

# **FY2008 Financial Estimates and Priority Measures towards Further Growth**

**Kiyoshi Sato, President & COO**

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# Contents

- 1. FY2007 Achievements**
- 2. Market Outlook**
- 3. FY2008 Financial Estimates**
- 4. Key Measures for Further Growth**



# **FY2007 Achievements**

**(April 1, 2006 – March 31, 2007)**



# Key Achievements in FY2007

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## ▶ Achieved record results and robust financial base

- Sales 851.9 bn yen, operating income 143.9 bn yen, net income 91.2 bn yen
  - OPM 16.9% (18.6% in H2)
  - Free cash flow 29 bn yen
  - Debt/Equity ratio 8.7%
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## ▶ Launched new, high value-added products

- 6 products in SPE
  - 8G FPD models launched → Revived business
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## ▶ Successfully realized manufacturing reforms

- Minimized increase in fixed production costs
  - Reduced warranty expenses through quality improvement initiatives
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## ▶ Post sales: Targets achieved

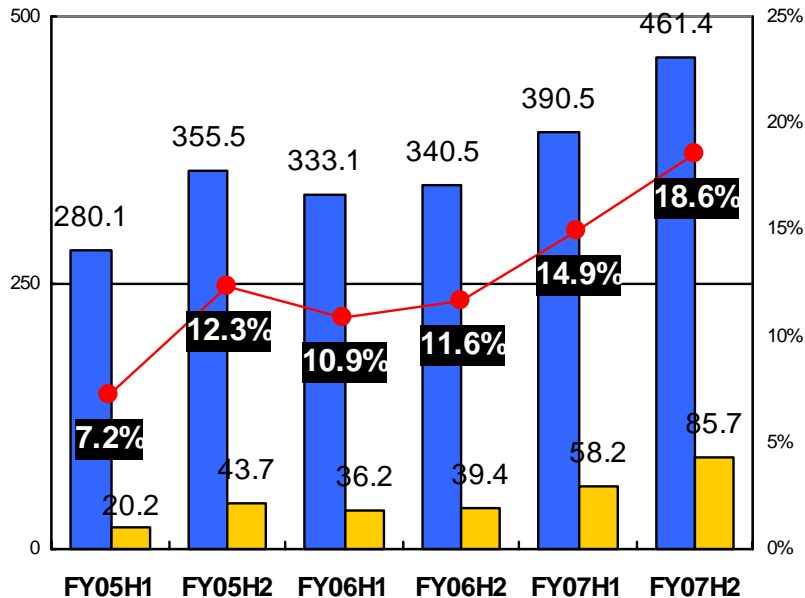
- Actual sales 112.4 bn yen vs, target 100 bn yen



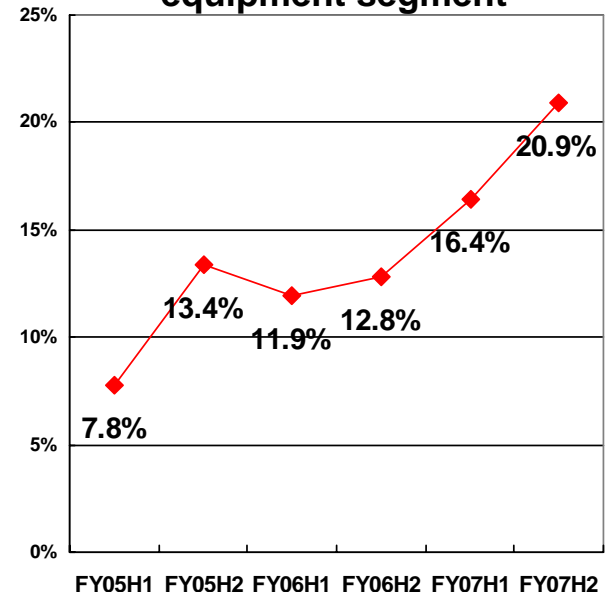
# Net Sales and Operating Margin on a six month basis

(Billions of Yen)

Consolidated



Industrial electronic  
equipment segment



■ Net sales   
 ■ Operating income   
 ◆ Operating margin

**Increased profitability with new products and reduced costs through manufacturing reform.**

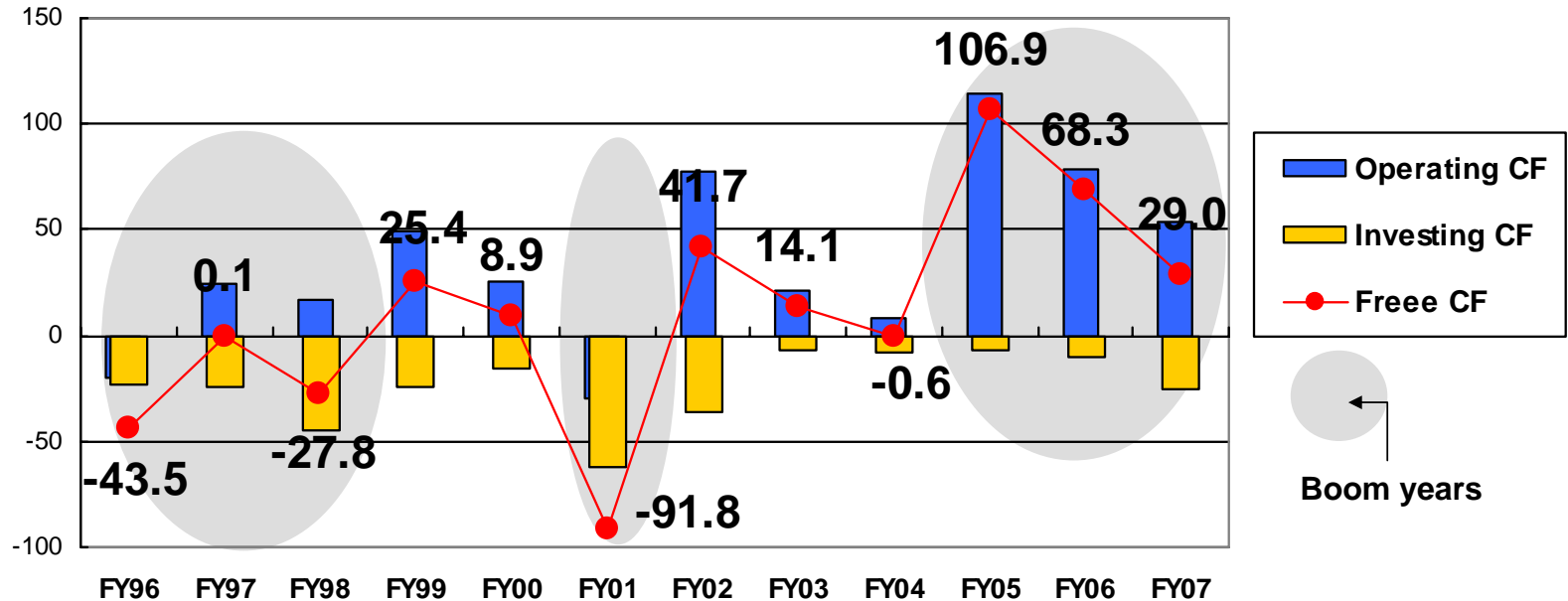
\* Industrial electronic equipment: SPE, FPD, Others (Computer Network is included up to FY07H1)



