



Always seeking better ways

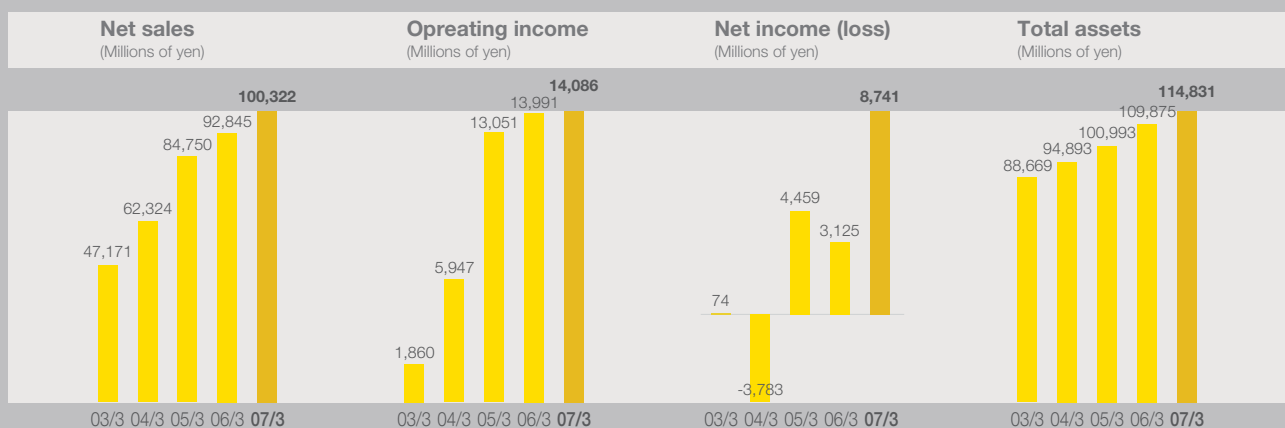
TOKYO SEIMITSU CO., LTD. Annual Report 2007

Financial Highlights

Tokyo Seimitsu Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars		% change
	2006	2007	2007		
For the year:					
Net sales	¥ 92,845	¥ 100,322	\$ 849,544		8.1%
Semiconductor manufacturing equipment	71,824	78,091	661,291		8.7
Measuring systems	21,020	22,230	188,252		5.8
Operating income	13,991	14,086	119,285		0.7
Income before income taxes and minority interests	7,865	13,198	111,766		67.8
Net income	3,125	8,741	74,023		179.7
Capital expenditures	3,978	2,511	21,266		(36.9)
Depreciation and amortization	2,768	2,882	24,405		4.1
Research & development expenses	7,919	7,638	64,687		(3.5)
Semiconductor manufacturing equipment	7,296	6,844	57,961		(6.2)
Measuring systems	623	794	6,725		27.4
At year-end:					
Total assets	¥ 109,875	¥ 114,831	\$ 972,407		4.5%
Total net assets	46,703	54,281	459,665		16.2
		Yen	U.S. dollars		% change
Per share data (yen and dollars):					
Net income — basic	¥ 80.77	¥ 217.91	\$ 1.85		169.8%
Cash dividends, applicable to earnings of the year	40.00	50.00	0.42		25.0

Note: The U.S. dollar amounts are translated for convenience only at the rate of ¥118.09 to U.S.\$1, the exchange rate prevailing on March 31, 2007.



Years ended March 31

CAUTIONARY STATEMENTS WITH RESPECT TO FORWARD-LOOKING STATEMENTS:

Statements made in this annual report with respect to Tokyo Seimitsu's plans and benefits as well as other statements that are not historical facts are forward-looking statements, which involve risks and uncertainties. Potential risks and uncertainties include, without limitation, general economic conditions in Tokyo Seimitsu's markets, exchange rates, and Tokyo Seimitsu's ability to continue to win customers' acceptance of its products, which are offered in highly competitive markets characterized by continual new product introductions and rapid developments in technology.

As a comprehensive maker of measuring instruments and semiconductor manufacturing equipment, Tokyo Seimitsu takes pride in advancing leading-edge product development to boost productivity and providing extensive support to customers. In a world where technological innovations occur at breakneck speed, we remain committed to always raising corporate value through the establishment of high-growth, profitable business foundations.

Based on the motto “WIN-WIN relationships create the world’s No. 1 products,” Tokyo Seimitsu seeks to build mutually beneficial bonds with companies and individuals worldwide with the common goal of generating globally supreme products. Our brand name ACCRETECH embodies our desire to grow together with others and to be at the vanguard of technology. Boasting an unrivalled product development system, we have now become a true global enterprise.

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Tokyo Seimitsu posted strong growth in net sales and net income in fiscal 2007 to register record highs in both these financial indicators. Operating income, meanwhile, increased slightly. Our key challenge is to continue improving business performance.

Capital investment from semiconductor manufacturers was buoyant on the whole during the year under review, ensuring that demand was firm. The business environment for measuring systems was favorable, evident in particular in significant overseas sales growth. As a result, orders received in fiscal 2007 totaled ¥105,460 million, up 5.9% from the previous year. Net sales were ¥100,322 million, up 8.1%, operating income was ¥14,086 million, up 0.7%, and net income was ¥8,741 million, surging around 2.8 times over the previous year. Figures for net sales and net income were historic highs.

Looking at results by business segment, the semiconductor manufacturing equipment division registered new records in orders received and net sales, which amounted to ¥82,465 million (up 5.9%) and ¥78,091 million (up 8.7%), respectively. Operating income dipped 1.6% to ¥8,830 million due to temporary costs associated with the development of new wafer probing machines and wafer dicing machines coupled with a decline in the profit margin of polish grinders in certain regions.

In the measuring instrument division, orders received totaled ¥22,994 million, a year-on-year increase of 6.0%, while net sales reached ¥22,230 million, up 5.8%, and operating income was ¥5,256 million, up 4.7%. Each of these financial indicators posted historic highs for the fourth consecutive year. (See Review of Operations and Financial Section for details of business results.)

Challenges and future strategies

Develop new products into core business pillars

As I explained in last year's Annual Report, a pressing task at Tokyo Seimitsu is to swiftly secure a foothold in the market for new products launched by the semiconductor manufacturing equipment division since fiscal 2000 and develop them into core business pillars. The three areas marked for this objective are wafer inspection systems, polish grinders and chemical mechanical planarizers (CMPs).

With regard to performance in fiscal 2007, the proportion of new product sales to overall sales in the semiconductor manufacturing equipment division decreased from 29% to 21% relative to the previous fiscal year. This was due primarily to a decline in orders for wafer inspection systems in the first half, and a downturn in the polish grinder market, which was favorable in the previous year. We will strive to boost sales of these products from fiscal 2008 onward.

Meanwhile, the market for polish grinders is picking up and the development of new wafer inspection systems has been completed. Orders for these two product lines have therefore been steady. In CMPs, we will focus on fields in which we can maximize our competitive edge as a means to increase orders. In fiscal 2008, we aim to peg back the proportion of new product sales to overall sales to roughly 28%, which is expected to contribute to higher profits.

Concentrate technological resources into common platforms

Up until recently, Tokyo Seimitsu employed a vertical structure for its semiconductor manufacturing equipment based on a Group Leader System for each product line. Although this was extremely beneficial in reducing time to market launch, it became necessary to modify the system slightly to move forward in light of current conditions. We had to develop common technologies for controllers, software and interface more efficiently, particularly as the market demanded the use of standard technologies in products. In response, we established the Technology Development Group (TDG) in February 2007 to take charge of developing common platforms.

We expect the positive effects of activities undertaken by the TDG to emerge by the end of fiscal 2008, including an improvement in interface between machines and greater speed in development. This will result in considerably higher product quality and maintenance performance. The TDG will also provide our engineers with the opportunity to become well versed in the technologies.



President, CEO & COO Sadakatsu Suzuki

Boosting profitability and increasing sales overseas are keys to growth in measuring instruments business

The measuring instrument division has posted record highs in orders received, net sales and operating income for four successive years. It therefore has extremely solid foundations. Further, its core customers are from automobile-related industries, and we project extremely stable growth in this market going forward. In accord with this persistent expansion, our main challenge is to further increase profitability. We plan to execute an aggressive capital investment program to achieve this goal.

In terms of sales expansion, we plan to increase sales overseas, particularly in the automobile industry in Asia and Europe. To drive up sales to automakers in these regions, we have expanded the number of business locations and personnel, and reinforced a tie-up with Germany-based Carl Zeiss Inc. We plan to proactively promote the attractiveness of our technologies to the local production sites of Japanese automakers and for use in joint production projects with local manufacturers.

Raise dividend payouts to increase shareholder return

Tokyo Seimitsu believes that one of its most important management tasks is to enhance corporate value so that it can constantly distribute profits to shareholders by providing unsurpassed products incorporating state-of-the-art technologies in growth areas. The Company determines distribution of earned surplus upon consideration of

various factors, including consolidated business results, financial position and investments for business expansion over the medium to long term.

Prior to fiscal 2007, we aimed for a dividend payout ratio of 20% relative to consolidated net income. However, in view of a sound cash flow situation, we have decided to raise the payout ratio to 30%, thereby attaching greater importance to profit distribution to shareholders.

Aiming to be in the top ten semiconductor manufacturing equipment makers worldwide

In April 2006, we initiated a medium-term plan dubbed "ACCRETECH (our Corporate Brand) Action 60" (AA60) covering the period through to the year ending March 2009, which will mark our 60th anniversary. The goals of the plan are to achieve in its final year consolidated net sales of ¥100 billion in the semiconductor manufacturing equipment division and ¥25 billion in the measuring instrument division, with an operating profit margin of 25% at the consolidated level. We will clarify strategies and policies and move forward confidently toward the attainment of these challenging goals.

At present, we lie in 15th position globally in the semiconductor manufacturing equipment industry. We will leverage the flexibility of our organization and the challenging spirit of our employees to work our way into the top ten. Our measuring instruments will play an integral role in achieving this objective as they are seen as fundamental to the manufacturing process.

It is also essential that we instill a back-to-basics approach in manufacturing. Our mission must be to develop good products at low cost that can be sold in a large amount at an appropriate price. Further, success or failure in the market depends on the level of motivation of personnel in each process. While striving to maintain optimum motivation in each worker, we plan to continue aggressively investing in new product development and to expand manufacturing facilities.

I ask for the continued guidance of all shareholders and investors.

President, CEO & COO
Sadakatsu Suzuki

The Semiconductor Company develops and manufactures five products. In “always seeking better ways,” the aim of the TDG is to develop basic technologies for use in all of these products, an area previously handled separately by each product group. This will allow the product groups to focus more on enhancing the capabilities of their own product, while lowering development costs and lead-time and increasing quality.

What kind of organization is the TDG?

The Semiconductor Company is in charge of five product groups, each of which has a group leader with total responsibility for sales and profits. The system has been running for over 10 years now, acting to significantly boost product attractiveness. A drawback of the system, however, has been a degree of inefficiency caused by a lack of “technological standardization.” In commercializing these products, our own unique processing technology is added to elemental technologies, which have been layered on top of basic technologies. Basic and elemental technologies share many areas in common between products, however, including high-precision positioning, transferring technology and image processing. The TDG works to transform these common technologies into more stable technologies to enhance development in each product group.

What are the objectives of the TDG?

The TDG has two key objectives in “always seeking better ways.” The first is to streamline product development. To reduce development costs, we seek to develop and manage standard technologies in a single location, which is expected to significantly shorten lead-

times in each product group. The second objective concerns nurturing employees. The TDG takes a dynamic approach to personnel development. Currently, product group managers gather there to create development foundations for basic and elemental technologies. Going forward, engineers will take part there in diverse projects based on key development themes. Upon project completion, the engineers will return to their respective product groups and apply the knowledge learned in development. Nurturing engineers in this way enables them to think beyond the bounds of their own product group.

What are the roles and challenges of the TDG?

The role of the TDG is to provide support to each product group in accelerating the attainment of developmental objectives. We are currently facing three challenges: to assist in the development of new strategic products; to resolve technical issues in existing products in the short term to enhance competitiveness; and to promote standardization for future development. We also tap the knowledge of marketing personnel from each product group to ascertain developmental requirements. The positive



The vision of the Technology Development Group (TDG) is to achieve an industry-leading position in all semiconductor business products.

MAKOTO NIHEI
MANAGING EXECUTIVE OFFICER
GENERAL MANAGER, TECHNOLOGY DEVELOPMENT GROUP

effects of efforts undertaken at the TDG are expected to emerge in product development from the second half of fiscal 2008.

What is the mission of the TDG?

We aim to deliver a string of global number one products from each of the five product groups that stand the test of time. Engineers often conceive of innovative ideas, though sometimes cash-flow issues or corporate mindset stymie their realization. From a personal perspective, I would like to see the brakes taken off so that more of these ideas are pushed to the fore.

Tokyo Seimitsu commenced operations in the measuring instruments business, and has now amassed over half a century of experience and know-how in the field. We aim to use this knowledge in “always seeking better ways” for our customers.

What does “always seeking better ways” mean for measuring instruments customers?

Our main objective is to provide the world’s number one measuring devices to customers from five perspectives: precision, functionality, operability, quality and cost performance. It is imperative that we differentiate ourselves from the competition in all products areas. Hence, our job is to identify customer needs, develop a measuring instrument to fulfill these needs and deliver it to them. Surpassing expectations is key, however, and this requires our developers to set lofty goals based on fresh ideas, rather than relying on existing technologies. We can thus inspire customers and bring them joy with products that can secure overwhelming market share.

Can you give us a specific example?

Recently, the market demanded low vibration and greater measuring speed from roundness and cylindrical profile measuring instruments. In line with this, we sought to develop models that operated at twice the speed. Most engineers agreed that this could be achieved by enhancing existing technology. However, the resultant 50% or possibly two-fold improvement would fail to inspire customers. We reset our target and aimed for a one-digit, or ten-fold increase, necessitating a wholesale change in the fundamental thought process of our developers.

The answer came in a “linear motor system” that eliminated the need for a rolling mechanism and accompanying vibration sources. This enabled a ten-fold improvement in measuring speed. Pursuing “one-digit innovations” is a concept at the very heart of Tokyo Seimitsu.

Give us an example of enhancing operability.

Previously, 3D coordinate measuring machines (3D CMM) required professional operators due to their sophistication and the high degree of freedom in measurement range. Learning how to use the machines would at times take half a year to get fully accustomed to the procedure. To combat this, we incorporated an AI (Artificial Intelligence) function with the ability to presuppose what the customer wants to measure based on how the machine is moved, then to automatically make the calculation and output the result for optimum measuring conditions. Through this, we stay true to our commitment to “always seeking better ways.” The AI function has since been incorporated into other products. The technology has grown into one of our elemental technologies.

Can the concept of “always seeking better ways” be applied to mutually beneficial, or WIN-WIN, relationships?

Some years ago we decided to link up with Carl Zeiss Inc., the global market leader in



“You can’t manufacture what can’t be measured” - this philosophy props up the measuring instruments business.

HITOSHI YOSHIDA
DIRECTOR
MANAGING EXECUTIVE OFFICER OF METROLOGY COMPANY



Roundness and Cylindrical Profile Measuring Instrument: RONDCOM 76A

high-end 3D CMM. At the time, Tokyo Seimitsu commanded top share domestically in other products. Consequently, we were able to establish the ideal WIN-WIN relationship where both companies complemented the other with superior expertise in respective fields. Sharing core technologies in different product areas has enabled us to build a very strong relationship to the extent that we no longer view them as the competition or even a separate entity.

Tell us about future challenges.

