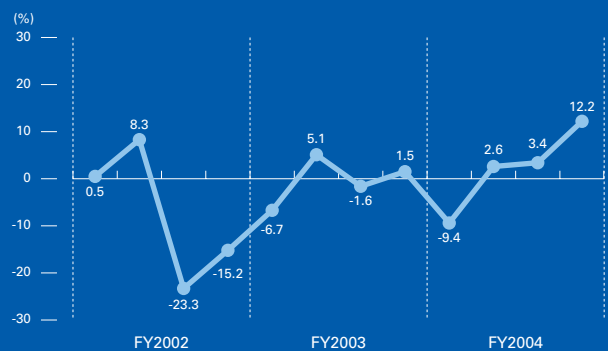
18.5% up

Number of Employee and Consolidated Net Sales per Person



Our production levels began to rise sharply from the second half of the past fiscal year, along with the beginnings of a recovery in the capital investment sentiment of semiconductor manufacturers. In response, TEL shortened production leadtimes by revising its product designs and manufacturing processes—and was successful in expanding production volume without adding personnel. Consolidated net sales for the third quarter of the fiscal year ended March 2001, our record sales year, and for the fourth quarter of the past fiscal year were both around the level of ¥180 billion. However, we were able to get through this production ramp-up period with approximately 1,400 less workers than three years ago. This represents an 18.5% increase in operational efficiency with substantial improvement in productivity from the third quarter of FY2001.

Quarterly Operating Margin



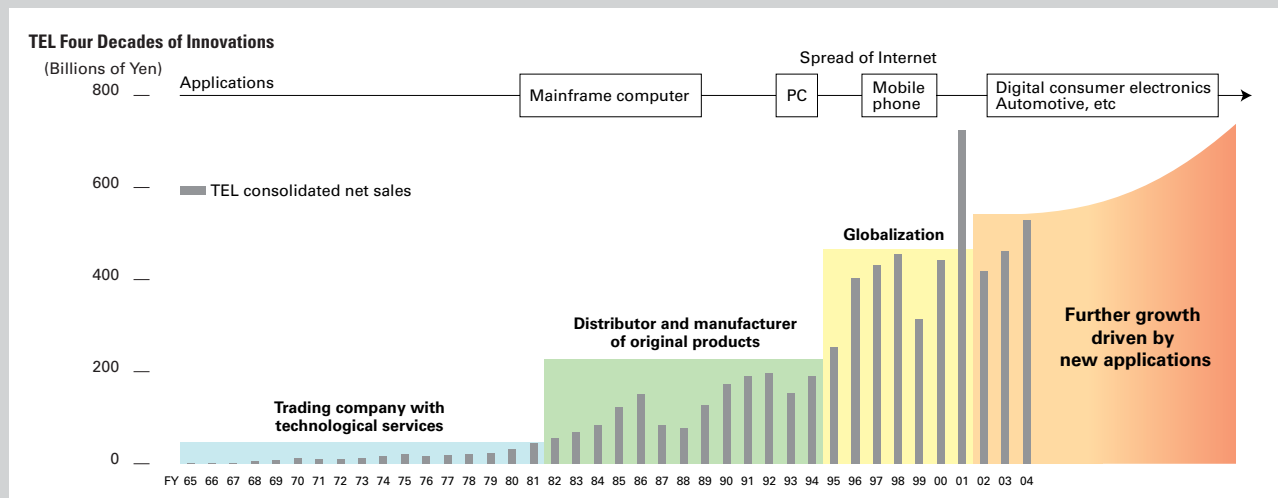
The Challenge to Become a Highly Profitable Company

- ▶ As a medium-to-long-term goal, TEL has set itself the challenge of building a high-profit structure that meets world-class standards. By implementing a growth strategy to expand sales, the source of profits, while also proceeding simultaneously with a cost reduction program, TEL aims to become a company that earns large returns when the market is robust, yet maintains stable returns during correction periods.

Setting a Growth Strategy that Adjusts to Market Changes

In the past, TEL has achieved growth by evolving in response to advances in the electronics industry or changes in the external environment. Now, yet another new trend has occurred in our business environment. In addition to personal computers and mobile devices, the key drivers of growth in the semiconductor market over the past decade, a new wave of digital consumer electronics has emerged as another driving force.

In setting a growth strategy that responds to this new wave in the market, TEL is moving forward to its next stage of development. Because of the short cycle between generations of digital consumer products, manufacturing equipment for semiconductors used in these end products needs to be scalable and adaptable to enable a shorter chip manufacturing cycle. Moreover, high-speed and highly-functional semiconductors that will make PC and mobile communications stress-free and more fun to use, require new evolutionary manufacturing technologies. In response, TEL is accelerating the development of new products and new process technologies that meet the diversifying and increasingly sophisticated needs of semiconductor manufacturers.



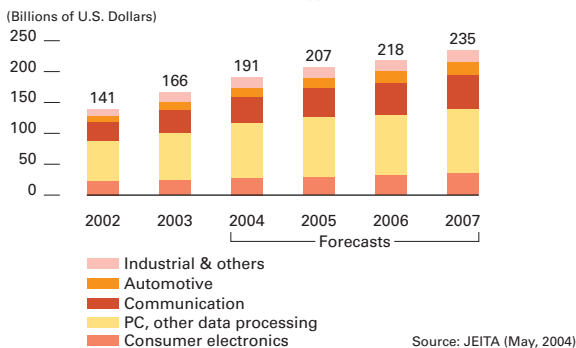
TEL Basic Data

FY2004 Technology Highlights

- Volume production commenced of CLEAN TRACK LITHIUS, a new model of coater/developer
- Liquid immersion technology alliance formed
- MEMS business marketing started
- Mask coater/developer CLEAN TRACK ACT M launched

A prediction – The Semiconductor Market will Grow 41 percent in Four Years (CY2003 Vs. CY2007)

Semiconductor Demand Forecast by End-applications



The driving force behind the growth in the semiconductor market in the latter half of the 1990s was the expansion in the personal computer market along with the spread of the Internet and the growth in the mobile phone market. The future growth in the market is expected to be more robust, driven by not only the personal computer and mobile phone markets, but by more digital electronics products, automotive electronics, and other new applications for semiconductors. We should also consider that quantity growth of semiconductor chips and bit growth of memories will far outstrip the sales growth rate.

Operating Margin Target is to Surpass Previous Record and Go on to Attain World-class Heights in Profitability

TEL Operating Margin



As expressed by the term “cyclical growth”, semiconductor-related industry is a business that grows through a continuous process of boom and bust. With the broadening of the fields in which semiconductors are used, the volatility is expected to subside—but the cycle will remain. Facing these circumstances, TEL’s target is to first surpass its highest recorded operating margin, and then go on to attain new world-class heights in profitability as its ultimate goal. In its drive toward this goal, TEL will:

- strengthen its R&D, further differentiating its existing products and accelerating its new product launches;
- reinforce its post-sales service business, expanding profitability; and
- continue to pursue the structural reforms begun last year, maintaining its lean structure.

By carrying out with these strategies, the Company is aiming to achieve a high-profit structure on a global level.

New Products of Recent Years

2000



Plasma Etch System
Telius

2002



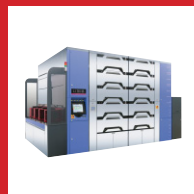
Thermal Processing System
TELFORMLA

2002



Plasma Processing System
Trias SPA

2004



Coater/Developer
CLEAN TRACK LITHIUS

2004



Mask Coater/Developer
CLEAN TRACK ACT M