

TEL Basic Policy and Strategy

”Targeting sustained growth”

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Basic Policy

- **Aim for high profitability**
- **Maintain our leadership in technology**
- **Customer-focused approach:**
Understand the true needs of customers — Deliver solutions
- **Continue to be a corporate group which respects the spirits of initiative & challenging and independence of its staff**

A changing business environment - 1

Growth potential of the semiconductor market

- Changing market drivers

As the market develops from single applications to broad-ranging consumer applications, semiconductors will provide added value to a broad diversity of products

- Expanding globalization

Growth of BRICs

- Demand stimulants

Digital broadcasting, Beijing Olympics, etc.



**Semiconductors are a growing industry, not mature.
The silicon cycle is the driver of new growth.**

A changing business environment - 2

Changing semiconductor manufacturers

- Only a few semiconductor manufacturers will make large investments in facilities and R&D
- Volumes of various low/middle end chips will expand
- Strong cost-consciousness of consumer applications customers

A changing business environment - 3

Issues for SPE suppliers

- Role of SPE suppliers is expanding drastically with the technology innovation of semiconductors
- SPE suppliers will lead in pursuing cooperative development with customers
- Technology leadership is increasingly vital



A differentiated strategy that leverages our inherent strengths is essential

Strategy to Leverage TEL's strengths

- **Relentlessly advance TEL's core technology**
- **Lead the market in price and cost strategy**
- **Lead in pursuing cooperative development with customers**
- **Differentiate TEL by further enhancing our strengths in process technology**
- **Strengthen customer satisfaction through high reliability, thorough technical support, and after service**
- **Achieve cost-competitiveness and technological differentiation in strategic procurement**

Pursue technological innovation and strengthen manufacturing

Increase added value of products through technological innovation

- TEL direct control of technology development divisions
- New product commercialization project

Strengthen development and production capabilities as manufacturing companies

- Strengthen product development and improvement based on existing technologies by ownership of factories
- Aim for factories with high productivity and high quality
Relentless focus on quality and manufacturing skills

Raising corporate value

Clear relationship and strengthen linkage between consolidated results and dividend policy & executive compensation system

1. Dividend policy: 20% of non-consolidated net profits + consider consolidated results (45 Yen per share in FY March 2005)



Payout about 20% of consolidated net profits (42 Yen in FY March 2006)

2. New results-linked executive compensation system:

1. Results-linked compensation consists of cash bonus and equity bonus
2. Clear relationship between results-linked compensation and consolidated net profits
 - Compensation plan to be capped at 3% of consolidated net profit
 - Annual bonus to stock compensation ratio to be 2:1

3. Abolish Directors' retirement and severance benefits system

An innovative, dynamic group

- **Enhance TEL's corporate culture to create the foundations for significant new growth**
 - Pursue technology innovation
 - Strengthen operations as a manufacturer
- **Corporate culture “to move forward with passion not afraid of making mistakes” should be permanent**