Tokyo Seimitsu's biggest customers are automobile manufacturers. Although we boast top share domestically in this field, we lag behind in global terms. We therefore intend to increase sales overseas, particularly in Europe. With quality management methods changing at automakers amid the rising need for higher quality, there has been a gradual shift from selective to exhaustive testing. High speed and full automation have become essential in product lines while increasing the accuracy of various components for fuel-efficiency. These are areas where we command a competitive advantage in the domestic market. We will continue striving to secure a “one-digit innovation” in technology to ensure the world’s premier products.

The idea of “always seeking better ways” underpins sales activities at Tokyo Seimitsu. Good marketing means standing in a customer’s shoes before making a proposal. That is the key to building mutually beneficial relationships.

Has the sales approach of Tokyo Seimitsu changed over the years?

I have been involved in sales ever since joining Tokyo Seimitsu, and during that time, sales have jumped five-fold. In addition to production technology and manufacturing, sales activities are taking on an increasingly important role, so motivation is optimum. The number of products handled simultaneously is increasing, however. Five items are developed and produced at the Hachioji Plant alone. As sophistication and complexity increase, we must have a more extensive knowledge base. We must also be versed in the entire semiconductor manufacturing process, even areas Tokyo Seimitsu is not involved in. This requires major research into diverse areas.

What are the features of Tokyo Seimitsu sales?

We take pride in entrusting sales to a single person. Although sales style differs from company to company, one rep handles the sale of a long-standing product at Tokyo Seimitsu. In addition to presentations and other sales activities, these reps also answer technical questions. Being in close contact with the customer enables an integrated and consistent approach to queries, thereby enhancing trust.

What is the most important element in sales?

Although not limited to sales, taking the perspective of the customer is critical in gaining trust so customers will take heed of what you say.

We always think about the entire sequence of events from sales presentation to product delivery. Meanwhile, the customer has the opposite perspective. By effectively melding these two sides, we can identify when, what, to whom and for what price we ought to sell a product.

Added to this, human relationships are also very important in sales. Sales reps communicate regularly not only with the person in charge of inquiries on the customer side, but also with personnel from manufacturing, production technology and purchasing. We can gain a good understanding of the capital investment and budget of the company by speaking with people from diverse departments.

To build sturdy relationships of trust, it is essential that sales reps strive to respond quickly to customer queries and claims in a sincere manner.



The secret to successful sales lies in taking the perspective of the customer.

RYUICHI KIMURA
DIRECTOR
EXECUTIVE OFFICER OF SEMICONDUCTOR COMPANY



Wafer probing machine: UF3000EX

What qualities are needed for a successful sale?

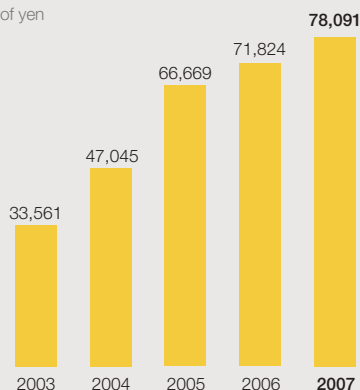
There are numerous qualities required, but a never-give-up attitude is essential, while patience is key when approaching a customer. Sales opportunities are more likely with this philosophy, and when they come, we do our utmost not to let them slip by. When opportunities are not forthcoming even after exhausting every avenue, we stay committed, try new angles and analyze why we haven't succeeded. Though it may be a time-consuming exercise, successful business negotiations are borne from perseverance. That's the real key.

Semiconductor Manufacturing Equipment

Net Sales

(Years ended March 31)

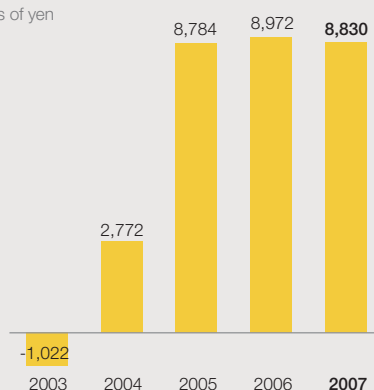
Millions of yen



Operating Income

(Years ended March 31)

Millions of yen



Fiscal 2007 in Review

In the semiconductor manufacturing equipment division, sales were extremely strong in the first half of the fiscal year. Pronounced growth was posted in April and May at the beginning of the period, with an historic high recorded for the month of April. However, there was a turnaround in the third quarter on account of a gradual correction phase for IC devices for LCD drivers and mobile phones, which sold well in the first half. The fourth quarter rebounded, spurred by expanded investment in Asian countries.

Capital investment by semiconductor manufacturers was robust on the whole, especially for memory devices, due primarily to an increase in demand for digital consumer equipment such as flat-screen TVs and game consoles. Tokyo Seimitsu continued during the year to conduct operations based closely on customer needs, and as a result, orders were up 5.9% year-on-year to ¥82,465 million, and net sales grew 8.7% to ¥78,091 million, marking new record highs for both. Operating income dipped 1.6% to ¥8,830 million due mainly to an increase in one-off expenses associated with the launch of new machines.

Condition by Geographic Region

Significant sales growth of 16.9% was recorded in Japan in fiscal 2007. Total overseas sales increased by 3.7%, with sales to Europe, the United States and South East Asia increasing substantially. Semiconductor manufacturers have been transferring production operations to Asia in recent times, notably South East Asia, Taiwan and China. Tokyo Seimitsu will focus on expanding sales in these regions, where high growth is expected going forward.

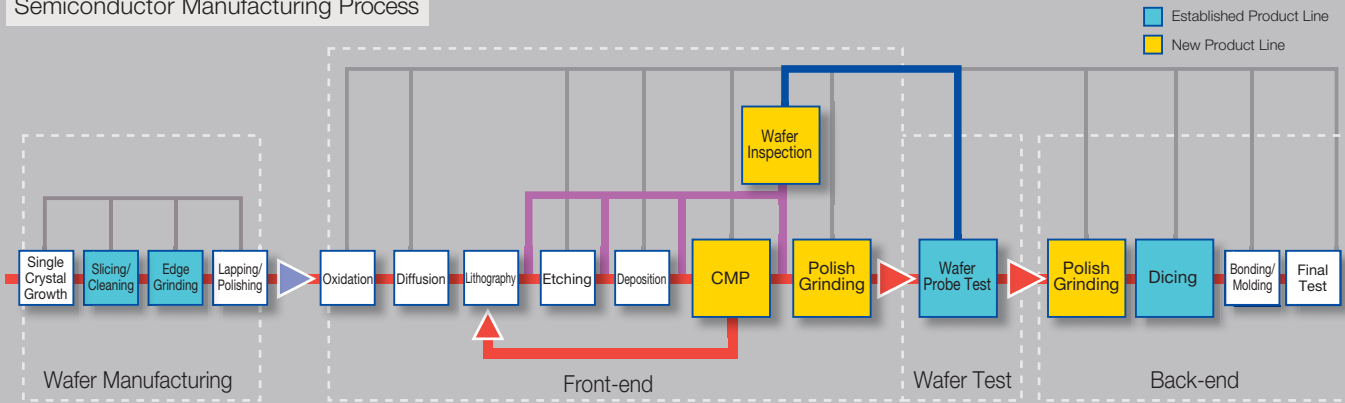
Condition by Product

Wafer Probing Machines (Probers)

Sales of probers increased significantly year-on-year due to steady demand for memory devices such as DRAM and flash memory and on the back of increasing need for full-tests in wafers.

The "UF3000," a third-generation prober for 300mm wafers, was well received by customers and therefore posted brisk sales. This machine is fully automatic, boasts ultra-high performance and covers a wide range of customer needs, from high-mix low-volume products such as system LSIs to the mass-production of memory devices and other items.

Semiconductor Manufacturing Process



Wafer probing machines perform electrical tests of each chip on a wafer, ensuring the quality of semiconductor devices.



Wafer Probing Machine "UF3000EX"

Tokyo Seimitsu's probers garnered a "10 Best" award in the material handling category in a VLSI Research Inc. customer survey for the twelfth straight year in fiscal 2007, where we were ranked third overall, higher than any other prober manufacturer. Going forward, we will strive to further boost customer satisfaction through market-oriented product development.

At the end of fiscal 2007, we commenced sales of the "UF3000EX" featuring high accuracy and throughput. The "UF3000EX" is based on design concepts that transcend conventional norms and ideas, facilitating probing at high precision and high quality. It is equipped with a special drive unit devised specifically for probers, and is extremely fast, quiet and clean. It is now positioned as one of our strategic products. With vastly enhanced visibility and operability, the "UF3000EX" is expected to make a significant contribution to higher prober sales from fiscal 2008 onward.

The "UF200" series of 200mm probers for logic devices and CCDs, among others, continues to be in high demand. Orders and sales of the new model "UF2000," the de facto standard for 200mm wafer probing, have been steady.

As the number one player in the prober market, Tokyo Seimitsu further expanded global market share in fiscal 2007, and achieved a record high in sales considerably above the level of the previous year.

Wafer Dicing Machines (Dicers)

In April 2006, Tokyo Seimitsu introduced the "A-WD-300TX" dicer for 300mm wafers that incorporates a newly developed 80,000 rpm high-speed spindle, the world's fastest, and achieves high productivity. Owing to a first-half launch, orders increased in the second half. Sales are expected to grow further in the future.

Tokyo Seimitsu dicers won a "10 Best" award in the assembly category in the VLSI Research Inc. customer survey, marking the sixth consecutive year Tokyo Seimitsu has been honored in this field. In fiscal 2007, we were ranked third overall, higher than any other prober manufacturer. Efforts will continue to be made to meet customer needs through suitable product development.

Sales of the laser dicer "MAHOHDICING MACHINE" for MEMS (Micro-Electro-Mechanical Systems) and image sensors doubled in fiscal 2007 compared with the previous year. This machine, released in fiscal 2005, uses a laser rather than a blade for dicing. It has been evaluated highly on account of its high productivity and for features distinct from traditional blade dicers such as completely dry operation and dust-free processing. It also achieves throughput at 3-5 times the rate of conventional blade dicers, resulting in burgeoning demand in the market for thin wafers. Repeat orders are also increasing and sales are projected to continue expanding.

Wafer Inspection Systems

The "WIN-WIN 50" series of wafer inspection systems has received critical acclaim for its superb ability to detect defects on the wafer surface. In addition to repeat orders from existing customers, the number of new customers is also rising. In fiscal 2007, sales slowed marginally in the first half, before both orders and sales rebounded in the second half to double levels registered in the first six months. We released a new product at the start of 2007 with wide application and outstanding productivity. It has been a hit with customers. Once amortization of software development costs outlaid at the time of market launch has been concluded at the start of fiscal 2008, we can expect a turnaround to profitability in this product. It is then projected to

Laser dicing machines use lasers instead of blades to dice wafers at high speed in a completely dry process.



Laser Dicing Machine "ML300" MAHOHDICING MACHINE

Wafer inspection machines detect pattern flaws, contaminants and other defects on wafer surfaces, a vital process in raising production yields.



Wafer Inspection Machine "WIN-WIN 50"

contribute to higher earnings in the wafer inspection system business. Based on a favorable market outlook, we aim to further improve performance going forward.

Polish Grinders

Polish grinders make wafers thinner while simultaneously removing damage. A product uniquely developed by Tokyo Seimitsu, our polish grinders have become the de facto standard in the market for thin wafers.

The market for polish grinders slowed in the first half, a backlash from the rapid rise in demand in the previous year. Demand rebounded rapidly in the second half, however, as the market expanded to include the entire Asian region. South Korea has traditionally been our core target for thin wafer polish grinders, particularly the "PG300RM." In line with thinner wafers in the entire semiconductor market, however, our sales channel has been expanded to include Taiwan, China and South East Asia. With new entrants in the sector in fiscal 2007, competition has intensified. Accordingly, we intend to hone the cutting-edge features of our polish grinders that have supported growth in NAND flash memory devices. As wafers continue to get thinner, the superiority of Tokyo Seimitsu's technology will become clearer, enabling us to entrench our position as leader in the market.

Chemical Mechanical Planarizers (CMPs)

Tokyo Seimitsu's "ChaMP" series of CMPs offers low-pressure, high-speed polishing, making them popular in the market. We aim to expand sales of CMPs by focusing on areas of comparative advantage, beginning with copper processing. Further, efforts to cut costs are expected to lead to higher profit margins.

Outlook for Fiscal 2008

Persistently high growth is expected in the semiconductor market due mainly to rising demand for digital consumer equipment such as mobile phones and flat-screen TVs, coupled with the proliferation of PCs equipped with a new operating system and growth in automotive devices. Steady capital investment by semiconductor manufacturers and foundries is also projected.

Amid such conditions, Tokyo Seimitsu expects the market environment to remain bright for both existing and new products in the semiconductor manufacturing equipment sector in fiscal 2008.

The market for existing models of wafer probing machines is expanding amid increasing importance of inspection systems. Combined with this, contribution of the new model "UF3000EX" is expected to lead to greater market share in wafer probing machines. With orders and sales on a recovery trend, performance in fiscal 2008 is projected to remain on par with the high level recorded in the previous year. Tokyo Seimitsu also forecasts expanded sales of wafer dicing machines due to the permeation of the new "A-WD-300TX" and of the laser dicing system "MAHOHDICING MACHINE."

Substantial year-on-year sales growth is also projected for new products. Besides polish grinders, which are currently experiencing upward momentum, new wafer inspection systems brought to market are forecast to contribute to higher sales. Tokyo Seimitsu also seeks to boost profitability in CMPs by securing new customers and reducing costs.

Polish grinders simultaneously thin wafers while performing damage removal caused by the grinding process, and offer various applications for peripheral processes in the one system.



Polish Grinder "PG300RM"

CMPs remove unevenness on wafer surfaces that occur during the production process. Applications are growing due to the increase of layers in semiconductor devices and the growing variety of wiring materials.



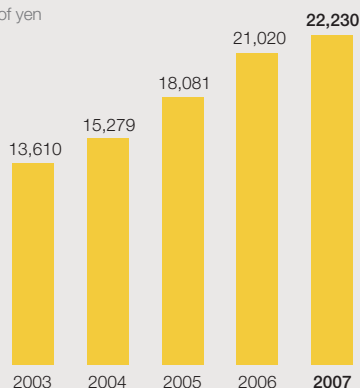
CMP "ChaMP"

Measuring Systems

Net Sales

(Years ended March 31)

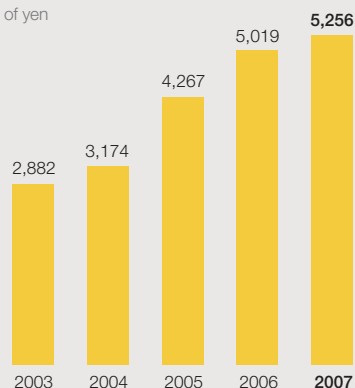
Millions of yen



Operating Income

(Years ended March 31)

Millions of yen



Fiscal 2007 in Review

In the measuring instrument division, despite deferred capital investment in certain sectors in Japan, demand in the automobile and machine tool industries overseas was strong. Tokyo Seimitsu posted steady growth in orders and sales due to efforts to incorporate user needs into orders. In fiscal 2007, orders in this segment amounted to ¥22,994 million, up 6.0% compared with the previous year, and net sales increased by 5.8% to ¥22,230 million. Both of these financial indicators posted record highs for the fourth consecutive year since fiscal 2004. On a production front, energies were devoted to cutting costs, resulting in a 4.7% increase in operating income to ¥5,256 million. This was also the fourth year in a row operating income recorded a new high.

