

MANAGEMENT INTERVIEW



Tetsuro Higashi
Chairman & CEO

Question & Answer

In this section, Chairman Higashi and President Sato are asked about market trends and Tokyo Electron's strategies and actions.



Kiyoshi Sato
President & COO

Q1: Tokyo Electron posted record earnings in the fiscal year to March 31, 2008. How would you sum up the year?

>> The various reforms we have been implementing produced enormous benefits during the fiscal year.

Tokyo Electron achieved record earnings on all counts – sales of ¥906.1 billion, operating income of ¥168.5 billion and net income of ¥106.3 billion. I think we can be very proud of these record profit and margin levels, which were achieved as a result of determined efforts to enhance profitability during the three years or so covered by our first medium-term business plans.

Broadly speaking, two areas of strategic focus led to this improvement in profitability.

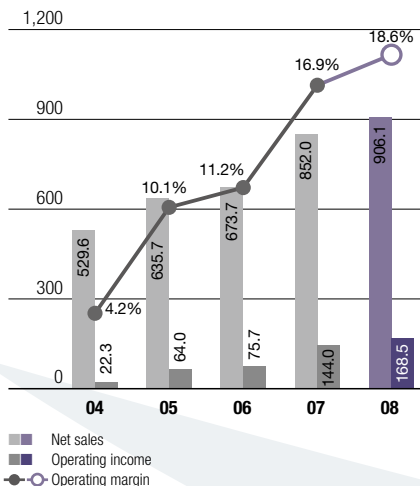
First, the creation of new, high-value-added products. As semiconductor manufacturing processes have become more sophisticated and customer needs have diversified, we have developed products with higher performance and higher productivity and delivered them to the market in a timely manner. As these products entered the volume production phase last year, significant improvement in sales and profitability was achieved.

The second area of focus was the strengthening of our manufacturing capability. By overhauling all of our processes, including development, design, procurement and production technology, we have improved efficiency in the manufacturing process while at the same time shortening the manufacturing lead time and startup period after product delivery. We were also able to realize both cost reduction and customer satisfaction, through quality-enhancing measures such that enable us to reduce the warranty expenses incurred at our customers' site.

Thanks to reforms such as these, we achieved an operating margin of 18.6%, far exceeding the 17.0% medium-term target we set three years ago. One of the important issues we have been continuously tackling is to generate cash synchronized with sales. Here too, there was a substantial increase in free cash flow to ¥86.8 billion, in spite of greater demand for working capital.

Net Sales, Operating Income and Operating Margin

(Billions of yen)



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

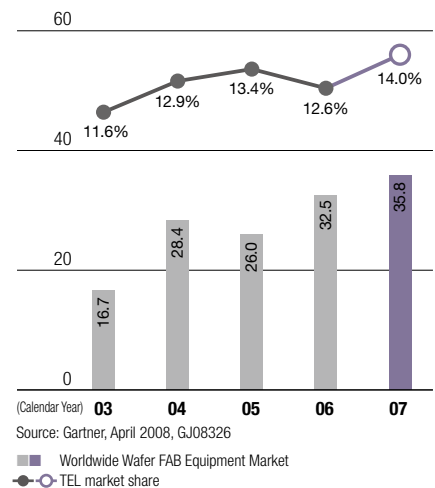
Q2: Tokyo Electron's share of the global front-end semiconductor production equipment (SPE) market has grown even further. What are the reasons for this?

>> New products tailored to our customers' requirements have been widely adopted, especially in the rapidly growing markets in the Asian region, enabling us to increase our share of the front-end SPE market.

During the fiscal year, investment in cutting-edge facilities for the production of high-capacity DRAM and NAND flash memory increased in the Asia region, including in Japan. We provide extremely significant backup capabilities for our customers in Asia, and customers demanding high-performance equipment have welcomed our products. I believe that this has driven our growth.

Demand for our products from memory manufacturers who require both advanced process performance and higher productivity is rising. In particular, our sales in Taiwan, with its concentration of DRAM manufacturers, increased about 1.8-fold year on year.

Worldwide Wafer FAB Equipment Market and TEL Market Share
(Billions of US\$)



Q3: There has been a shift in the order volume since around autumn 2007. What are your views on future market trends?

>> There will be a dip in capital expenditure in the SPE market this year, but the flat panel display (FPD) production equipment market is headed for substantial growth.