# Free Cash Flow

## Synchronized sales and cash flow

(Billions of Yen)

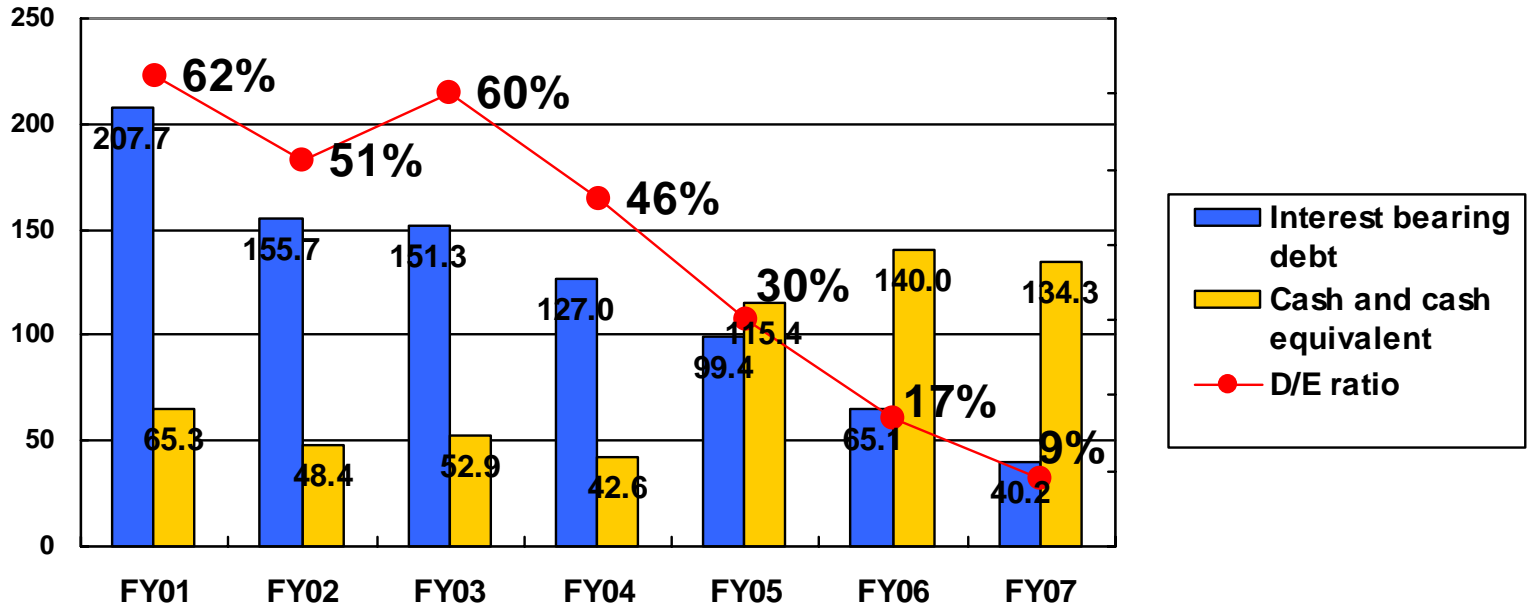


Despite strong demand for working capital, operating CF and free CF were positive owing to high operating income and improved inventory turnover.



# Interest Bearing Debt, D/E Ratio and Cash

(Billions of Yen)