Demand for measuring instruments continues to grow in automobile-related industries, the main users of these tools, due to increased requirements for environmental and safety performance. As an example, manufacturers require high-precision component measurements to ensure optimum combustion efficiency as well as low vibration and noise for enhanced in-vehicle comfort. Tokyo Seimitsu's sophisticated measuring instruments are in high demand as they meet these requirements and generate very accurate measurements. Whereas random checks of component measurements via

multi-purpose measuring tools were commonplace up until recently, this is now being replaced by exhaustive checks conducted at the manufacturing line. In accord with such trends, future market growth is expected in measuring instruments.

Condition by Geographic Region

Sales in Japan grew a slight 0.5% year-on-year and a significant 37.1% overseas, where demand was extremely favorable. Sales in East Asia were particularly strong.

A comprehensive tie-up with Carl Zeiss, Inc. means that the Germany-based company handles the sales activities for Tokyo Seimitsu's multi-purpose measuring instruments in Europe and the United States. Intentions are to further strengthen this relationship, which has blossomed for over ten years now, in order to expand sales in these regions. Tokyo Seimitsu takes charge of sales in the Asia region, led by Japan. Efforts in this region center on further developing sales network, including expanding the number of sales sites.

Condition by Product

Multi-purpose Measuring Instruments

3D Coordinate Measuring Machines

Sales of the "XYZAX" series of 3D coordinate measuring machines performed well during the

The 3D coordinate measuring machine is a mechanical system designed to determine the coordinates of points on the surface of a workpiece. The latest Carl Zeiss “CONTURA G2 RDS” enjoys the best flexibility and easy operation.



3D Coordinate Measuring Machine “CONTURA G2 RDS”

Surface texture and contour measuring instruments measure irregularities on surfaces of engine parts with a resolution of one nanometer. The high-performance “SURFCOM2000DX” with linear, non-contact drive enables the lowest vibration and highest speed in the world.



Surface Texture and Contour Measuring Instrument
“SURFCOM2000DX”

year. These machines meet customer needs via the integration of Tokyo Seimitsu's high-rigidity design technology with the analytical and control technologies of Carl Zeiss. Sales of the "XYZAX SVA Fusion," which guarantees a high level of scanning accuracy, were also brisk. Sales of the "GageMax," a new product by Carl Zeiss launched in the previous year for use as a 3D coordinate measuring machine in manufacturing lines, increased steadily.

The non-contact CNC 3D coordinate measuring instrument equipped with a line laser sensor that enables high-speed, high-precision measurements in 250,000 locations per second is expected to contribute to enhanced sales going forward.

Surface Texture and Contour Measuring Instruments

Sales expanded of the "SURFCOM" series of surface texture and contour measuring instruments, such as the "SURFCOM 1500/2000DX" and the "CONTOURECORD 1700DX." These machines utilize a linear motor to achieve the world's highest accuracy and lowest vibration.

Tokyo Seimitsu's surface texture and contour measuring instruments are the first in the world to employ a linear motor, setting the global benchmark in terms of non-contact drive, low vibration and high-speed drive capabilities. A newly developed model incorporating a broad-spectrum roughness and contour detection device acts to boost measuring efficiency. It eliminates the need to replace the detection device for evaluative analysis of roughness and contour measurements, which was previously unavoidable.

Roundness and Cylindrical Profile Measuring Instruments

The "RONDCOM" series of roundness and cylindrical profile measuring instruments has received

critical acclaim on account of high accuracy, with sales of "RONDCOM 54/44" and "RONDCOM 72" growing steadily. Meanwhile, in pursuit of a global number one position, the "RONDCOM 65A" guarantees accuracy at the highest level over a long period owing to the use of the industry's first high-precision air bearings and gabbro, a type of igneous rock that changes little with time.

Automatic Measuring Systems

Sales of the "PULCOM" series, used in automobile component production lines among others, have been sluggish due to capital investment adjustments in the domestic automobile industry. Overall sales of automatic measuring systems were therefore down on a year-on-year basis. The market is expected to rebound in fiscal 2008, however. Tosei Engineering Corp., a subsidiary engaged in development and sales, is working to expand sales this fiscal year by extending factories at its Tsuchiura headquarters and Nagoya site.

Outlook for Fiscal 2008

In the measuring instrument division, Tokyo Seimitsu forecasts capital investment in automobile-related markets, which has been deferred in recent times, to bounce back in Japan. Capital investment in the aircraft and construction machinery industries is also expected to be buoyant. Meanwhile, strong demand is projected to continue from users overseas, beginning with the automobile-related and machine tools markets. In such steadily expanding sectors, Tokyo Seimitsu will work aggressively to establish a secure foothold domestically and expand sales overseas as a means to drive high growth.

Roundness and cylindrical profile measuring instruments measure roundness, concentricity and cylindricity. "RONDCOM65A" has highest rotation accuracy and highest throughput in the world.



Roundness and Cylindrical Profile Measuring Instrument
"RONDCOM65A"

Machine control gauges control processing machines based on data taken before, during and after operation. This indispensable system is used to prevent defects and boost accuracy in manufacturing.



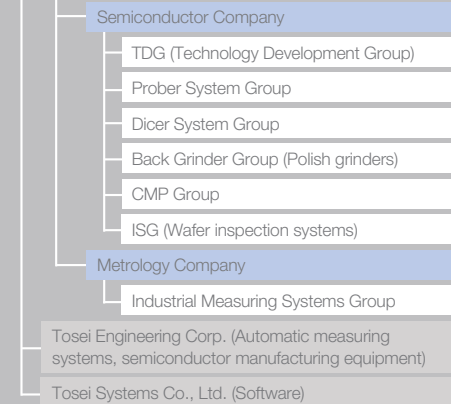
Automatic Measuring Systems and Machine Control Gauges
"PULCOMV10, V11 (Control units) and PULCOM Measuring Heads"

R&D Program

“Strategic Principles for Our R&D”

1. Endeavor to create global number-one products. Products with leading share in the global market should have the following qualities:
 - The ability to generate maximum profits during favorable economic periods
 - The ability to incur only minimal losses during periods of recession
2. Finance R&D exclusively from internal cash flows.
3. Target fields that have strong technological barriers to entry but where market needs are high and the potential size of the market is large.
4. Actively seek alliances where appropriate to share R&D costs and maximize synergies in development.

TOKYO SEIMITSU



“Strategic Principles for Our R&D”

More than merely the basis for our R&D programs, “Strategic Principles for Our R&D” serve as the core strategy guiding all of our activities. The keys to sustainable growth at Tokyo Seimitsu are a robust product development system and optimum product development standards. “Strategic Principles for Our R&D” are vital to effective technological development.

R&D Structure

Group Leader System

Since 1988, when the technology development group was divided into separate product groups, Tokyo Seimitsu has employed a group leader system in which an engineer takes charge of a particular product group. The group leader has responsibility for all aspects of the product group, not merely product development. Other areas of authority include the creation of business plans, capital investment and recruiting. In line with the introduction of an executive officer system in April 2002, all group leaders were appointed to the position of executive officer in order to enhance the potential of the group leader system. The result is speedy decision-making on development plans and fast, flexible response to market trends.

In February 2007, the TDG (Technology Development Group) was established to take charge of the development of common elemental

technologies for the product groups. The effects of this move are expected to be faster new product development and enhanced skills for engineers through education programs.

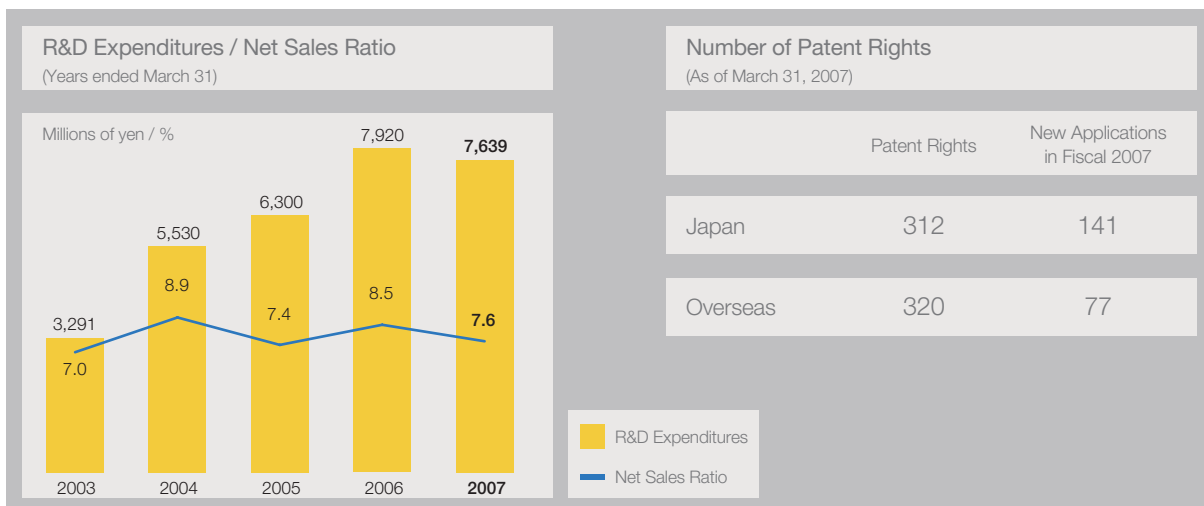
Tokyo Seimitsu Group R&D System

Tosei Engineering Corp., a subsidiary of Tokyo Seimitsu, specializes in the development, production and sale of semiconductor manufacturing equipment and automatic measuring systems for wafer manufacturing systems. With a solid foothold in niche markets, it works closely with our Metrology Company to develop global number one products equipped with cutting-edge technology that precisely meet customer needs. Efforts are being made to strengthen ties between the two companies to facilitate swifter and more agile business operations.

Accretech Micro Technologies Co., Ltd., a subsidiary engaged in the development and manufacture of wafer inspection systems, was absorbed into Tokyo Seimitsu on April 1, 2007. In line with this move, the ISG (Inspection System Group) was established within the Semiconductor Company.

Another subsidiary, Tosei Systems Co., Ltd., develops software for the products of the Semiconductor Company and Metrology Company. Going forward, group companies will continue to cooperate with Tokyo Seimitsu on R&D activities in a mutually beneficial way that leverages respective strengths.

Intellectual Property



Intellectual Property

Importance of Intellectual Property

Tokyo Seimitsu seeks to manufacture equipment with overwhelming superiority in market segments that have high technological barriers to new entrants. Accomplishing this requires persistent R&D into cutting-edge technologies. Intellectual property, primarily representing technologies produced by these activities, is a key source of added value for future businesses. Accordingly, we make carefully planned investments to acquire patents and accumulate an intellectual property database.

Intellectual Property Strategy

Departments overseeing intellectual property work closely with technology development divisions to study and assess the patents and technologies of other companies. This takes place at all stages of product development, from initial concept to customer services after product delivery. In light of market needs, we concentrate on developing proprietary, state-of-the-art technologies that place us far ahead of the competition. As our operations become increasingly global, we also aggressively acquire intellectual property rights in other countries.

We also place priority on the value of patents. We constantly assess the value of intellectual property based on the status of R&D programs, the position of our products relative to competing

models, and other relevant factors. This process enables us to maintain an intellectual property portfolio closely linked to business situation by periodically reshuffling patents held, which includes discarding those of little value. This allows us to maintain a more cost-effective approach to our patent portfolio.

Patents During the Year Ended March 2007

During the year we were aggressive in our approach to making patent filings aimed at boosting the competitiveness of our products. Patent applications fell into two categories: products introduced to market after 2000, notably wafer inspection machines, polish grinders and CMPs; and existing products manifesting strong sales, such as probing machines, dicing machines and precision measuring instruments. Currently, semiconductor manufacturing equipment accounts for around 80% of patents pending, with the remaining 20% accounted for by measuring instruments.

Corporate Governance

Basic Philosophy

Increasing economic globalization is bringing about rapid changes in the requirements and expectations placed on how companies are managed. Tokyo Seimitsu believes that a corporate governance system aligned with global standards and that takes into account the perspective of shareholders is vital to sustaining growth and increasing corporate value.

Tokyo Seimitsu respects shareholder rights and espouses equal treatment. We also recognize the importance of building sound relationships with all stakeholders. To protect the rights and financial interests of shareholders and other stakeholders, we strive to maintain transparent operations through appropriate information disclosure. We also make effective use of the Board of Directors and Board of Auditors.

Components of Corporate Governance

1. Directors and Board of Directors

The Board of Directors is composed of nine directors, including individuals with experience working at other companies, thereby ensuring diverse opinions. Board meetings are held monthly and chaired by the company president. At these meetings, directors make decisions on semiannual business plans and other important matters, and monitor the business execution functions of executives. Tokyo Seimitsu does not employ any external directors, though external corporate auditors provide an effective non-biased checking function.

In addition, we have established a Management Advisory Committee to assist the chairperson of the Board of Directors. Made up of corporate auditors, this committee examines directors' compensation and other management themes.

2. Corporate Auditors and Board of Auditors

Tokyo Seimitsu has adopted a corporate auditor system to ensure effective corporate governance.

All of these auditors are experienced executives or specialists in financial audits and accounting. The auditors make use of their expertise in supervising business operations to ensure that managers conduct business appropriately and efficiently. To reinforce the functions of corporate auditors, the number of auditors was raised in June 2006 to five, including three external auditors.

The corporate auditors, Auditing Department (overseen by the president) and accounting auditors work closely together. Regular meetings are held to exchange opinions concerning auditing framework, plans and execution.

3. Internal Company System and Executive Officer System

Tokyo Seimitsu adopted the executive officer system and internal company system in April 2002. The primary objectives were to reach fast decisions concerning new product development plans and to better adapt to changes in market conditions with speed and flexibility. Operations were divided among three internal companies: the Semiconductor Company, Metrology Company and Administration Company. These three companies handle all of the company's operations, while each has the ability to respond flexibly and quickly to customer needs. Tokyo Seimitsu's president chairs monthly meetings held by the Business Execution Committee, which checks progress on business plans and conducts other supervisory activities.

4. Auditing Department

Tokyo Seimitsu has an Auditing Department that is overseen by the president. This department performs systematic audits in accordance with rules for internal audits. The department periodically reviews audit items and methods, making revisions and improvements as necessary.

In the event that an audit by the Auditing Department reveals a breach of laws, regulations, the Articles of Incorporation or company rules or any

other business activity that may harm performance, the general manager of the Auditing Department immediately reports the matter to the company president so that corrective actions can be taken.

5. Management Support Department

The Management Support Department, which is overseen by the president, handles various problems within the Tokyo Seimitsu Group, including its subsidiaries, as well as information concerning significant risks and other items. The department's role is to ensure proper information sharing and business execution within the group from the standpoint of maximizing consolidated earnings.

To prevent improper transactions and accounting methods concerning activities conducted between Tokyo Seimitsu and its subsidiaries, the Auditing Department of Tokyo Seimitsu and the auditing departments of subsidiaries exchange information as required.

Internal Control Systems

Fundamental Position Regarding Internal Control Systems

Tokyo Seimitsu is dedicated to building "WIN-WIN" relationships with customers, business partners, shareholders, employees and all other stakeholders for the purpose of sustaining long-term growth. To accomplish this, we constantly seek to create an effective system of internal controls and to strengthen compliance programs. This enables sound and transparent group management.

Status of Internal Control Systems

At Tokyo Seimitsu, the Board of Directors is responsible for establishing an effective system of internal controls as well as a framework to ensure compliance with laws, regulations and the Articles of Incorporation. The Board of Auditors is responsible for performing audits to verify that these internal control systems are functioning effectively.