Aggressive capital expenditure in 2007 on high expectations of growth in demand for memory products disrupted the supply/demand balance in the memory market, so 2008 is likely to be a difficult year in terms of capital investment. However, as storage media for consumer devices, DRAM and NAND flash memory are likely to propel the market going forward, which should lead to improvement in the supply/demand situation followed by a recovery in customers' capital expenditure in the not-too-distant future.

In the FPD production equipment market, meanwhile, liquid crystal panel makers are ramping up capital investment to meet the expansion in demand for digital TVs, with a focus on equipment primarily for the production of large substrates, so there will probably be a shift to significant growth from the latter half of 2008.



Q4: What initiatives are you implementing to achieve even greater growth when the next silicon cycle peaks?

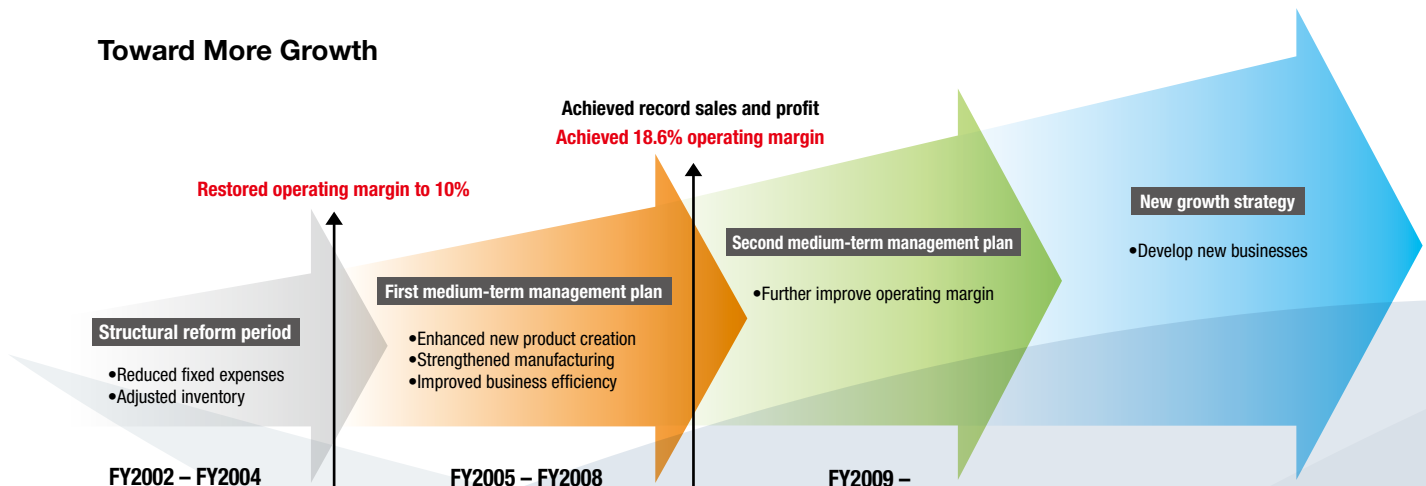
>> We are aiming to further strengthen process development so that we can surge ahead when the next growth period comes and bolster R&D in order to cultivate new fields. We are also looking to enhance our manufacturing technology so as to achieve maximum manufacturing efficiency.

The first initiative is growth in existing fields. We will develop technologies that meet our customers' requirements, including further miniaturization and technologies for devices with lower power consumption, and roll them out in new products. Needless to say, technological development will be the source of growth. Particularly in semiconductor process development, it used to be that customers took the lead role in development, but now many customers are focusing on circuit design and software development, and equipment



manufacturers are expected to undertake part of the process development. Over the past few years, we have refocused our attention on strengthening our process development capabilities, with a certain level of success. Still, I think there is room for us to do more in this area. From a medium-term perspective, I therefore think it will be important for us to strengthen collaboration with universities and R&D bodies, as well as to reinforce our process development engineering.

Toward More Growth





The second initiative is the scale of expansion through new business development. In addition to our mainstay semiconductor and FPD production equipment operations, in the environmental/clean energy field we will press ahead with the commercialization of CVD (chemical vapor deposition) systems for thin-film PV (photovoltaic) cells. For making SiC (Silicon carbide) devices which contribute to energy saving, we will also develop SiC epitaxial equipment, and help to realize the practical use of SiC devices at higher quality and lower cost. We are also tackling environmental issues through technology, with a focus on designing equipment to meet environmental standards.