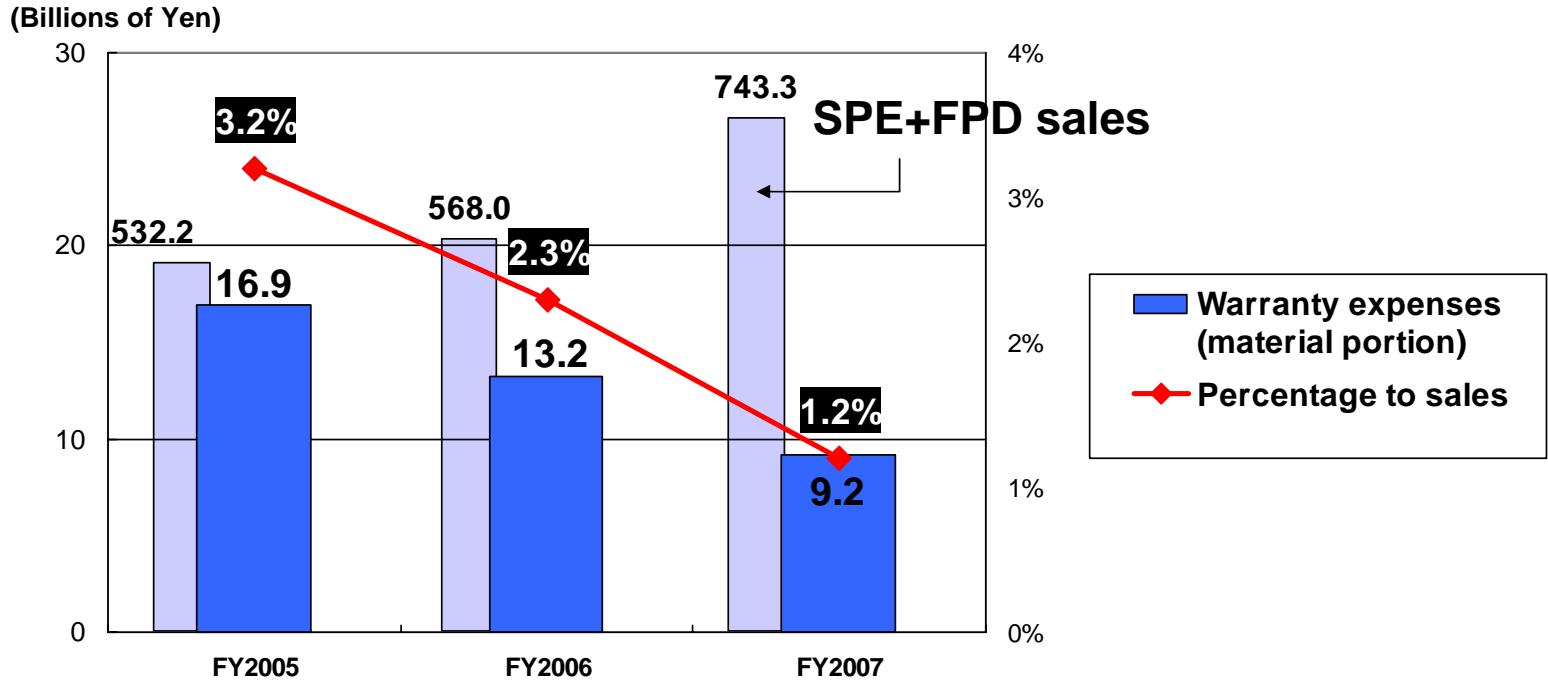


**Strengthened financial base:**

- Lowered interest bearing debt
- Secured liquidity to implement growth strategy and to meet working capital demand



# Warranty Expenses (material portion)

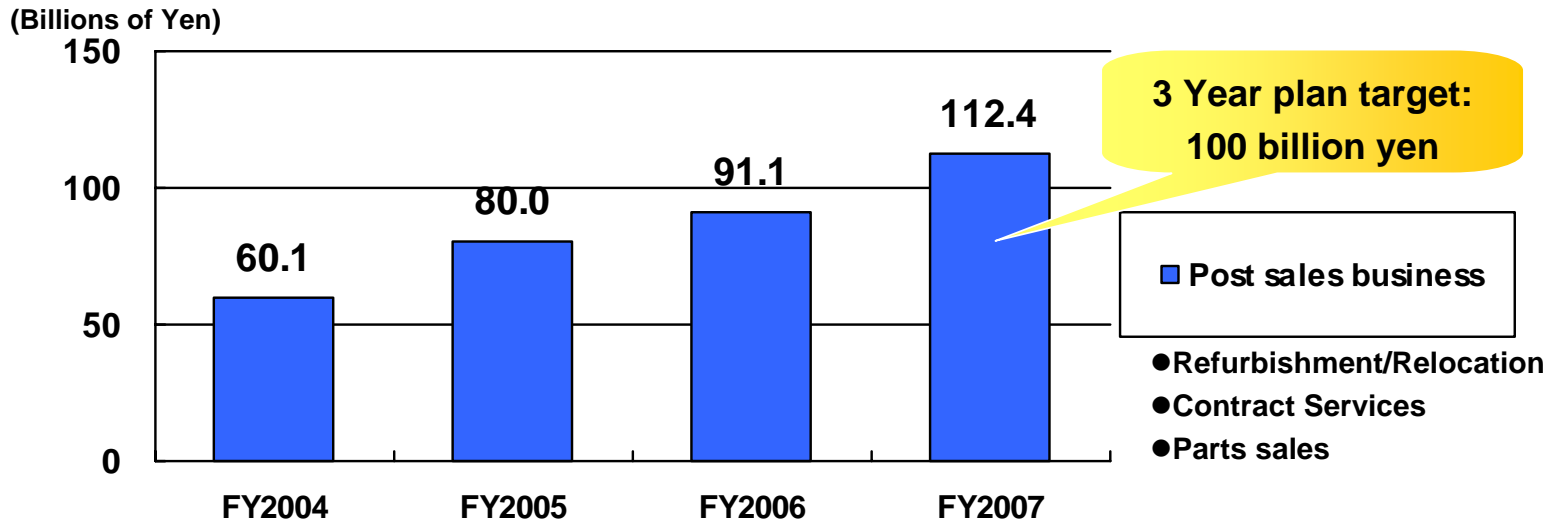


Through quality improvement initiatives, warranty expenses (material portion) were reduced by 45% compared to FY05 while sales up 40%.



# Post-sales Business

## Achieved the target of 100 billion yen



### Enhanced post-sales business

- Feb. 2006 Incorporation of post-sales engineering company, Tokyo Electron Korea Solution Ltd.
- Apr. 2006 Establishment of post-sales division in headquarters
- Feb. 2007 Incorporation of post-sales engineering company, Tokyo Electron PS Ltd.



# Market Outlook



# CY2007: Business Environment

## ▶ Semiconductor CAPEX

- DRAM: 70nm investment is continuing
- NAND: Investment to resume from mid-2007 for demand in 2008
- LOGIC/Foundry: Investment to recover from mid-2007 for cutting-edge equipment as electronics demand expands in 2008

➡ **Expect 5-10% YoY growth**





## ▶ FPD CAPEX

- Trough year of investment. Sales influenced in 2<sup>nd</sup> half of 2007.
- Orders to start to recover from summer in anticipation of demand for digital TVs from 2008 onwards

➡ **Expect 30-40% YoY decline**



# DRAM Market Trends

	2006	2007(E)	2008(E)
Average memory capacity of PC	825MB	1.2~1.3GB	1.6~1.8GB
Design rule (volume production)	90nm	80nm	70nm
Demand driver		 PC's memory capacity increasing 	VISTA expanding in business PC 
	 Application expanding (mobile, game, digital TV)		
Bit growth	50%	60~65%	50~60%


CAPEX to strengthen production capacity and for miniaturization is growing driven by expanding applications and increased PC memory capacity



TEL Marketing estimate

CORP IR / May 11, 2007

# NAND Flash Market Trends

	2006	2007(E)	2008(E)
Average memory capacity of PC	8Gb MLC	16Gb MLC	32Gb MLC
Design rule (volume production)	70nm	50nm	40nm
Demand driver			
Bit growth	180%	130~150%	110~150%