Tokyo Seimitsu has an Auditing Department, Management Support Department and Export Management Department that are overseen by the president. These departments help ensure compliance with laws, while managing risks at Tokyo Seimitsu and its subsidiaries. They also make sure that business operations are conducted in an appropriate manner.

The ACCRETECH Group Code of Conduct provides guidelines to ensure that all employees adhere to laws, regulations and the Articles of Incorporation. A Compliance Committee, Information Security Committee, Environmental Management Committee, Health and Hygiene Committee, and Internal Reporting Committee have also been inaugurated.

A Risk Management Committee chaired by the president has been established, formulating Risk Management Regulations aimed at identifying and managing risks in business execution. This committee helps prevent potential risks, while developing a system for crises preparedness.

Tokyo Seimitsu also has a system to assist with the duties of corporate auditors and a system to ensure that audits are performed effectively.

Eco Awareness

Basic Philosophy

Recognizing that it is a critical issue facing humankind, Tokyo Seimitsu always considers environmental preservation in all its manufacturing and service activities to ensure harmony with the earth.

Basic Policy

In all activities, from manufacturing to service provision, everyone at Tokyo Seimitsu seeks to work in an eco-conscious manner with minimal environmental impact. The Environmental Management Committee takes the lead in environmental management, promoting environmental activities and assuring compliance with laws, regulations, agreements and internal policy regarding the environment.

To raise awareness of the importance of environmental conservation, Tokyo Seimitsu conducts environmental education programs for all employees. We also work hard to make sure that our ideas are accepted and instituted at the factories of our business partners.

Environmental Action Guidelines

1. We shall proactively promote environmental protection activities based on a company-wide environmental management system that is overseen by the Environmental Management Committee.
2. We shall strive to prevent pollution and protect the environment by complying with environmental laws, regulations, agreements and our own environmental policy, and by setting voluntary goals.
3. We shall work to develop and improve eco-conscious products.

4. We shall set environmental objectives and targets for the following areas concerning the environmental impact of business activities, and conduct internal audits and other reviews to measure performance.
 - Effective use of natural resources through energy and resource conservation, the elimination of waste and recycling.
 - Pollution prevention through appropriate harmful substance management and reduction in consumption of substances with high environmental impact.
 - Development of new eco-friendly products and improvement in the environmental properties of existing products.
5. We shall conduct training programs for all employees to raise awareness of environmental issues, and seek understanding and cooperation in instituting environmental conservation activities at the factories of our business partners.
6. We shall disclose our environmental policy to the public and ensure that all employees are aware of it.

Tokyo Seimitsu intends to publish its “Environmental and Social Report” in August this year. The report is available on our website:

<http://www.accretech.jp/>



Kazuo Fujimori

Kunimasa Ohta

Eiji Nagasawa

Sadakatsu Suzuki

Board of Directors and Corporate Auditors

(as of June 29, 2007)

President, CEO & COO
Sadakatsu Suzuki

Executive Vice Presidents
Kazuo Fujimori
Eiji Nagasawa
Kunimasa Ohta

Directors
Shigeru Umenaka
Wolfgang Bonatz
Greg Sebastian
Hitoshi Yoshida
Ryuichi Kimura

Standing Corporate Auditor
Hideaki Takagi

Corporate Auditors
Seiji Yamamoto
Masashi Hisatomi
Eiji Kawahara
Nadamu Takata

Financial Review

Overview

Due to the rapid pace of change in the markets for semiconductor manufacturing equipment and measuring systems, success demands the provision of products incorporating the latest advances in technology. To sustain growth in this environment, Tokyo Seimitsu must maintain a strong organization capable of supporting the development of products in accordance with suitable guidelines. This is accomplished by adhering to a unique set of guidelines called the "Strategic Principles for Our R&D." These principles help create foundations for strong growth and high earnings while minimizing vulnerability to capital investment trends in the market.

The most pressing issues at Tokyo Seimitsu are gaining market acceptance of new product lines and enhancing financial structure. Over the past few years, Tokyo Seimitsu has pushed aggressively forward with the development of new semiconductor manufacturing equipment. New products recently introduced to the market have made a significant contribution to sales expansion, and are expected to lead to higher profits going forward. In addition to working to increase sales, Tokyo Seimitsu will focus on raising profitability to the target line by further increasing sales, reducing costs and promoting sales activities that precisely identify customer needs.

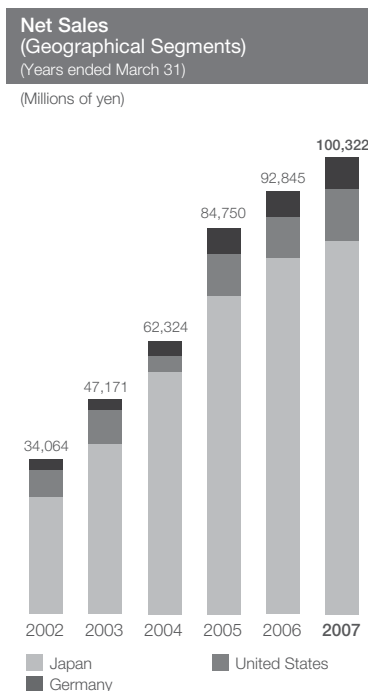
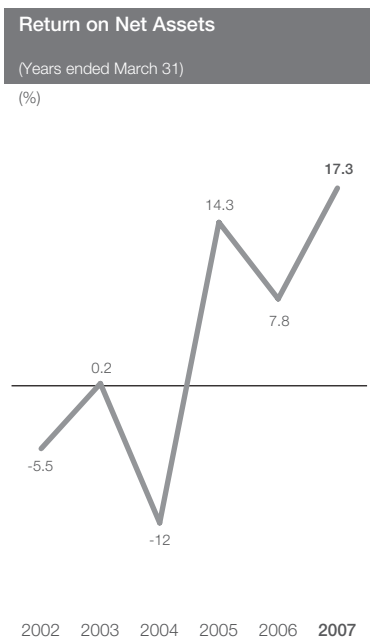
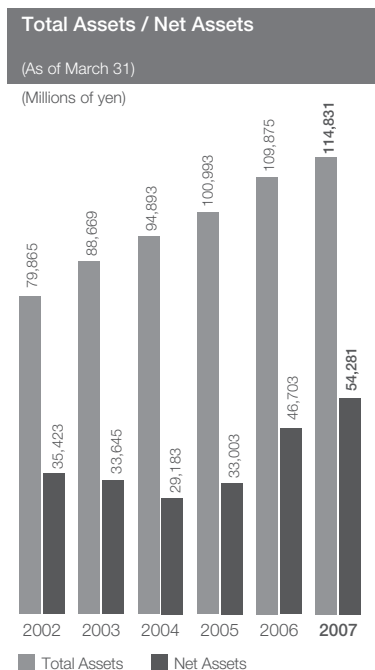
Tokyo Seimitsu has steadily improved its financial structure in the past few years. Further efforts will be made to considerably boost sales and profits by advancing quality enhancement and production innovation, and to build a sounder financial position.

Net Sales

Net sales in fiscal 2007 amounted to ¥100,322 million, up 8.1% year-on-year, due to a favorable market environment for both the semiconductor manufacturing equipment division and the measuring instrument division, particularly in the first half. This was the third successive year that Tokyo Seimitsu has posted a record high in net sales.

In the semiconductor industry, capital investment by semiconductor manufacturers was buoyant during the period, especially for memory device makers, due to increasing demand for digital consumer equipment such as flat-screen TVs and portable music players, and steady growth in PCs. Demand was therefore strong for semiconductor manufacturing equipment. Although there was a modest adjustment in the third quarter in reaction to first half briskness, recovery ensued in the fourth quarter. Sales in the semiconductor manufacturing equipment division reflected this, marking an all-time high of ¥78,091 million, up 8.7% on the previous year.

In the measuring instrument division, there was some restraint of capital investment among Japanese automakers, while overseas sales were strong from such users as automobile-related manufacturers and machine tool producers. User needs also became clearer in the aircraft and construction machinery industries. Sales in this segment were up 5.8% year-on-year, to ¥22,230 million, also a new record. This is the fourth consecutive year since fiscal 2004 that a new high has been registered.



Looking at results by geographic region, for aggregate sales of semiconductor manufacturing equipment and measuring instruments, sales to East Asia were down 8.1% to ¥28,709 million, while increasing by 29.5% to ¥9,121 million in North America and by 45.6% to ¥7,332 million in Europe. Sales to other regions surged 21.1% to ¥5,299 million. As a result, total overseas sales amounted to ¥50,462 million, up 5.8% year-on-year. Overseas sales accounted for 50.3% of total sales.

Semiconductor Manufacturing Equipment Division

In wafer probing machines (probers), one of Tokyo Seimitsu's core product groups, the market was extremely robust on the back of strong demand for devices and the rising need for full wafer tests. Sales of the "UF3000" increased markedly year-on-year. This machine is capable of handling 300mm wafers and is fully automatic, thereby meeting the diverse needs of device makers. The new model "UF2000" for 200mm wafers performed well, particularly in Taiwan. Sales of probers posted a record high in fiscal 2007, with this business now one of Tokyo Seimitsu's pillars. As the top prober manufacturer, Tokyo Seimitsu further increased its share of the world market during the year with the introduction of the new model "UF3000EX."

Sales of wafer dicing machines were also brisk. Since its market debut in fiscal 2005, the "MAHOHDICING MACHINE" has been highly acclaimed by users for its outstanding performance and productivity. Sales of this product, mainly for MEMS and image sensors, doubled from the previous year. With repeat

orders increasing and new demand for thin wafers, sales are expected to continue rising.

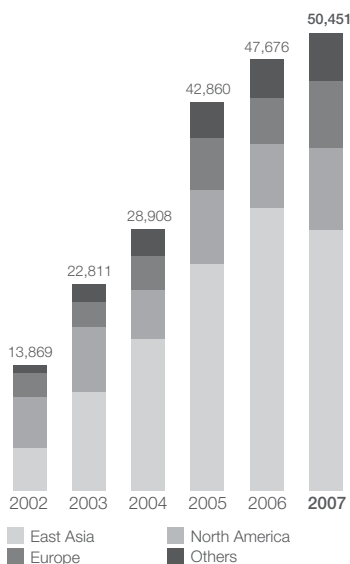
Tokyo Seimitsu's wafer inspection systems, a new product group, are highly regarded for having a low cost of ownership and high detection rate, resulting in increasing orders from new customers as well as repeat orders from existing customers. A new series with enhanced throughput caters to a wide array of user needs.

In polish grinders, a unique Tokyo Seimitsu product group that boasts unrivalled performance in the thin wafer market, demand for the "PG300RM" for 300mm wafers was strong. As the need for thin wafers continues to grow, the market has expanded from South Korea, previously the sole target, to include other parts of Asia, namely Taiwan, China and South East Asia. Although new market entrants and the postponement of capital investment in certain regions which impacted orders and sales temporarily, the market has rebounded. Given the ever-increasing applications of thinning technology, Tokyo Seimitsu's position as market leader will be further reinforced as its technological superiority becomes apparent.

In chemical mechanical planarizers (CMPs), the innovative concept behind the "ChAMP" series and its structural advantages are now well known in the market. Tokyo Seimitsu expects sales to expand going forward due to positive evaluations in copper processing needed for sophisticated polishing.

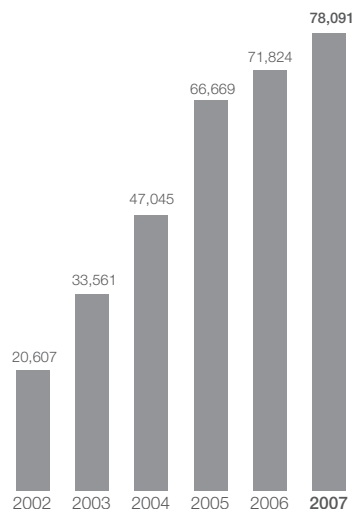
Overseas Sales
(Years ended March 31)

(Millions of yen)



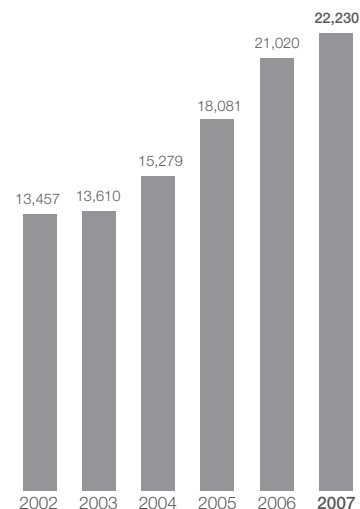
Semiconductor Manufacturing Equipment Sales
(Years ended March 31)

(Millions of yen)



Measuring Systems Sales
(Years ended March 31)

(Millions of yen)



Measuring Instrument Division

In industrial measuring systems, Carl Zeiss' 3D coordinate measuring machines equipped with line lasers and the "XYZAX SVA" series have earned a reputation as products that satisfy customer needs. Also, sales were robust of the "XYZAX SVA Fusion," which guarantees high-quality scanning. Growth is expected in "GageMax," Carl Zeiss' new in-line 3D coordinate measuring machine. The "SURFCOM" series of surface texture and contour measuring instruments uses linear motors to achieve the world's highest precision while minimizing vibration. In this series, sales increased for such products as the "SURFCOM 1500/2000DX" and "CONTOURECORD 1700DX." Meanwhile, the "RONDCOM" series of roundness and cylindrical profile measuring instruments has been rated highly for its high precision. The "RONDCOM 54/44" and "RONDCOM 72" enjoyed steady sales growth.

Sales of automatic measuring systems were down from the previous year. The main reason for this was the postponement of capital investment by domestic automobile-related manufacturers. This adversely affected sales of "PULCOM" series products, which are typically used in auto parts production lines.

Cost of Sales

The cost of sales increased 9.6% to ¥72,211 million, and the cost of sales ratio rose from 70.9% to 72.0%. This reflected high one-off costs associated with the launch of new products, which offset cost-cutting measures aimed at reducing fixed costs and lowering

the variable cost ratio, achieved by increasing internal manufacturing.

Selling, General and Administrative Expenses

SG&A expenses were up 8.1% to ¥14,025 million, the sum of ¥10,593 million in sales costs and ¥3,431 million in general administrative expenses. The ratio of SG&A expenses to sales remained unchanged from fiscal 2006 at 14.0%.

Operating Income

Operating income for fiscal 2007 increased by 0.7% to ¥14,086 million, while the operating income ratio dipped from 15.4% to 14.0%.

By business segment, operating income in the semiconductor manufacturing equipment division decreased by 1.6% to ¥8,830 million due to development expenses related to the introduction of new models of existing products and declining profit margins of polish grinders in certain regions. In the measuring instrument division, operating income was up 4.7% to ¥5,256 million, a record high for the fourth consecutive year. This was due to higher sales and cost-cutting measures in production.