The third initiative is manufacturing reform. In August 2007, our new No. 3 factory at the Koshi Plant became operational, and subcontractors previously dispersed around the Kyushu region were consolidated there. This move eliminated time needed for truck transportation, packing/unpacking and delivery inspections, and has contributed to shorter manufacturing lead time, lower distribution costs and enhanced quality. These positive results are now benefiting other group plants.

Q5: Tokyo Electron is planning to construct a plant in Miyagi Prefecture to function as a new production base. Please tell us about your plans for this plant.

>>The etch system market is expected to grow significantly in the medium to long term. By integrating our technology development and production bases, which are currently separated, we are aiming to further increase the scale of our revenues and raise profitability.

Going forward, we anticipate continued strong growth in the SPE market, with substantial growth in the etch systems market in particular. Thus far, we have carried out the development and production of etch systems – one of Tokyo Electron’s mainstay businesses – at several different sites. However, due to increasing space constraints, we are constructing a new base in Miyagi Prefecture where we will consolidate our etch system operations.

In the SPE sector, technological innovation is fast paced, and as our business relies on the development of new technologies, it is vital for us to secure outstanding human resources. We already have an operational base in Miyagi Prefecture, and we expect the region to also provide us with strong backup resources, enabling us to develop cutting-edge technologies through the recruitment of talented personnel from the region's many educational institutions, as well as through industrial-academic collaboration.

At the new plant, which is scheduled to commence operations in 2010, we intend to establish a structure for manufacturing the highest-quality equipment in the world with even greater efficiency. In constructing a base that integrates technology development, design and mass production, we aim to establish a competitive edge and enhance productivity. The Kyushu Plant initiatives mentioned above will also be developed at the new plant, and we will be looking to shorten manufacturing lead time and cut logistics costs by consolidating production within the plant with the participation of our suppliers. We plan not only to alleviate the environmental impact in terms of logistics, but also to tackle environmental issues proactively in areas such as energy-saving design. We are very excited about the prospects for future business expansion that our new 21st century plant will bring.



Q6: Please tell us about Tokyo Electron's environmental initiatives.

>> *It is crucial for management to tackle environmental issues, and there are also significant business opportunities.*

Climate change and global warming are issues of great concern, and there have been calls for concrete measures to be adopted to tackle global

warming in the industrial sector. A wide range of measures and regulations has been drafted, but only technological innovation in terms of emissions reduction and energy conservation can resolve these issues. Developing these technologies into a large-scale business in response to global demands will make a significant contribution to society.

For Tokyo Electron, an important issue is how to develop products that have a low environmental impact, and particularly how to cut down on energy consumption. It is also important to reduce the gasses, chemicals and water used in semiconductor manufacturing processes. Moreover, we can have a much broader social impact by developing equipment and processes that help to reduce the amount of power consumption of semiconductor and display products themselves. I also think we can do more in terms of product transportation, as there are many other possible solutions to tackle global warming, such as switching from air to sea transport and choosing plant locations that minimize the distance traveled by trucks.



Another important initiative is helping to tackle global warming through the solar PV production equipment market. PV cells are attracting interest as clean energy devices, and efforts are being stepped up to apply this technology to large-scale power generation. Given the ideal environmental performance of this technology, we anticipate strong growth in the PV market over the longer term, and hence also in the market for PV production equipment. The goal is to achieve a power generation cost equivalent to thermal power by 2030. A wide range of technological innovations can be expected during this time, in turn providing numerous opportunities to enhance production equipment technology.

We had already conducted extensive exploratory research into PV production equipment when we announced our entry into the PV production equipment market in February 2008. Together with Sharp Corporation, we have established a new joint venture company, specializing in development, to commercialize plasma CVD systems for use in thin-film silicon PV cells. The thin-film silicon PV cell, a type of solar cell containing a thin layer of silicon deposited on a glass substrate, has attracted much interest in recent years. These cells can be produced inexpensively and could become widespread in the future. We plan to develop high-productivity plasma CVD systems for thin-film silicon PV, shipping the first products in 2009.

Addressing Environmental Issues With Technology

Our mission and responsibility—and a major business opportunity



Enhance the energy efficiency of Tokyo Electron products

Provide manufacturing equipment for
energy-saving devices

Provide manufacturing equipment for clean energy