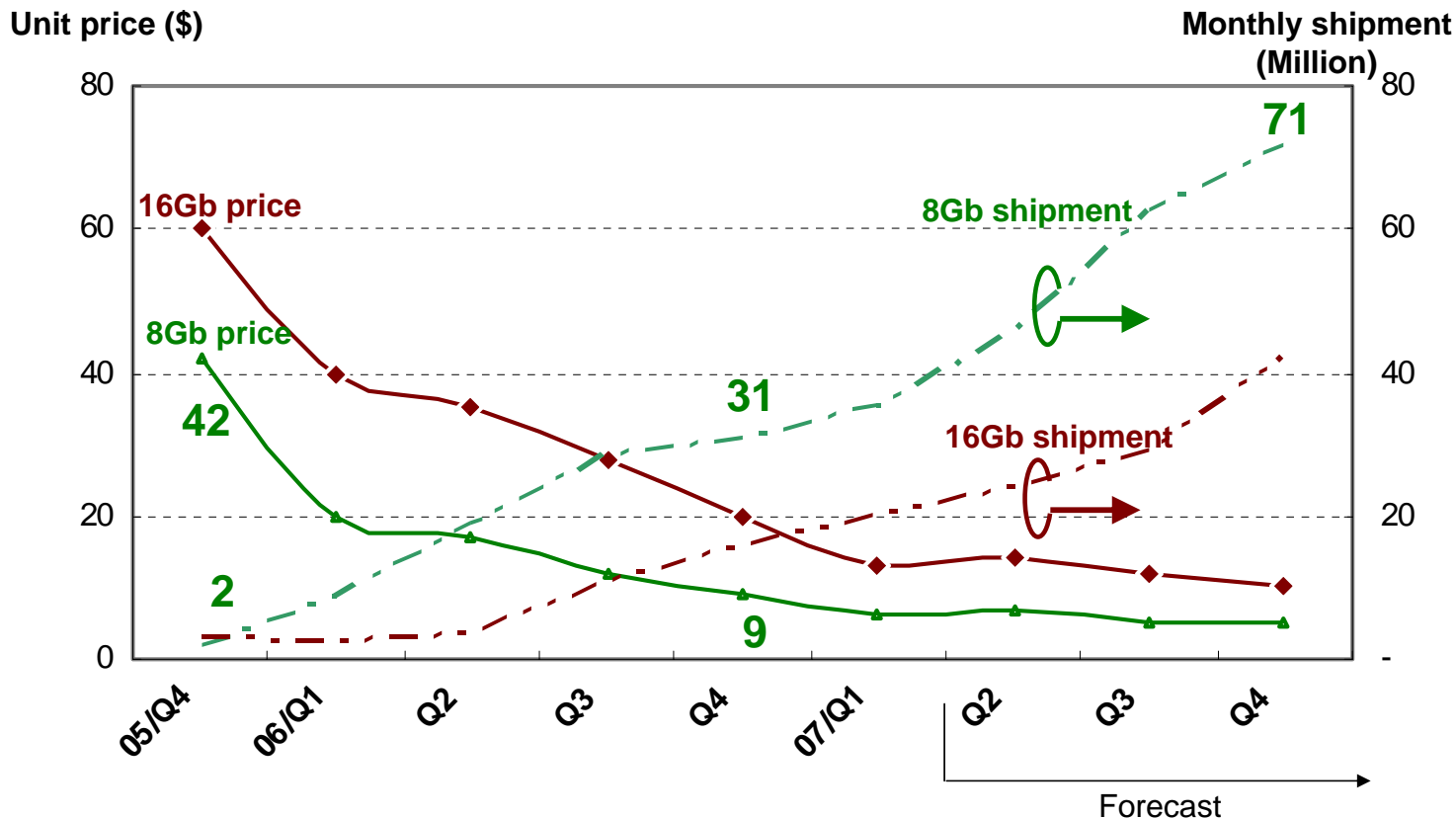
**New NAND demand is driven by lower cost resulting from miniaturization. Miniaturization and volume production provides a business opportunity for equipment makers.**

(\*) from Apple's web site

TEL Marketing estimate



# NAND Flash – Price Elasticity is High



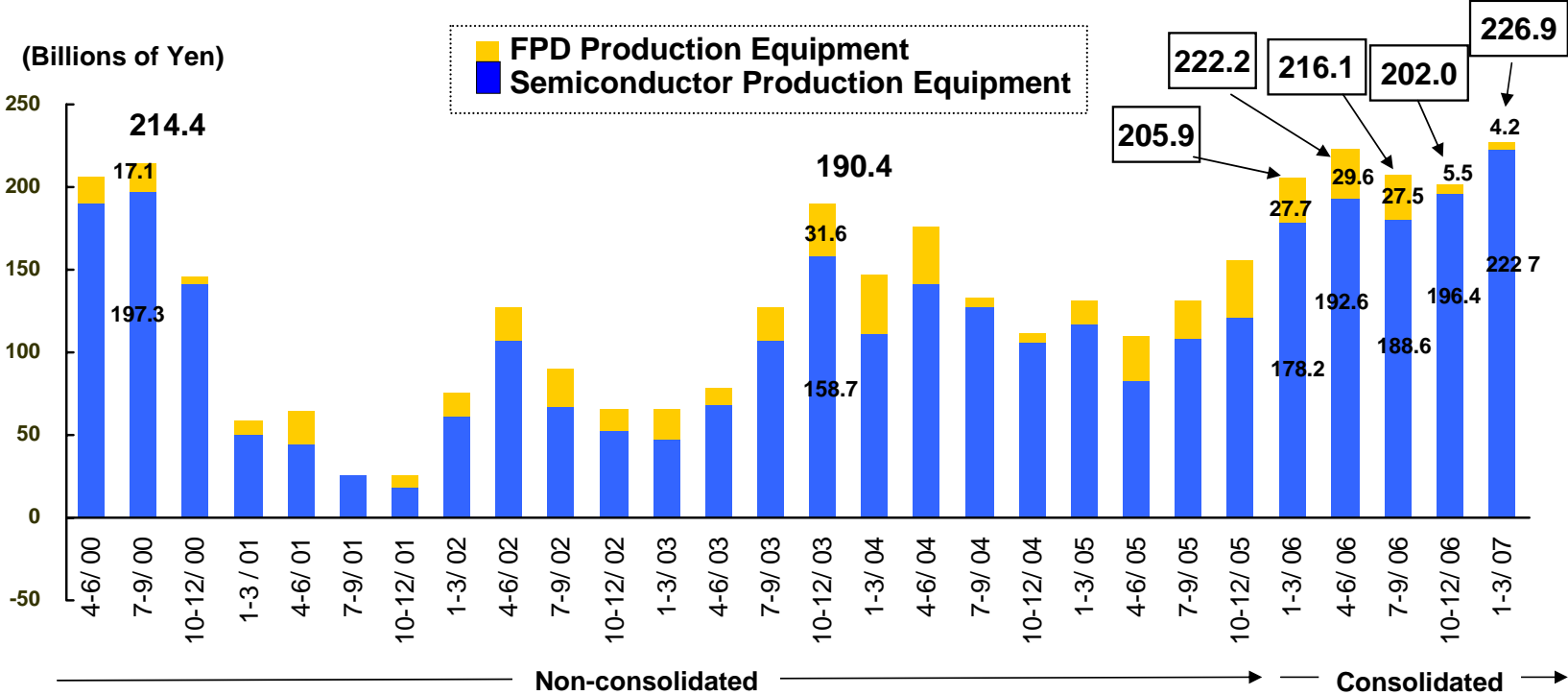
**In 2006, production of the leading 8Gb device up 15 times while price down around 80%**

TEL Marketing estimate based on the data from research firms



# Quarterly SPE+FPD Orders

▶ Jan-Mar: Highest orders recorded



\*Figures until 2005 Oct-Dec are non-consolidated, figures from Jan-Mar 2006 are consolidated.