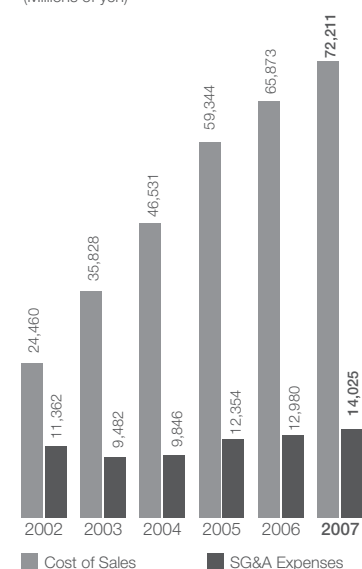
Non-Operating Income and Expenses

Non-operating income amounted to ¥208 million, down ¥667 million year-on-year due to the absence of exchange-rate gains as in the previous fiscal year. Non-operating expenses decreased by ¥154 million to ¥681 million due to the absence of major loss on

Cost of Sales / SG&A Expenses

(Years ended March 31)

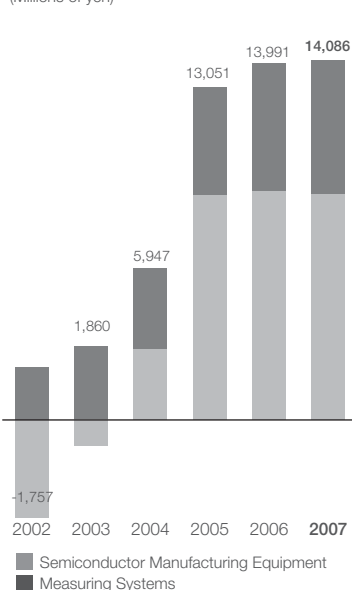
(Millions of yen)



Operating Income

(Years ended March 31)

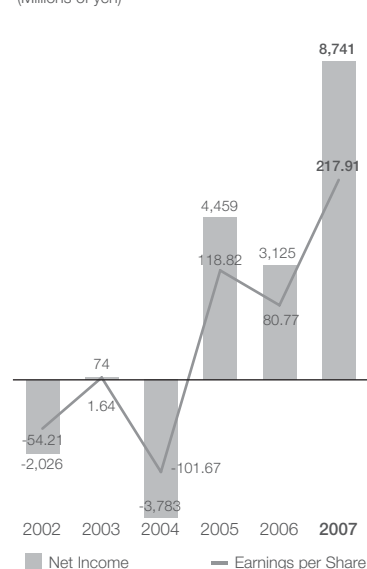
(Millions of yen)



Net Income / Earnings per Share

(Years ended March 31)

(Millions of yen)



retirement of fixed assets, as occurred in the previous year, combined with a reduction in interest expense.

Net Income

Despite the increase in special loss to ¥569 million, income before income taxes and minority interests increased to ¥13,198 million. Net income was ¥8,741 million after deduction of income tax and others.

Dividends

For fiscal 2007, Tokyo Seimitsu paid an interim dividend of ¥25 per share. Combined with a year-end dividend of ¥25 per share, the full-year dividend was ¥50 per share. Prior to fiscal 2007, Tokyo Seimitsu paid dividends at around 20% of the ratio of dividend payout to consolidated net income. However, the Company has decided to raise the payout ratio to around 30%, attaching greater importance to profit distribution to shareholders.

R&D Expenses

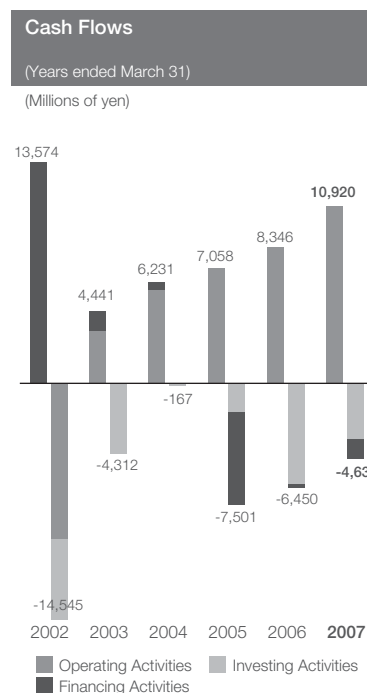
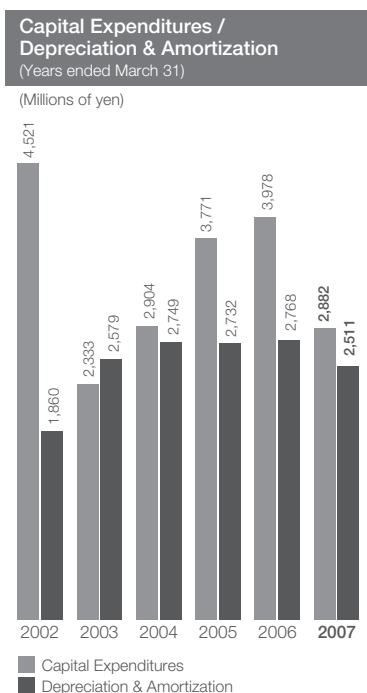
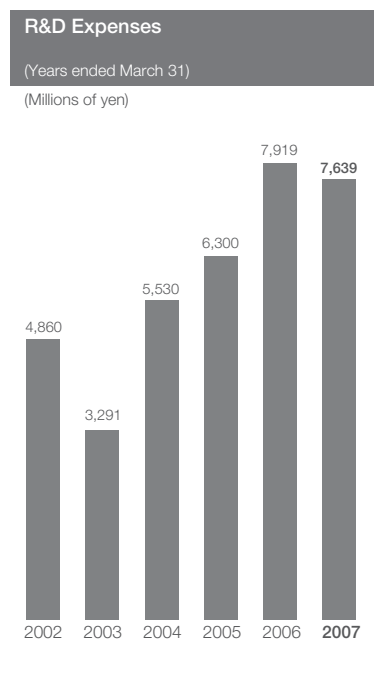
R&D expenses for fiscal 2007 decreased 3.5% year-on-year to ¥7,639 million. Pursuant to Tokyo Seimitsu's "Strategic Principles for Our R&D," R&D activities continued to focus on developing global number one products. In semiconductor manufacturing equipment, efforts centered on the timely development of next-generation machines that match market needs, particularly the shift to larger diameter, more minute and thinner wafers. In measuring instruments, investment continued into new models that realize high precision and high cost performance.

Capital Expenditures

Capital expenditures remained roughly on par with the previous year at ¥2,511 million. Tokyo Seimitsu plans to proceed with construction of new facilities and extension of existing facilities at the Tsuchiura and Hachioji plants to promote further internal manufacturing in fiscal 2008, where total capital expenditures for fiscal 2008 are projected to be ¥6,840 million, much higher than usual. Depreciation and amortization expenses for fiscal 2007 were ¥2,882 million, a level similar to the previous year. With the amortization of software development costs set to conclude in fiscal 2008 and depreciation and amortization expenses associated with these new capital expenditures being relatively small, depreciation and amortization expenses are therefore forecast at ¥2,140 million, down ¥742 million year-on-year.

Foreign Exchange

Except for certain business in North America, Tokyo Seimitsu uses yen as the basis for all overseas sales to limit its exposure to foreign exchange rate movements. Foreign currency-denominated trade receivables resulting from transactions at U.S. subsidiaries and other group companies are hedged using forward agreements where deemed necessary to manage foreign exchange risk. These and other derivative transactions are conducted solely for hedge activities. There are no speculative derivative transactions. Tokyo Seimitsu believes that an effective risk management system is in place for exposure to foreign currency risk.



Balance Sheets

Total assets at year-end amounted to ¥114,831 million, up ¥4,956 million from the previous year. Current assets increased by ¥5,494 million to ¥86,561 million due primarily to an increase in cash and cash equivalents, and in notes and accounts receivable in line with higher sales. Total fixed assets were ¥28,270 million, roughly on par with the previous year.

Total liabilities stood at ¥60,549 million, down ¥2,623 million. Despite an increase of ¥2,289 million in income taxes payable, trade notes and accounts payable decreased slightly, short-term loans decreased by ¥2,938 million and total bonds decreased by ¥701 million.

The shareholders' equity ratio increased significantly year-on-year to 47.1%. Tokyo Seimitsu projects this figure to rise to around 50% in fiscal 2008. The asset turnover ratio was improved to 0.9 in fiscal 2007. The inventory turnover ratio is also improving, totaling 3.7 in fiscal 2007, with 4.0 forecasted for fiscal 2008.

Cash Flows

Cash and cash equivalents at year-end totaled ¥16,800 million, up ¥2,949 million compared with the previous year-end.

Net cash provided by operating activities was ¥10,920 million. The major components were income before income taxes and minority interests of ¥13,198 million, depreciation and amortization of ¥2,468 million, an increase of ¥3,096 million in trade notes and accounts receivable and a decrease of ¥1,379 million in trade notes and accounts payable.

Net cash used in investing activities was ¥3,439 million due mainly to payment for purchase of property, plant and equipment of ¥3,144 million.

Net cash used in financing activities was ¥4,638 million. This was due mainly to a decrease of ¥2,938 million in short-term loans payable, a ¥526 million increase in long-term debt, and ¥1,804 million in dividend payments.

Tokyo Seimitsu forecasts an increase in cash flows going forward due to higher earnings, which will lead to a sounder financial structure.

Risk Factors

The following is a list of major factors that management believes could affect future operating results.

Market volatility

From a long-term perspective, the semiconductor industry is expanding as society becomes increasingly dependent on information technology, while the silicon cycle is set to continue. Semiconductor manufacturing equipment sales and earnings may be affected by this market volatility. However, Tokyo Seimitsu and its group companies are concentrating on building a profit structure capable of consistently generating earnings even as the market changes.

Foreign exchange rate volatility

Tokyo Seimitsu uses yen as the basis for all overseas sales, except for certain businesses in North America and elsewhere that use the U.S. dollar. Foreign currency risks are hedged using forward agreements and other methods. However, an unexpected change in a foreign exchange rate may impact consolidated operating results.

Protection of intellectual property

All Tokyo Seimitsu products bear respected brands and incorporate highly sophisticated technology. Care is exercised to retain the rights to patents associated with this technology as well as to protect trademarks, brands and other rights. Other measures are taken to protect the Company's interests. However, a lawsuit or other dispute with a third party concerning these rights may affect consolidated operating results.

Country risk and related risks

Since Tokyo Seimitsu and its group companies conduct operations on a global scale, businesses are conducted in a manner best suited to the laws and regulations of individual countries. However, an unexpected revision in the laws or regulations of a particular country may affect consolidated operating results. In addition, unpredictable events such as acts of terrorism, wars, natural catastrophes and other events may also impact consolidated operating results.

Consolidated Balance Sheets

Tokyo Seimitsu Co., Ltd. and Consolidated Subsidiaries
March 31, 2006 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2007	2007
ASSETS			
Current assets:			
Cash and cash equivalents (Note 15)	¥ 13,887	¥ 16,826	\$ 142,484
Trade notes and accounts receivable (Note 12)	36,437	39,717	336,328
Inventories (Note 4)	27,053	27,207	230,398
Deferred tax assets (Note 7)	1,447	1,607	13,610
Other	2,294	1,231	10,429
Allowance for doubtful accounts	(53)	(28)	(239)
Total current assets	81,067	86,561	733,013
Property, plant and equipment:			
Land	2,937	3,002	25,427
Buildings and structures	12,474	13,454	113,932
Machinery and equipment	5,030	5,615	47,552
Construction in progress	518	452	3,829
Other	3,689	3,844	32,559
	24,649	26,369	223,300
Accumulated depreciation	(10,332)	(11,188)	(94,746)
Net property, plant and equipment	14,317	15,180	128,553
Intangible assets:			
Software	1,451	608	5,150
Goodwill	3,301	2,888	24,462
Other	83	92	786
Total intangible assets	4,837	3,589	30,399
Investments and other assets:			
Investment securities (Note 3)	5,662	5,728	48,506
Investments in non-consolidated subsidiaries and affiliates	299	414	3,507
Deferred tax assets (Note 7)	1,907	1,551	13,136
Other	1,793	1,818	15,398
Allowance for doubtful accounts	(9)	(12)	(107)
Total investments and other assets	9,653	9,499	80,441
Total fixed assets	28,807	28,270	239,394
Total assets	¥ 109,875	¥ 114,831	\$ 972,407

The accompanying notes are an integral part of the consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2007	2007
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade notes and accounts payable (Note 12)	¥ 24,807	¥ 23,596	\$ 199,813
Short-term loans (Note 5)	6,830	4,485	37,980
Accrued expenses	1,788	1,678	14,217
Accrued income taxes	1,193	3,483	29,495
Other	3,480	3,068	25,987
Total current liabilities	38,099	36,312	307,495
Long-term liabilities:			
Long-term debt, less current portion (Note 5)	20,896	20,128	170,450
Accrued pension and severance costs (Note 6)	4,175	4,109	34,796
Total long-term liabilities	25,072	24,237	205,246
Contingent liabilities (Note 11)			
NET ASSETS			
Shareholders' equity (Note 8 and 17):			
Common stock			
Authorized: 110,501,100 shares in 2007 and 2006			
Issued: 40,187,517 shares in 2007		9,592	81,226
40,100,167 shares in 2006	9,447		
Capital surplus	20,466	20,611	174,541
Retained earnings	15,399	22,322	189,027
Treasury stock, at cost: 28,215 shares in 2007		(101)	(855)
26,421 shares in 2006	(90)		
Total shareholder's equity	45,223	52,424	443,940
Accumulated gains from valuation and translation adjustments:			
Net unrealized profit on investment securities	1,340	1,416	11,993
Foreign currency translation adjustments	139	257	2,177
Total accumulated gains from valuation and translation adjustment	1,479	1,673	14,171
Stock purchase warrants (Note 16)			
Total net assets	46,703	54,281	459,665
Total liabilities and net assets	¥ 109,875	¥ 114,831	\$ 972,407

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Income

Tokyo Seimitsu Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2007	2007
Net Sales	¥ 92,845	¥ 100,322	\$ 849,544
Cost of sales (Note 13)	65,873	72,211	611,493
Gross profit	26,971	28,111	238,051
Selling, general and administrative expenses (Note 13)	12,980	14,025	118,765
Operating income	13,991	14,086	119,285
Non-operating income:			
Interest income	19	46	393
Other income	855	161	1,370
Non-operating expenses:			
Interest expense	272	259	2,197
Other expenses	563	422	3,577
Ordinary income	14,031	13,612	115,274
Special income:			
Gain on sales of investment securities	93	—	—
Other income	22	155	1,316
Special loss :			
Loss on valuation and disposal of inventories	2,862	—	—
Loss on disposal of tangible assets	1,387	—	—
Lease cancellation fee	1,854	—	—
Other losses	178	569	4,824
Income before income taxes and minority interests	7,865	13,198	111,766
Income taxes (Note 7)			
Current	1,690	4,310	36,499
Deferred	2,851	146	1,243
	4,541	4,457	37,742
Minority interests	198	—	—
Net income	¥ 3,125	¥ 8,741	\$ 74,023
	Yen		U.S. Dollars (Note 1)
Per share of common stock (Note 14):			
Net assets	¥ 1,165.07	¥ 1,347.09	11.41
Net income (loss) - basic	80.77	217.91	1.85
- diluted	74.02	203.10	1.72
Cash dividends, applicable to earnings of the year	40.00	50.00	0.42

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Tokyo Seimitsu Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2007