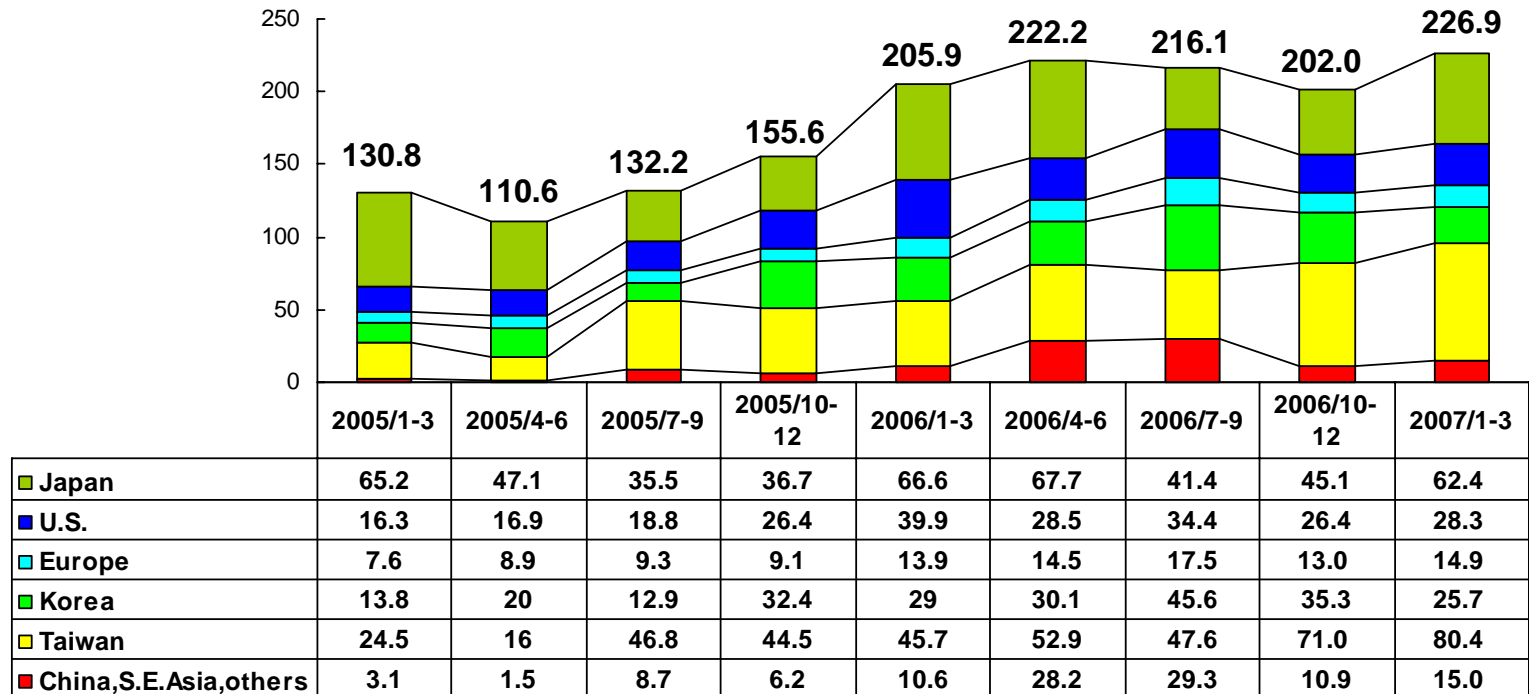
\*Main difference between consolidated and non-consolidated: Consolidated figures include post-sales orders at overseas subsidiaries.



# Quarterly SPE+FPD Order by Region

► Jan-Mar: Strong appetite for investment continued in Taiwan & Japan

(Billions of Yen)



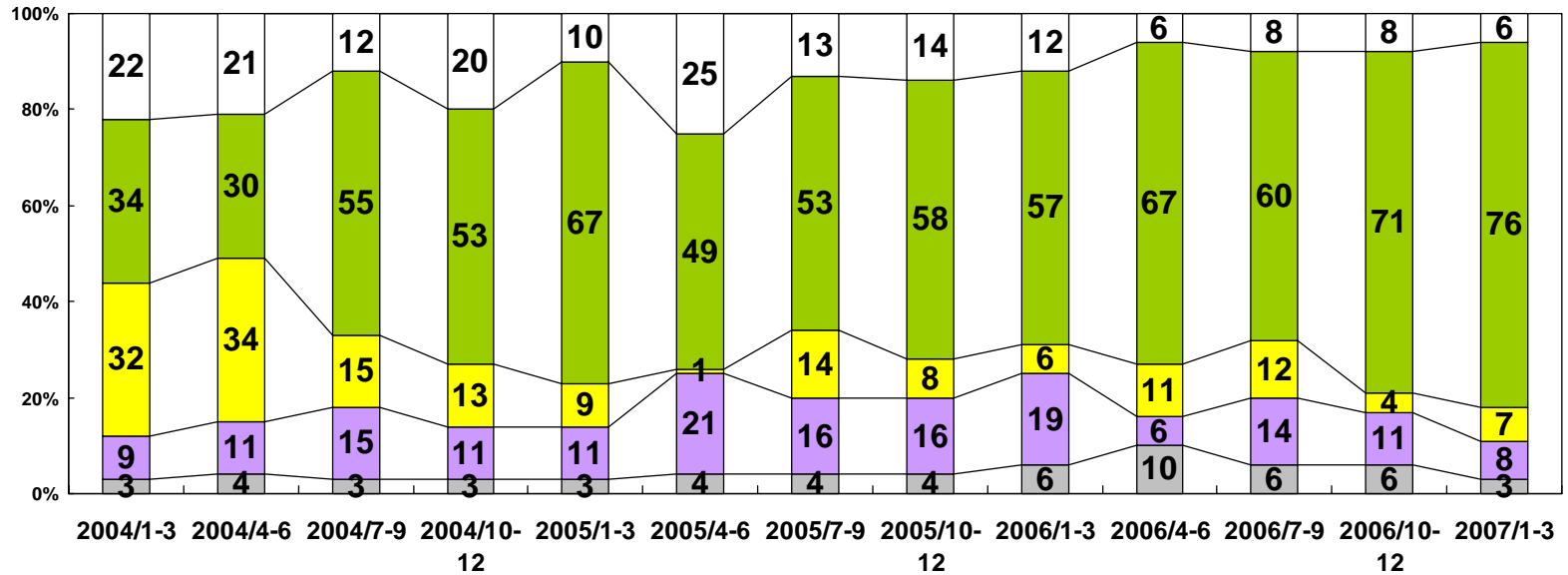
Order numbers are on a consolidated basis from 2006/1-3 quarter.