	Thousands	Millions of Yen						
	Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Net Unrealized Profit on Investment Securities	Foreign Currency Translation Adjustment	Stock Purchase Warrants
Balance at March 31, 2005	37,495	¥ 7,392	¥ 12,017	¥ 13,596	¥ (63)	¥ 70	¥ (9)	¥ —
Net income	—	—	—	3,125	—	—	—	—
Common stock issued upon exercise of warrants	180	287	287	—	—	—	—	—
Conversion of convertible bonds	690	1,767	1,767	—	—	—	—	—
Increase resulting from stock exchange	1,711	—	6,218	—	—	—	—	—
Cash dividends paid	—	—	—	(1,312)	—	—	—	—
Bonuses to directors	—	—	—	(9)	—	—	—	—
Purchases of treasury stock	(4)	—	—	—	(26)	—	—	—
Disposal of treasury stock	0	—	175	—	—	—	—	—
Net change in unrealized profit on investment securities	—	—	—	—	—	1,270	—	—
Net change in foreign currency translation adjustments	—	—	—	—	—	—	149	—
Balance at March 31, 2006	40,073	¥ 9,447	¥ 20,466	¥ 15,399	¥ (90)	¥ 1,340	¥ 139	¥ —
Net income	—	—	—	8,741	—	—	—	—
Common stock issued upon exercise of warrants	86	143	143	—	—	—	—	—
Conversion of convertible bonds	0	0	0	—	—	—	—	—
Cash dividends paid	—	—	—	(1,804)	—	—	—	—
Bonuses to directors	—	—	—	(14)	—	—	—	—
Purchases of treasury stock	(1)	—	—	—	(11)	—	—	—
Disposal of treasury stock	0	—	0	—	0	—	—	—
Net change in unrealized profit on investment securities	—	—	—	—	—	75	—	—
Net change in foreign currency translation adjustments	—	—	—	—	—	—	118	—
Issue of stock purchase warrants	—	—	—	—	—	—	—	183
Balance at March 31, 2007	40,159	¥ 9,592	¥ 20,611	¥ 22,322	¥ (101)	¥ 1,416	¥ 257	¥ 183

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Net Unrealized Profit on Investment Securities	Foreign Currency Translation Adjustment	Stock Purchase Warrants
Balance at March 31, 2006	\$ 80,003	\$ 173,313	\$ 130,405	\$ (762)	\$ 11,351	\$ 1,177	\$ —
Net income	—	—	74,023	—	—	—	—
Common stock issued upon exercise of warrants	1,219	1,218	—	—	—	—	—
Conversion of convertible bonds	4	4	—	—	—	—	—
Cash dividends paid	—	—	(15,279)	—	—	—	—
Bonuses to directors	—	—	(122)	—	—	—	—
Purchases of treasury stock	—	—	—	(97)	—	—	—
Disposal of treasury stock	—	4	—	5	—	—	—
Net change in unrealized profit on investment securities	—	—	—	—	641	—	—
Net change in foreign currency translation adjustments	—	—	—	—	—	1,000	—
Issue of stock purchase warrants	—	—	—	—	—	—	1,554
Balance at March 31, 2007	\$ 81,226	\$ 174,541	\$ 189,027	\$ (855)	\$ 11,993	\$ 2,177	\$ 1,554

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Tokyo Seimitsu Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2007	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 7,865	¥ 13,198	\$ 111,766
Depreciation and amortization*	2,939	2,882	24,405
Stock-based compensation expense	—	183	1,554
Change in allowance for doubtful accounts	(8)	(25)	(217)
Change in accrued pension and severance costs	(110)	(66)	(566)
Interest and dividend income	(75)	(114)	(972)
Interest expense	272	259	2,197
Loss on valuation of investment securities	60	50	423
Loss on valuation of golf membership	44	—	—
Gain on sales of land	(1)	0	0
Loss on sales and disposal of tangible assets	1,704	145	1,235
Loss on disposal of intangible assets	19	—	—
Gain on sales of investment securities	(93)	1	16
Change in trade notes and accounts receivable	(4,043)	(3,096)	(26,218)
Change in inventories	1,152	(382)	(3,241)
Change in trade notes and accounts payable	6,546	(1,379)	(11,684)
Change in other assets and liabilities	(4,443)	1,594	13,503
Bonuses to directors	(9)	(14)	(122)
Subtotal	11,817	13,235	112,077
Proceeds from interest and dividend income	75	114	972
Payment of interest	(284)	(265)	(2,248)
Payment of income taxes	(3,261)	(2,164)	(18,326)
Net cash provided by operating activities	8,346	10,920	92,475
Cash flows from investing activities:			
Payment for time deposits due over three months	(1,048)	(38)	(321)
Proceeds from time deposits due over three months	38	48	406
Payment for purchase of investment securities	(140)	(1,500)	(12,709)
Payment for purchase of investment in affiliates	(163)	(113)	(963)
Proceeds from sales of investment securities	85	1,509	12,786
Payment for purchase of property, plant and equipment	(4,821)	(3,144)	(26,631)
Proceeds from sales of property, plant and equipment	87	134	1,141
Payment for purchase of intangible assets	(242)	(165)	(1,404)
Other	44	(168)	(1,430)
Net cash used in investing activities	(6,160)	(3,439)	(29,127)
Cash flows from financing activities:			
Change in short-term loans payable	2,598	(2,938)	(24,883)
Proceeds from long-term debt	2,500	4,000	33,872
Repayment of long-term debt	(4,660)	(3,473)	(29,413)
Payment for redemption of bonds	(450)	(700)	(5,927)
Proceeds from common stock issued upon exercise of warrants	646	287	2,438
Proceeds from treasury stock	495	—	—
Dividend payments	(1,312)	(1,804)	(15,279)
Other	(108)	(10)	(88)
Net cash used in financing activities	(290)	(4,638)	(39,281)
Effect of exchange rate changes on cash and cash equivalents	117	106	904
Net increase in cash and cash equivalents	2,012	2,948	24,971
Cash and cash equivalents at beginning of year	11,838	13,851	117,295
Cash and cash equivalents at end of year (Note 15)	¥ 13,851	¥ 16,800	\$ 142,267

The accompanying notes are an integral part of the consolidated financial statements.

* Depreciation and amortization includes amortization of consolidated goodwill.

Notes to The Consolidated Financial Statements

Tokyo Seimitsu Co., Ltd. and Consolidated Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Tokyo Seimitsu Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is more familiar outside Japan. In addition, the accompanying notes include additional information which is not required under accounting principles and practices generally accepted in Japan.

U.S. dollar amounts in the accompanying consolidated financial statements are included solely for convenience, at ¥118.09= U.S.\$1, the exchange rate prevailing on March 31, 2007. The translation should not be construed as a representation that yen amounts have been or could be converted into U.S. dollars at that or any other rate.

As permitted, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts. Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of 7 subsidiaries as of March 31, 2006 and March 31, 2007. The remaining 10 subsidiaries as of March 31, 2006 and March 31, 2007, whose total assets, net sales and net income are immaterial in relation to the comparable amounts in these statements, have been excluded.

The differences between the cost and the fair value of the net assets at the dates of acquisition of the consolidated subsidiaries are recorded as goodwill and amortized by the straight-line method over the respective years (10 years) which were judged rationally for every acquisition.

All significant inter-company transactions, accounts and unrealized profits, have been eliminated. Investments in the affiliate and unconsolidated subsidiaries, not significant in amount, are carried at cost or less. Where there has been permanent impairment in the value of investments, the Company has written down such investments. Distribution of retained earnings are recorded in the fiscal year when such distribution of retained earnings are resolved by the shareholders or by the Board of Directors.

(2) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, available funds on deposit and short-term, highly liquid investments that are readily convertible to cash and with original maturities of three months or less, and substantially free from price fluctuation risk.

(3) Securities

Investment securities that have fair values are stated at fair value, with unrealized gains and losses excluded from earnings and included in a separate component of net assets on a net-of-tax basis. Cost of securities sold is determined by the moving average method.

Other securities that do not have fair values are stated at cost determined by the moving average method.

(4) Derivative financial instruments

Derivative financial instruments are generally required to be stated at fair value. However, the Company employs derivative financial instruments including foreign currency exchange contracts and interest rate swap agreements to hedge its exposures to adverse fluctuations in foreign currency exchange rate associated with export sales transactions and interest rate on bank loans. Special hedge accountings have been used for the foreign currency exchange contracts and the interest rate swap agreements, as is permitted by the accounting standards for financial instruments. No derivative financial instruments for trading purposes have been held. Since the counterparties are domestic banks with high credit ratings, the Company does not anticipate any credit loss due to default by the counterparties. The Company will hedge any significant foreign currency exchange risks and interest rate risks under its internal regulation.

(5) Inventories

Inventories of the Company and its consolidated domestic subsidiaries are stated at cost determined by the first-in, first-out method, excluding work in progress, which is stated at specific identification costs.

Inventories of its consolidated foreign subsidiaries are stated at the lower of cost or market, cost being determined by the first-in, first-out method.

(6) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation in the Company and its consolidated domestic subsidiaries is principally computed by the declining-balance method over the estimated useful lives of the respective assets except for the buildings acquired after April 1, 1998, for which the straight-line method is used.

Depreciation in its consolidated foreign subsidiaries is computed by the straight-line method over the useful lives of the

respective assets.

The significant useful lives are summarized as follows:

Buildings and structures	3-50 years
Machinery and equipment	2-11 years

(7) Intangible assets

Intangible assets are stated at cost less accumulated amortization. Capitalized costs of software for sale are amortized, using the greater of the ratio of current volume of sales to the total anticipated volume of sales or the straight-line method over the remaining useful life of the assets as a basis of amortization. Capitalized costs of software for internal use and other intangible assets are amortized using the straight-line method over the estimated lives.

(8) Leases

Non-cancelable lease transactions are primarily accounted for as operating leases except that lease agreements which stipulate the transfer of ownership of the leased assets at the end of lease period are accounted for as finance leases.

(9) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection. It consists of the estimated uncollectible accounts, based on individual collectibility with respect to identified doubtful receivables and past experience of bad debt losses.

(10) Accrued pension and severance costs

Accrued pension and severance costs are provided based on an estimate of the pension and severance obligation and the plan assets at the end of the year.

Actuarial gains and losses are amortized by the straight-line method over 10 years, which is within the average estimated remaining service lives of the employees, commencing from the following period.

The Company and its consolidated domestic subsidiaries also provide for severance payment to directors and statutory auditors, determined by the estimated amount to be paid in accordance with the Company's or its domestic consolidated subsidiaries' internal regulations if all directors and statutory auditors retired at the balance sheet dates. The Company discontinued its severance payments plan for directors and statutory auditors from the fiscal year ended March 31, 2006. At March 31, 2006, accrued pension and severance costs was recorded at the amount determined by the estimated amount to be paid at March 31, 2005 for directors and at June 30, 2005 for statutory auditors.

(11) Foreign currency translation

In accordance with the accounting standards of Japan for foreign currency transactions, assets and liabilities denominated in foreign currencies of the Company and its consolidated domestic subsidiaries and financial statements of its consolidated foreign subsidiaries are translated as follows:

a) Assets and liabilities denominated in foreign currencies of the Company and its consolidated domestic subsidiaries:

Assets and liabilities are principally translated into yen using exchange rates effective at the balance sheet dates. However in

cases where forward foreign exchange contracts used as hedges meet certain hedging criteria, the existing foreign currency assets and liabilities are translated at their respective contract rates.

b) Financial statements of its consolidated foreign subsidiaries:

Except for shareholders' equity, the assets, liabilities, and revenue and expense accounts of its consolidated foreign subsidiaries are translated into yen at the rate of exchange in effect at the balance sheet dates. The components of shareholders' equity are translated into yen at historical rates. Differences arising from translation are presented as "Minority interests" and "Foreign currency translation adjustments" as a separate component of net assets in the accompanying balance sheets.

(12) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(13) Amounts per share of common stock

Net assets per share is based on the number of shares outstanding at the respective balance sheet dates.

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during the respective fiscal year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during the respective fiscal year and assuming the conversion of convertible bonds and exercise of warrants.

Cash dividends per share represent the cash dividends declared as applicable to the respective year together with the interim cash dividends paid.

(14) Change in accounting policies

a) Presentation of net assets in the balance sheet

Effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries have adopted an accounting standard for presentation of net assets in the balance sheet.

The amount corresponding to total net assets for the year ended March 31, 2006 and 2007 under the previous standards were ¥46,703 million and ¥54,098 million (U.S.\$ 458,111 thousand), respectively. However, the adoption of this standard had no effect on the statement of income for the year ended March 31, 2007.

The standard requires that balance sheets be presented as follows:

1. The balance sheet is divided into "Assets", "Liabilities" and "Net assets" section. "Net assets" is divided into "Shareholders' equity", "Valuation and translation adjustments", "Stock purchase warrants" and "Minority interests in consolidated subsidiaries".
2. "Shareholders' equity" is divided into "Common Stock", "Capital surplus", "Retained earnings" and "Treasury stock, at cost".

3. "Valuation and translation adjustments" is divided into "Net unrealized profit on investment securities", "Deferred gains or losses on derivative financial instruments used for hedge accounting" and "Foreign currency translation adjustments."

In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

b) Stock option

On December 27, 2005, the ASBJ issued Accounting Standard for Stock Options and related guidance. The new standard and guidance are applicable to stock option newly granted on and after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employee based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. The effect of adoption of the new accounting standard for stock options was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥183 million (U.S.\$1,554 thousand). See Note 16.

c) Accrued bonuses to directors and corporate auditors

Effective the year ended March 31, 2007, the Company and

domestic consolidated subsidiaries have adopted and accounting standard for the directors' bonuses.

The standard requires that directors' bonuses be accounted for as an expense of the accounting period in which such bonuses were accrued.

As a result, selling, general and administrative expenses increased by ¥59 million (U.S.\$503 thousand), and income before income taxes and minority interests decreased by ¥59 million (U.S.\$503 thousand), compared with the amounts which would have been recorded under the previous method.

d) Revenue recognition

Until the year ended March 31, 2006, revenue from main body of Wafer Inspection Machines, Polish Grinders and CMPs was recognized at the time of shipment. Effective from the year ended March 31, 2007, the Company changed its method of revenue recognition in which such equipment sales revenue is 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 products to the confirmation of set-up and testing of products has shown a marked tendency to become longer, the increase in a portion to sales revenue due to been penetrating the market as a new product in recent years, 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 products.

The effect of this change was to decrease net sales, operating income and income before income taxes by ¥400 million (\$ 3,387 thousand) and ¥61 million (\$522 thousand), respectively, for the year ended March 31, 2007 as compared with the corresponding amounts which would have been recorded if the previous method had been followed.

3. INVESTMENT SECURITIES

The aggregate carrying value and fair value of securities with fair value (equity and debt securities) as of March 31, 2006 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Carrying value	¥ 2,836	¥ 2,788	\$ 23,609
Fair value	5,097	5,175	43,828
Unrealized gain	¥ 2,260	¥ 2,387	\$ 20,219

Total sales of investment securities sold in the years ended March 31, 2007 and 2006 amounted to ¥1,509 million (\$12,786 thousand), and ¥85 million, and the related gains amounted to ¥0

million (\$5 thousand) and ¥76 million and the related losses amounted to ¥2 million (\$21 thousand) and nil, respectively.

The aggregate carrying value of securities without fair value was ¥689 million as of March 31, 2006 and ¥790 million (U.S.\$6,694 thousand) as of March 31, 2007.

4. INVENTORIES

Inventories as of March 31, 2006 and 2007 consisted of the following items:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Goods and finished products	¥ 3,429	¥ 2,756	\$ 23,342
Work in progress	21,429	22,155	187,618
Raw materials and supplies	2,194	2,295	19,437
	¥ 27,053	¥ 27,207	\$ 230,398

5. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

The average annual interest rates of short-term loans payable, principally to banks, for the years ended March 31, 2006 and 2007 are 0.64% and 6.48%, respectively.