# SPE Quarterly Order by Application

## (Equipment only)

► Jan-Mar: Orders for DRAM remained strong



- System LSI for digital consumer products
- DRAM, Flash memory
- Logic foundry
- MPU, High-end logic
- Others



# **FY2008 Financial Estimates**

**(April 1, 2007 – March 31, 2008)**



# FY2008 Consolidated Financial Forecast

Record-setting performance for 2 years

(Billions of Yen)

	FY2007	FY2008 (E)			
	Full year	H1 (E)	H2 (E)	Full year (E)	YoY change
Net sales	851.9	445.0	455.0	900.0	+5.6%
SPE	642.6	354.0	376.0	730.0	+13.6%
FPD	100.7	40.0	20.0	60.0	- 40.5%
EC/CN	107.4	50.5	58.5	109.0	+1.4%
Others	1.1	0.5	0.5	1.0	- 10.8%
Operating income	143.9 (16.9)	77.0 (17.3)	83.0 (18.2)	160.0 (17.8)	+11.1%
Ordinary income	143.9 (16.9)	79.0 (17.8)	85.0 (18.7)	164.0 (18.2)	+13.9%
EBIT	144.4 (17.0)	79.0 (17.8)	85.0 (18.7)	164.0 (18.2)	+13.6%
Net income	91.2 (10.7)	50.0 (11.2)	54.0 (11.9)	104.0 (11.6)	+14.0%

( ) Profit ratio%

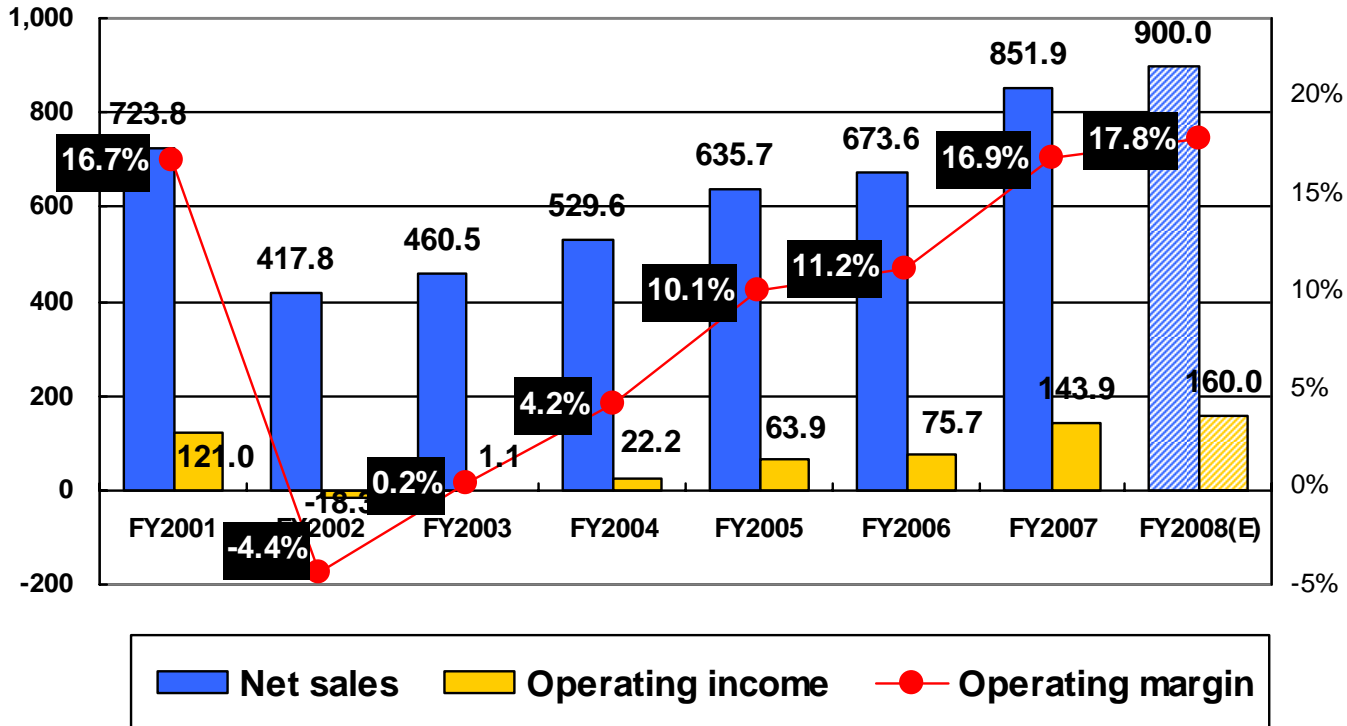
SPE: Semiconductor Production Equipment, FPD: FPD Production Equipment, CN: Computer Network, EC: Electronic Components



# Projected Net Sales and Operating Margin

## Profitability continuing to improve

(Billions of Yen)



# FY 2008 Sales Trends

## SPE Division

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- ▶ **By region**
    - Large increase in sales to Taiwan, expected to become around 30% of total
    - All other regions similar to last year
  - ▶ **By application**

Around 70% of sales expected to be for memory applications
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## FPD Division

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- ▶ **By region**
    - Taiwan: Large decline expected
    - Japan and Korea: Expected broadly flat YonY
  - ▶ **By generation**

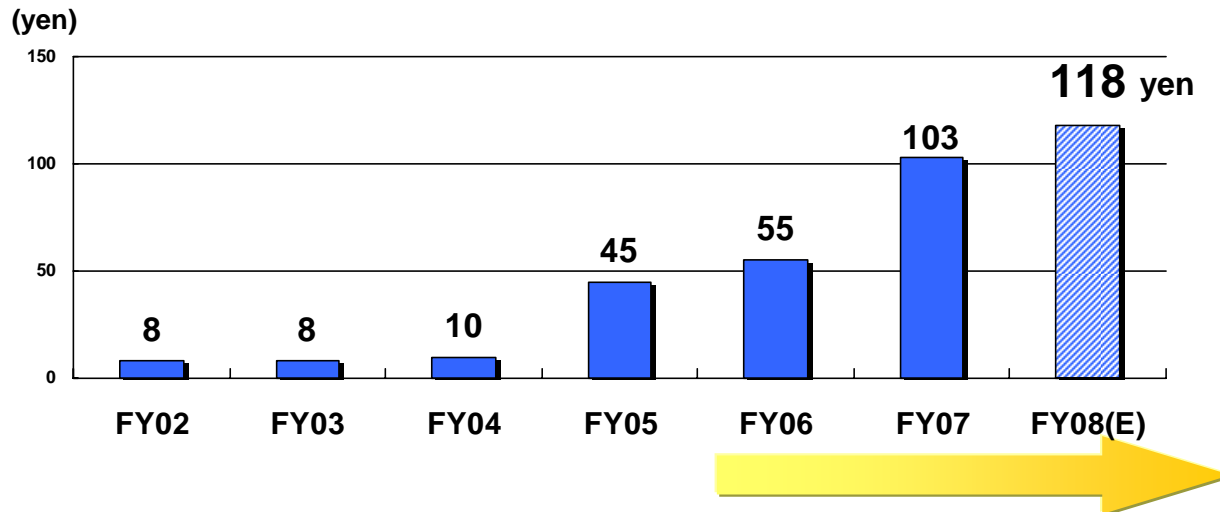
Sales of 7G/8G equipment expected to be around 60% of total
- 



# Projected Dividends for FY2008

Increased dividend for 5 consecutive years

	Interim	Year-end	Total
Cash dividend per share (E)	57 yen	61 yen	118 yen



Consolidated payout ratio 20% since FY2006

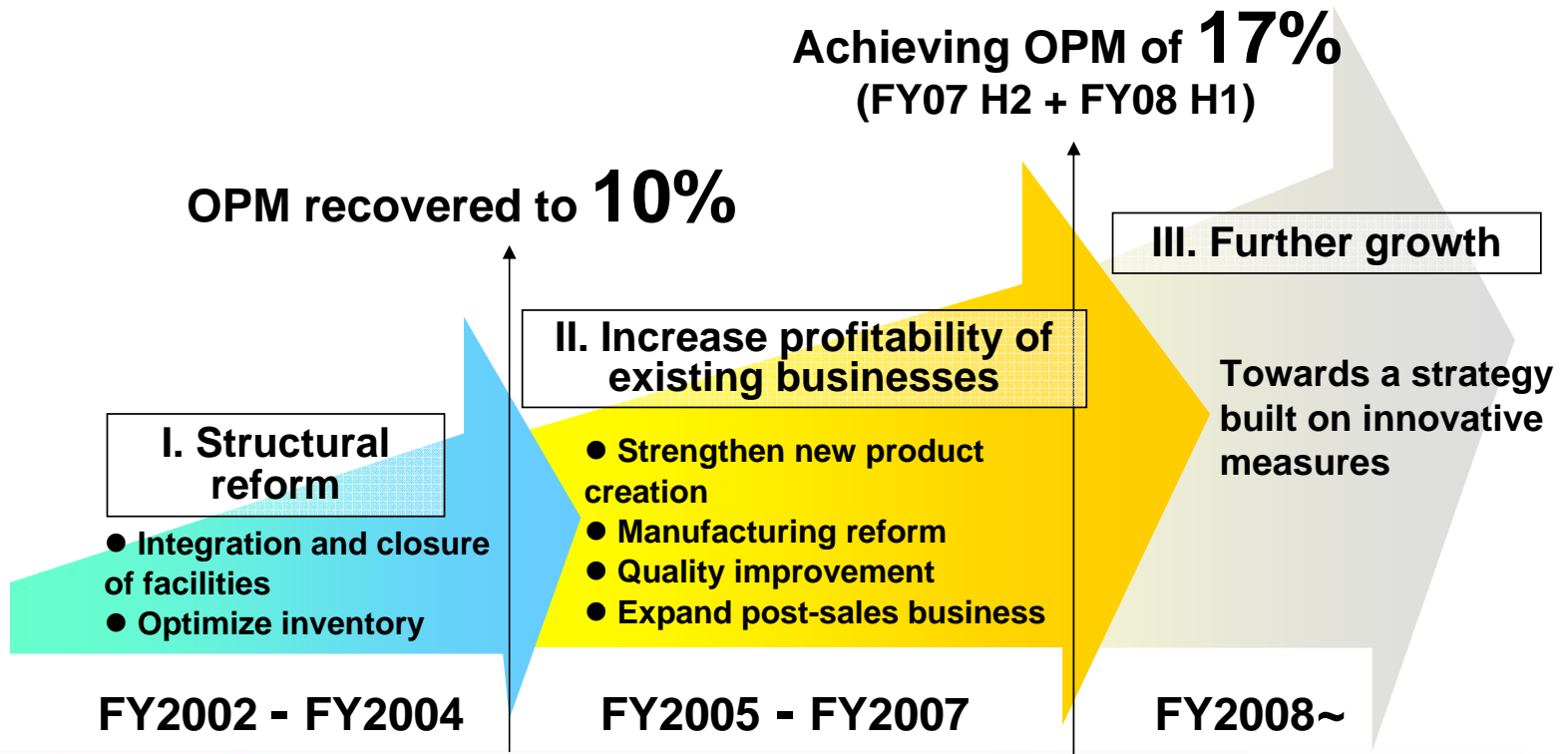


# Key Measures for Further Growth



# Achieving OPM Target of 17% Six Months Early

## Growth Strategy to Advance to New Stage



# Targeting higher profits: Key measures

## For further growth

### High value-added new products and technologies

- Sales expansion of new products launched in 05/06
- Strengthen high-value-added upgrade kit business
- Collaboration with customers in 32nm
- Development of environmental technology

### High production efficiency for cost competitiveness

- Maximize manufacturing efficiency (by new concept plants)
  - Supply chain enhancement
  - Logistics enhancement
- Strengthen in-house production of core technologies
- +
- Prepare for expanding medium/long-term demand

### Creating new businesses

- RLSA
- BEOL (Albany Nanotech Project)
- Make Epion's GCIB technology a core technology
- etc.