Long-term debt as of March 31, 2006 and 2007 consisted of the following items:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Long-term debt with collateral			
Bank loans			
Due 2006 with interest 1.370% as of March 31, 2006	¥ 750	¥ —	\$ —
Long-term debt without collateral			
Bank loans			
Due 2006 to 2010 with interest ranging from 0.880% to 1.650% as of March 31, 2006,	8,003		
Due 2007 to 2011 with interest ranging from 0.880% to 2.170% as of March 31, 2007		9,280	78,588
Bonds			
Due 2006 to 2007 with interest ranging from 0.910% to 1.230% as of March 31, 2006,	1,900		
Due 2007 with interest ranging from 0.910% to 1.230% as of March 31, 2007		1,200	10,161
Convertible bonds			
0.850%, due 2008	51	50	423
Zero coupon due 2008	13,965	13,965	118,257
	24,669	24,495	207,430
Less current portion	3,773	4,367	36,980
	¥ 20,896	¥ 20,128	\$ 170,450

As of March 31, 2007, if all the outstanding 0.850% convertible bonds due 2008 had been converted at the current conversion price of ¥1,815.30 (U.S.\$15.3) per share, 27,543 shares would have been issued. If all the outstanding Zero coupon

convertible bonds due 2008 had been converted at the current conversion price of ¥5,117.80 (U.S.\$43.3) per share, 2,728,711 shares would have been issued.

The annual maturities of long-term debt (including current portion) subsequent to March 31, 2007 are summarized as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 4,367	\$ 36,980
2009	16,657	141,053
2010	2,262	19,154
2011	809	6,854
2012 and thereafter	400	3,387
	¥ 24,495	\$ 207,430

The Company has entered into loan commitment agreements amounting to ¥5,000 million (U.S.\$42,340 thousand), in the aggregate, with banks in order to source funds for its operations

steady and maneuverability. However, no loans payable were outstanding at March 31, 2007, under those loan commitment agreements.

6. ACCRUED PENSION AND SEVERANCE COSTS

The Company sponsors the employee pension fund which was pursuant to the Japanese Welfare Pension Insurance Law, noncontributory tax-qualified pension plans and retirement plans for employees of the Company. Its domestic subsidiaries sponsor noncontributory tax-qualified pension plans and retirement plans for

their respective employees. The following amounts represent actuarial present value of projected benefit obligations, components of pension expense and major assumptions at the beginning of the years for the years ended March 31, 2006 and 2007.

(1) Actuarial present value of projected benefit obligations

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Actuarial present value of projected benefit obligations	¥ 7,409	¥ 7,523	\$ 63,707
Plan assets (inclusive of the employees' retirement benefit trust account)	5,599	4,278	36,233
Accrued pension and severance costs	3,822	3,816	32,315
Unrecognized net actuarial difference	¥ (2,012)	¥ (571)	\$ (4,840)

(2) Components of net periodic pension and severance cost

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Service cost	¥ 382	¥ 360	\$ 3,054
Interest cost	132	130	1,103
Expected return on plan assets	(14)	(14)	(120)
Actuarial difference	169	(95)	(805)
Net periodic pension and severance cost	¥ 668	¥ 381	\$ 3,232

(3) Major assumptions at the beginning of year

	2006	2007
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	2.50%	2.50%
Allocation method of pension and severance costs	Straight-line method	Straight-line method
Term of amortization of unrecognized net actuarial loss	10 years	10 years

The total liabilities in connection with the severance payment to directors and statutory auditors were ¥353 million and ¥292 million (U.S.\$2,480 thousand) as of March 31, 2006 and 2007, respectively.

7. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in statutory tax rates of approximately 40.69% in 2006 and 2007. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation. The effective tax rates in the accompanying consolidated statements of income for the years

ended March 31, 2006 and 2007 differ from the statutory rate primarily because of the effect of permanently nondeductible expenses and the effect of different tax rates applied to the income of the foreign consolidated subsidiaries. The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2006 and 2007 differ from the statutory tax rate for the following reasons:

	2006	2007
Statutory tax rate	40.69%	40.69%
Effect of:		
Valuation allowance	11.59	(6.87)
Undistributed earnings of foreign subsidiaries	1.81	—
Gain on cancellation of treasury stocks	2.30	—
Tax credit for increased research expenses	—	(3.10)
Amortization of goodwill	—	1.03
Other, net	1.35	2.02
Effective tax rate	<u>57.74%</u>	<u>33.77%</u>

The significant components of deferred tax assets and liabilities as of March 31, 2006 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Deferred tax assets:			
Accrued pension and severance costs	¥ 2,663	¥ 2,661	\$ 22,538
Unrealized profit	557	—	—
Tax loss carryforwards	2,431	1,307	11,074
Accrued bonuses	352	389	3,297
Temporary difference of investment in a subsidiary	—	1,554	13,164
Accrued enterprise taxes	—	309	2,617
Other	788	1,057	8,959
Gross deferred tax assets	<u>6,793</u>	<u>7,280</u>	<u>61,652</u>
Less valuation allowance	(1,241)	(1,860)	(15,753)
Deferred tax assets	<u>5,551</u>	<u>5,420</u>	<u>45,899</u>
Deferred tax liabilities:			
Gain on securities contribution to employees' retirement benefit trust	(704)	(704)	(5,968)
Deferred capital gains on fixed assets	(50)	(48)	(411)
Undistributed earnings of foreign subsidiaries	(371)	(430)	(3,647)
Net unrealized gain on securities	(919)	(971)	(8,228)
Other	(150)	(105)	(896)
Deferred tax liabilities	<u>(2,196)</u>	<u>(2,261)</u>	<u>(19,151)</u>
Net deferred tax assets	¥ 3,355	¥ 3,158	\$ 26,747

8. NET ASSETS

The Japanese Commercial Code (the "Code"), which had been effective until April 30, 2006, had provided that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and the capital reserve account equal 25% of the common stock account. The Code had provided that neither capital reserve nor the legal reserve had been available for dividends, but both might be used to reduce or eliminate a deficit by resolution of the shareholders or might be transferred to common stock upon approval by the Board of Directors. The Code further had provided that if the total amount of capital reserve and the legal reserve exceeds 25% of the amount of

common stock, the excess might be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. The Company's shares of common stock have no par value in accordance with the Code.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code, went into effect on May 1, 2006. The Law provides that amounts from capital surplus and retained earnings may be distributed to the shareholders at any time by resolution of the shareholders or by the Board of Directors if certain provisions are met subject to the extent of the applicable sources of such distributions. The Law further provides that amounts equal to 10% of such distributions

be transferred to the capital reserve included in capital surplus or the legal reserve included in retained earnings based on the applicable sources of such distributions until the sum of the

capital reserve and the legal reserve equals 25% of the capital stock account.

9. LEASE INFORMATION

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of property as of March 31, 2006 and 2007, which would have been reflected in the

balance sheets if the finance lease accounting had been applied to the finance lease currently accounted for as operating leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Machinery and equipment:			
Acquisition cost	¥ 1,348	¥ 1,692	\$ 14,336
Accumulated depreciation	826	1,036	8,774
Net book value	¥ 521	¥ 656	\$ 5,561
Others:			
Acquisition cost	¥ 537	¥ 552	\$ 4,677
Accumulated depreciation	182	271	2,302
Net book value	¥ 354	¥ 280	\$ 2,375

Concerning the above finance lease transactions, lease payments, estimated depreciation expense, which is computed by the straight-line method over the respective lease terms without

scrap value, and estimated interest expense for the years ended March 31, 2006 and 2007, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Lease payments	¥ 730	¥ 366	\$ 3,106
Estimated depreciation expense	648	332	2,819
Estimated interest expense	95	28	241

Future lease payments for finance lease transactions accounted for as operating leases are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Current portion	¥ 315	¥ 385	\$ 3,265
Non-current portion	604	589	4,995
	¥ 920	¥ 975	\$ 8,261

10. DERIVATIVE INSTRUMENTS

Because all derivatives held by the Company and its consolidated subsidiaries at March 31, 2006 and 2007 were for hedge

purpose, the related information on their respective market value has not been presented.

11. CONTINGENT LIABILITIES

Contingent liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Trade notes receivable discounted	¥ 4,943	¥ 3,501	\$ 29,653
Bills of exchange without L/C	1,270	1,714	14,516

12. ACCOUNTING OF TRADE NOTES MATURED AT THE CLOSING DAY

The trade notes matured at the closing day of the consolidated fiscal year were redeemed at the clearing date.

As the closing date of the current consolidated fiscal year fell on a financial institute's holiday, the balance at the closing date of

the current consolidated fiscal year included the following amounts of matured trade notes.

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Trade notes receivable	¥ —	¥ 270	\$ 2,286
Trade notes payable	—	1,527	12,935

13. SUPPLEMENT TO CONSOLIDATED STATEMENTS OF INCOME

(1) Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Selling, general and administrative expenses	¥ 1,414	¥ 748	\$ 6,336
Manufacturing cost	6,505	6,890	58,350

(2) Selling, General and Administrative Expenses

The details of selling, general and administrative expenses are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Selling expenses			
Salaries for employees	¥ 2,004	¥ 2,125	\$ 18,002
Provision for employees' bonuses	79	84	716
Provision for retirement benefits for employees	104	51	436
Sales commission	2,318	2,579	21,845
Sales promotion expense	—	1,431	12,121
Amortization of goodwill	—	80	681
General and administrative expenses			
Salaries for employees	647	698	5,911
Provision for employees' bonuses	19	27	235
Provision for directors and statutory auditors' bonuses	—	59	503
Provision for retirement benefits for employees	37	25	213
Provision for retirement benefit for directors and statutory auditors	18	13	111
Research and development costs	1,414	—	—
Amortization of goodwill	171	332	2,817

14. RECONCILIATION OF THE DIFFERENCES BETWEEN BASIC AND DILUTED NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2006 and 2007 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted Average Shares	EPS	
For the year ended March 31, 2007:				
Basic EPS				
Net income available to common shareholders	¥ 8,741	40,114	¥ 217.91	\$ 1.85
Effect of Dilutive Securities				
Stock options	—	169		
Convertible bonds	0	2,756		
Diluted EPS				
Net income for computation	¥ 8,741	43,040	¥ 203.10	\$ 1.72
For the year ended March 31, 2006:				
Basic EPS				
Net income available to common shareholders	¥ 3,110	38,515	¥ 80.77	
Effect of Dilutive Securities				
Stock options	—	186		
Convertible bonds	0	3,328		
Diluted EPS				
Net income for computation	¥ 3,111	42,029	¥ 74.02	

15. SUPPLEMENT TO CONSOLIDATED STATEMENTS OF CASH FLOWS

A reconciliation of the cash and cash equivalents of the balance sheets and those of the statements of cash flows at March 31, 2006 and 2007 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Cash and cash equivalents (Balance sheets)	¥ 13,887	¥ 16,826	\$ 142,484
Money reserve fund	2	2	19
Time deposits with original maturities over three months	(38)	(28)	(237)
Cash and cash equivalents (Statements of cash flows)	¥ 13,851	¥ 16,800	\$ 142,267

Significant non-cash transaction:

(1) On October 2005, the Company executed a share exchange contract and made Tosei Engineering Corp. a wholly owned subsidiary of the Company. As a result of the share exchange, additional paid-in capital increased by ¥6,218 million.

(2) The conversions of convertible bonds for the year ended March 31, 2006 and 2007 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Increase in common stock due to the conversion of convertible bonds	¥ 1,767	¥ —	\$ —
Increase in additional paid-in capital due to the conversion of convertible bonds	1,767	—	—
Decrease in convertible bonds	¥ 3,534	¥ —	\$ —

16. STOCK OPTION PLAN

No stock -based compensation expense was reflected in net income, as reported, for the year ended March 31, 2006. Stock-based compensation expense of ¥183 million (U.S.\$1,554

thousand) were included in cost of sales and selling, general and administrative expenses for the year ended March 31, 2007.

The following tables summarize contents of stock options as of March 31, 2007.

The 1st stock purchase warrants

Date of the annual shareholders' meeting	June 27,2002
Position and number of grantee	Directors, corporate auditors and employees (include directors and employees of subsidiaries):72
Class and number of stock	Common stock 170,000
Date of issue	September 2, 2002
Condition of settlement of rights	Once granted, the grantee shall have the stock acquisition rights, excluding the case in which the grantee should decease prior to the exercise period for the stock acquisition rights.
Period grantees provide service in return stock options	No provision
Period subscription rights are to be exercised	From July 1, 2004 to June 30, 2009

The 2nd stock purchase warrants

Date of the annual shareholders' meeting	June 27,2003
Position and number of grantee	Directors, corporate auditors and employees (include directors and employees of subsidiaries):68
Class and number of stock	Common stock 100,000
Date of issue	July 30, 2003
Condition of settlement of rights	Once granted, the grantee shall have the stock acquisition rights, excluding the case in which the grantee should decease prior to the exercise period for the stock acquisition rights.
Period grantees provide service in return stock options	No provision
Period subscription rights are to be exercised	From July 1, 2005 to June 30, 2010

The 3rd stock purchase warrants

Date of the annual shareholders' meeting	June 29,2004
Position and number of grantee	Directors, corporate auditors and employees (include directors and employees of subsidiaries): 82
Class and number of stock	Common stock 200,000
Date of issue	September 22, 2004
Condition of settlement of rights	Persons who have received allotment of stock acquisition rights must hold the position of director, corporate auditor or employee of the Company, its subsidiary or affiliate at the time of exercise. However, this limitation shall not apply in the case of directors and corporate auditors who have retired due to the expiration of their term of office or upon reaching retirement age, or employees who have forfeited their position on account of company expedience or due to other similar reasons.
Period grantees provide service in return stock options	From September 22, 2004 to June 30, 2006
Period subscription rights are to be exercised	From July 1, 2006 to June 30, 2011

The 4th stock purchase warrants

Date of the annual shareholders' meeting	June 29,2005
Position and number of grantee	Directors, corporate auditors and employees (include directors and employees of subsidiaries):307
Class and number of stock	Common stock 83,100
Date of issue	July 21, 2005
Condition of settlement of rights	Persons who have received allotment of stock acquisition rights must hold the position of director, corporate auditor or employee of the Company, its subsidiary or affiliate at the time of exercise. However, this limitation shall not apply in the case of directors and corporate auditors who have retired due to the expiration of their term of office or upon reaching retirement age, or employees who have forfeited their position on account of company expedience or due to other similar reasons.
Period grantees provide service in return stock options	From July 21, 2005 to June 30, 2007
Period subscription rights are to be exercised	From July 1, 2007 to June 30, 2012

The 5th stock purchase warrants

Date of the annual shareholders' meeting	June 29,2006
Position and number of grantee	Directors, corporate auditors and employees (include directors and employees of subsidiaries):308
Class and number of stock	Common stock 80,500
Date of issue	July 25, 2006
Condition of settlement of rights	Persons who have received allotment of stock acquisition rights must hold the position of director, corporate auditor or employee of the Company, its subsidiary or affiliate at the time of exercise. However, this limitation shall not apply in the case of directors and corporate auditors who have retired due to the expiration of their term of office or upon reaching retirement age, or employees who have forfeited their position on account of company expedience or due to other similar reasons.
Period grantees provide service in return stock options	From July 25, 2006 to July 25, 2008
Period subscription rights are to be exercised	From July 26, 2008 to June 30, 2013

The stock purchase warrants issued on June 2005 (Type of stock-based reward)

Date of the annual shareholders' meeting	June 29,2005
Position and number of grantee	Directors and executive officers:18
Class and number of stock	Common stock 47,000
Date of issue	June 29, 2005
Condition of settlement of rights	In principle, a director or executive officer of the Company may exercise their stock acquisition rights after losing their positions.
Period grantees provide service in return stock options	It is difficult to reasonably predict the date of right allotment, length of service shall not be considered.
Period subscription rights are to be exercised	From June 30, 2005 to June 30, 2025

The stock purchase warrants issued on July 2006 (Type of stock-based reward)

Date of the annual shareholders' meeting	June 29,2006
Position and number of grantee	Directors and executive officers:18
Class and number of stock	Common stock 47,000
Date of issue	June 29, 2006
Condition of settlement of rights	In principle, a director or executive officer of the Company may exercise their stock acquisition rights after losing their positions.
Period grantees provide service in return stock options	It is difficult to reasonably predict the date of right allotment, length of service shall not be considered.
Period subscription rights are to be exercised	From July 15, 2006 to July 14, 2026

The following tables summarize scale and movement of stock options as of March 31, 2007.

Not exercisable stock options

	The 1st stock purchase warrants	The 2nd stock purchase warrants	The 3rd stock purchase warrants	The 4th stock purchase warrants	The 5th stock purchase warrants
Stock options outstanding at April 1, 2006	—	—	196,000	82,800	—
Stock options granted	—	—	—	—	80,500
Forfeitures	—	—	2,000	2,600	1,500
Conversion to exercisable stock options	—	—	194,000	—	—
Stock options outstanding at March 31, 2007	—	—	—	80,200	79,000

	The stock purchase warrants issued on June 2005 (Type of stock-based reward)	The stock purchase warrants issued on July 2006 (Type of stock-based reward)
Stock options outstanding at April 1, 2006	39,000	—
Stock options granted	—	29,600
Forfeitures	—	—
Conversion to exercisable stock options	—	—
Stock options outstanding at March 31, 2007	39,000	29,600

Exercisable stock options

	The 1st stock purchase warrants	The 2nd stock purchase warrants	The 3rd stock purchase warrants	The 4th stock purchase warrants	The 5th stock purchase warrants
Stock options outstanding at April 1, 2006	27,000	57,400	—	—	—
Conversion from not exercisable stock options	—	—	194,000	—	—
Stock options exercised	11,900	17,500	57,400	—	—
Forfeitures	—	—	—	—	—
Stock options outstanding at March 31, 2007	15,100	39,900	136,600	—	—

	The stock purchase warrants issued on June 2005 (Type of stock-based reward)	The stock purchase warrants issued on July 2006 (Type of stock-based reward)
Stock options outstanding at April 1, 2006	—	—
Conversion from not exercisable stock options	—	—
Stock options exercised	—	—
Forfeitures	—	—
Stock options outstanding at March 31, 2007	—	—

The following tables summarize price information of stock options as of March 31, 2007.

	The 1st stock purchase warrants	The 2nd stock purchase warrants	The 3rd stock purchase warrants	The 4th stock purchase warrants	The 5th stock purchase warrants
Paid-in value	¥ 3,239	¥ 3,370	¥ 3,317	¥ 4,740	¥ 5,828
Average market price of the stock at the time of exercise	¥ 5,590	¥ 4,607	¥ 5,104	—	—
Fair value at the date of grant	—	—	—	—	¥ 1,380

	The stock purchase warrants issued on June 2005 (Type of stock-based reward)	The stock purchase warrants issued on July 2006 (Type of stock-based reward)
Paid-in value	¥ 1	¥ 1
Average market price of the stock at the time of exercise	—	—
Fair value at the date of grant	—	¥ 4,994

The fair value of stock options granted during the years ended March 31, 2007 were valued by using the Black Scholes option pricing model with the following assumptions.

	The 5th stock purchase warrants	The stock purchase warrants issued on July 2006 (Type of stock-based reward)
Volatility	39.792 %	50.562 %
Expected life	4.5 years	10 years
Expected dividend	40 yen	40 yen
Risk free interest rate	1.272 %	1.855 %

The expected term for stock option is assumed to be the mid-point between the vesting date and the end of the contractual term.

17. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the sales and manufacture of products in two major segments.

1) Semiconductor manufacturing equipment: Wafer Probing Machines, Wafer Dicing Machines, Wafer Inspection Machines,

CMPS, Polish Grinders, Wafer Manufacturing Systems, etc.

2) Measuring systems: Coordinate Measuring Machines, Surface Texture and Contour Measuring Instruments, Cylindrical Form Measuring Instruments, Machine Control Gauges, etc.

The business and geographical segments and overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2007 are outlined as follows:

(a) Business Segments

Year ended March 31, 2006	Millions of Yen				
	Semiconductor Manufacturing Equipment Division	Measuring Systems Division	Total	Corporate and Elimination	Consolidation
Sales and operating income:					
Sales to third parties	¥ 71,824	¥ 21,020	¥ 92,845	¥ —	¥ 92,845
Intersegment sales and transfer	—	—	—	—	—
Total sales	71,824	21,020	92,845	—	92,845
Cost of revenue from operations	62,852	16,000	78,853	—	78,853
Operating income	¥ 8,972	¥ 5,019	¥ 13,991	¥ —	¥ 13,991
Assets, depreciation and capital expenditure:					
Assets	¥ 83,885	¥ 21,256	¥ 105,141	¥ 4,733	¥ 109,875
Depreciation	2,337	430	2,768	—	2,768
Capital expenditure	3,399	578	3,978	—	3,978

Year ended March 31, 2007	Millions of Yen				
	Semiconductor Manufacturing Equipment Division	Measuring Systems Division	Total	Corporate and Elimination	Consolidation
Sales and operating income:					
Sales to third parties	¥ 78,091	¥ 22,230	¥ 100,322	¥ —	¥ 100,322
Intersegment sales and transfer	—	—	—	—	—
Total sales	78,091	22,230	100,322	—	100,322
Cost of revenue from operations	69,261	16,974	86,236	—	86,236
Operating income	¥ 8,830	¥ 5,256	¥ 14,086	¥ —	¥ 14,086
Assets, depreciation and capital expenditure:					
Assets	¥ 87,583	¥ 23,470	¥ 111,054	¥ 3,777	¥ 114,831
Depreciation	2,360	521	2,882	—	2,882
Capital expenditure	1,500	1,010	2,511	—	2,511

Year ended March 31, 2007	Thousands of U.S. Dollars				
	Semiconductor Manufacturing Equipment Division	Measuring Systems Division	Total	Corporate and Elimination	Consolidation
Sales and operating income:					
Sales to third parties	\$ 661,291	\$ 188,252	\$ 849,544	\$ —	\$ 849,544
Intersegment sales and transfer	—	—	—	—	—
Total sales	661,291	188,252	849,544	—	849,544
Cost of revenue from operations	586,518	143,740	730,258	—	730,258
Operating income	\$ 74,773	\$ 44,512	\$ 119,285	\$ —	\$ 119,285
Assets, depreciation and capital expenditure:					
Assets	\$ 741,670	\$ 198,751	\$ 940,422	\$ 31,985	\$ 972,407
Depreciation	19,986	4,419	24,405	—	24,405
Capital expenditure	12,705	8,560	21,266	—	21,266

Change in accounting policies

Effective from the year ended March 31, 2007, the Company changed its method of revenue recognition, and the Company and domestic consolidated subsidiaries have adopted and accounting standard, Stock option and Accrued bonuses to directors and corporate auditors.

As summarized in the following tables, the effect of this

change was to increase or decrease net sales, cost of revenue from operations and operating income for the Semiconductor Manufacturing Equipment Division and Measuring Systems Division for the year ended March 31, 2007 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 Assets.

	Millions of Yen		
	Semiconductor Manufacturing Equipment Division	Measuring Systems Division	Consolidation
Revenue recognition:			
Net sales	¥ (400)	¥ —	¥ (400)
Cost of revenue from operations	(338)	—	(338)
Operating income	(61)	—	(61)
Stock option:			
Net sales	—	—	—
Cost of revenue from operations	125	58	183
Operating income	(125)	(58)	(183)
Accrued bonuses to directors and corporate auditors:			
Net sales	—	—	—
Cost of revenue from operations	36	23	59
Operating income	(36)	(23)	(59)
Total:			
Net sales	¥ (400)	¥ —	¥ (400)
Cost of revenue from operations	(176)	81	(95)
Operating income	(223)	(81)	(304)
	Thousands of U.S. Dollars		
	Semiconductor Manufacturing Equipment Division	Measuring Systems Division	Consolidation
Revenue recognition:			
Net sales	\$ (3,387)	\$ —	\$ (3,387)
Cost of revenue from operations	(2,864)	—	(2,864)
Operating income	(522)	—	(522)
Stock option:			
Net sales	—	—	—
Cost of revenue from operations	1,062	492	1,554
Operating income	(1,062)	(492)	(1,554)
Accrued bonuses to directors and corporate auditors:			
Net sales	—	—	—
Cost of revenue from operations	306	197	503
Operating income	(306)	(197)	(503)
Total:			
Net sales	\$ (3,387)	\$ —	\$ (3,387)
Cost of revenue from operations	(1,496)	689	(806)
Operating income	(1,891)	(689)	(2,580)

(b) Geographical Segments

Year ended March 31, 2006	Millions of Yen					Consolidation
	Japan	United States of America	Germany	Area Total	Corporate and Elimination	
Sales and operating income:						
Sales to third parties	¥ 78,130	¥ 9,054	¥ 5,660	¥ 92,845	¥ —	¥ 92,845
Intersegment sales and transfer	9,409	—	—	9,409	(9,409)	—
Total sales	87,539	9,054	5,660	102,254	(9,409)	92,845
Cost of revenue from operations	74,322	8,809	5,137	88,269	(9,415)	78,853
Operating income	¥ 13,217	¥ 244	¥ 523	¥ 13,985	¥ 6	¥ 13,991
Assets	¥ 101,349	¥ 6,468	¥ 2,940	¥ 110,758	¥ (882)	¥ 109,875

Year ended March 31, 2007	Millions of Yen					Consolidation
	Japan	United States of America	Germany	Area Total	Corporate and Elimination	
Sales and operating income:						
Sales to third parties	¥ 81,916	¥ 11,443	¥ 6,962	¥ 100,322	¥ —	¥ 100,322
Intersegment sales and transfer	11,957	—	—	11,957	(11,957)	—
Total sales	93,874	11,443	6,962	112,280	(11,957)	100,322
Cost of revenue from operations	80,531	11,406	6,197	98,135	(11,899)	86,236
Operating income	¥ 13,343	¥ 36	¥ 765	¥ 14,144	¥ (58)	¥ 14,086
Assets	¥ 106,466	¥ 6,741	¥ 2,891	¥ 116,099	¥ (1,268)	¥ 114,831

Year ended March 31, 2007	Thousands of U.S. Dollars					Consolidation
	Japan	United States of America	Germany	Area Total	Corporate and Elimination	
Sales and operating income:						
Sales to third parties	\$ 693,681	\$ 96,904	\$ 58,958	\$ 849,544	\$ —	\$ 849,544
Intersegment sales and transfer	101,260	—	—	101,260	(101,260)	—
Total sales	794,941	96,904	58,958	950,804	(101,260)	849,544
Cost of revenue from operations	681,950	96,592	52,480	831,024	(100,765)	730,258
Operating income	\$ 112,990	\$ 311	\$ 6,478	\$ 119,780	\$ (494)	\$ 119,285
Assets	\$ 901,571	\$ 57,088	\$ 24,486	\$ 983,146	\$ (10,738)	\$ 972,407

Change in accounting policies

Effective from the year ended March 31, 2007, the Company changed its method of revenue recognition, and the Company and domestic consolidated subsidiaries have adopted an accounting standard, Stock option and Accrued bonuses to directors and corporate auditors.

As summarized in the following tables, the effect of this change was to increase or decrease net sales, cost of revenue from operations and operating income for Japan Segment for the year ended March 31, 2007 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 Assets.

	Millions of Yen		
	Japan	Corporate and Elimination	Consolidation
Revenue recognition:			
Net sales	¥ (400)	¥ —	¥ (400)
Cost of revenue from operations	(338)	—	(338)
Operating income	(61)	—	(61)
Stock option:			
Net sales	—	—	—
Cost of revenue from operations	183	—	183
Operating income	(183)	—	(183)
Accrued bonuses to directors and corporate auditors:			
Net sales	—	—	—
Cost of revenue from operations	59	—	59
Operating income	(59)	—	(59)
Total:			
Net sales	¥ (400)	¥ —	¥ (400)
Cost of revenue from operations	(95)	—	(95)
Operating income	(304)	—	(304)

	Thousands of U.S. Dollars		
	Japan	Corporate and Elimination	Consolidation
Revenue recognition:			
Net sales	\$ (3,387)	\$ —	\$ (3,387)
Cost of revenue from operations	(2,864)	—	(2,864)
Operating income	(522)	—	(522)
Stock option:			
Net sales	—	—	—
Cost of revenue from operations	1,554	—	1,554
Operating income	(1,554)	—	(1,554)
Accrued bonuses to directors and corporate auditors:			
Net sales	—	—	—
Cost of revenue from operations	503	—	503
Operating income	(503)	—	(503)
Total:			
Net sales	\$ (3,387)	\$ —	\$ (3,387)
Cost of revenue from operations	(806)	—	(806)
Operating income	(2,580)	—	(2,580)

(C) Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales of the foreign consolidated subsidiaries' are as follows:

Year ended March 31, 2006	Millions of Yen				
	East Asia	North America	Europe	Others	Total
Overseas sales	¥ 31,224	¥ 7,043	¥ 5,034	¥ 4,374	¥ 47,676
Consolidated sales					92,845
Ratio of overseas sales to consolidated sales	33.6%	7.6%	5.4%	4.7%	51.3%

Year ended March 31, 2007	Millions of Yen				
	East Asia	North America	Europe	Others	Total
Overseas sales	¥ 28,709	¥ 9,121	¥ 7,332	¥ 5,299	¥ 50,462
Consolidated sales					100,322
Ratio of overseas sales to consolidated sales	28.6%	9.1%	7.3%	5.3%	50.3%

Year ended March 31, 2007	Thousands of U.S. Dollars				
	East Asia	North America	Europe	Others	Total
Overseas sales	\$ 243,111	\$ 77,244	\$ 62,088	\$ 44,878	\$ 427,323
Consolidated sales					849,544
Ratio of overseas sales to consolidated sales	28.6%	9.1%	7.3%	5.3%	50.3%

18. SUBSEQUENT EVENT

The following distribution of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2007 were resolved by the shareholders at a meeting held on June 28, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends (¥25=U.S.\$0.21 per share)	¥ 1,003	\$ 8,501



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Report of Independent Auditors

The Board of Directors
Tokyo Seimitsu Co., Ltd.

We have audited the accompanying consolidated balance sheets of Tokyo Seimitsu Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of Income, Changes in Net Assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tokyo Seimitsu Co., Ltd. and consolidated subsidiaries at March 31, 2006 and 2007, 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.

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.

June 28, 2007

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ESTABLISHED:

March 28, 1949

PAID-IN CAPITAL:

¥9,592 million

NUMBER OF EMPLOYEES:

Consolidated: 1,235
Non-consolidated: 665

NUMBER OF SHARES:

Authorized: 110,501,100 shares
Outstanding: 40,187,517 shares (Treasury Stock 28,215 shares Included)

NUMBER OF SHAREHOLDERS:

27,889

EXCHANGE LISTING:

Tokyo Stock Exchange, 1st Section (Code No. 7729)

MAJOR SHAREHOLDERS:

The Master Trust Bank of Japan, Ltd.
Japan Trustee Services Bank, Ltd.
The Precise Measurement Technique Promoting Foundation
Mizuho Corporate Bank, Ltd.
Goldman Sachs International

TRANSFER AGENT AND REGISTRAR:

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The annual meeting of shareholders of the Company is normally held in June each year in Tokyo, Japan.

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Ernst & Young ShinNihon

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(As of March 31, 2007)

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