Aim to create new business of around 100bn yen

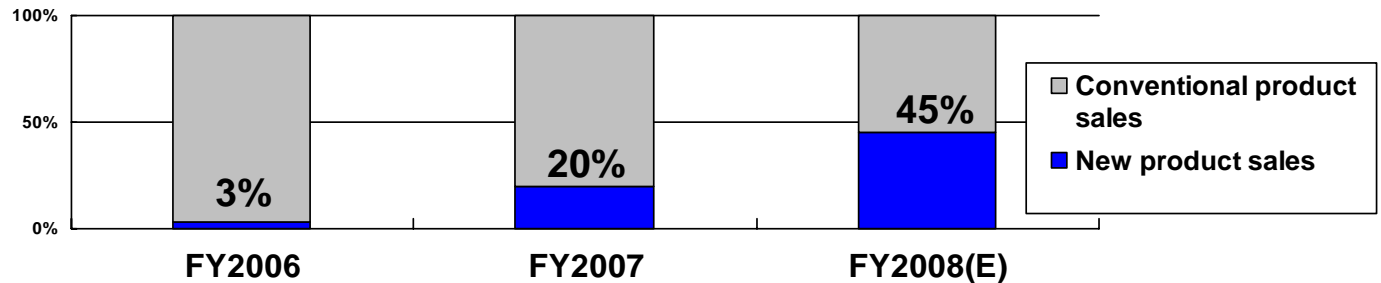
**In the medium-term, TEL aims to develop as a world class, highly profitable company by raising profitability of existing businesses and growing in new business domains.**













\* Acquired Epion Corporation (MA, U.S.A) in December 2006. Core technology is Gas Cluster Ion Beam technology.



# New Product Proportion

New products with pricing power expected to contribute from FY08H2



	Released in FY2006		Released in FY2007	
<b>Coater/developer</b>	Immersion C/D <b>CLEAN TRACK™ LITHIUS™ i+</b> 		<b>CLEAN TRACK™ LITHIUS Pro™</b> 	
<b>Etching system</b>	Dielectric etch <b>Telius™ SCCM™ JI</b> 	Poly etch <b>Tactras™ SCCM-poly</b> 	Dielectric etch <b>Tactras™ Vigus™</b> 	
<b>Thermal processing system</b>	<b>TELINDY™</b> 		Thermal PECVD <b>TELINDY™ IRad™</b> 	
<b>Single wafer CVD</b>			<b>Trias™ LT Ti/TiN</b> 	
<b>Cleaning system</b>	Single wafer clean <b>CELLESTA™</b> 	Chemical oxide remover <b>Certas™</b> 	Auto wet station <b>EXPEDIUS™+</b> 	
<b>Wafer prober</b>			<b>Precio™</b> 	
<b>FPD equipment</b>			<b>G8 coater/developer Exceliner™</b>	<b>G8 etcher/asher Impressio™</b>

New Products: Products released in the last 2 years



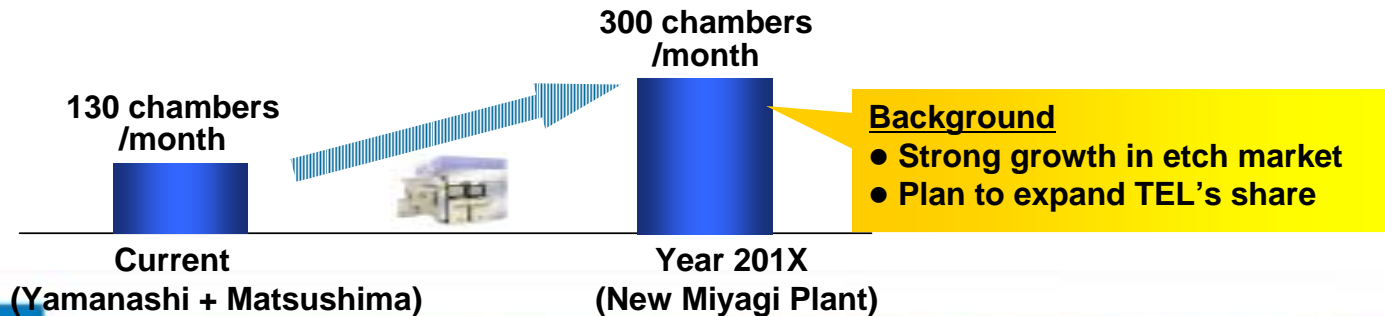
# New plant construction plan: Miyagi New Plant for Etching Systems

Strengthen production capacity to meet growing demand

- Location: Taiwa Research Park (tentative name) in Miyagi pref., Japan
- Area: 300,000 m<sup>2</sup>
- Construction plan: Start April 2009, complete April 2010
- Total investment: 20-30 billion yen

## Aims of the new plant:

- Operate development and production in a single location
- Aim to maximize productivity through supply chain and logistics enhancement
- Secure latest technology and engineers through academic-industrial collaboration
- Adopt advanced environmental practices



# Establishment of a new company: Tokyo Electron Technology Development Institute, Inc.

## New specialized company for RLSA businesses

- |                       |                                                                      |
|-----------------------|----------------------------------------------------------------------|
| ■ Establishment:      | June 2007 (planned)                                                  |
| ■ Headquarters:       | Sendai City, Japan<br>(current location of Sendai Technology Center) |
| ■ Business locations: | Sendai, Amagasaki and Yamanashi (Hosaka)                             |
| ■ Capital:            | 100 million yen (100% owned by TEL)                                  |

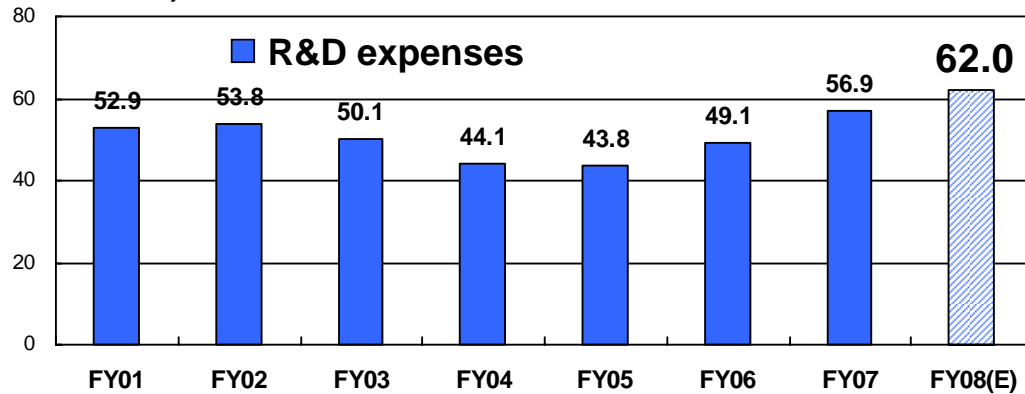
### Aims of the new company:

- Strengthen RLSA related development and intensively promote commercialization
- Aim to create a high caliber group of technologists that can respond to the high-level research of universities and research institutes and build collaborative relationships

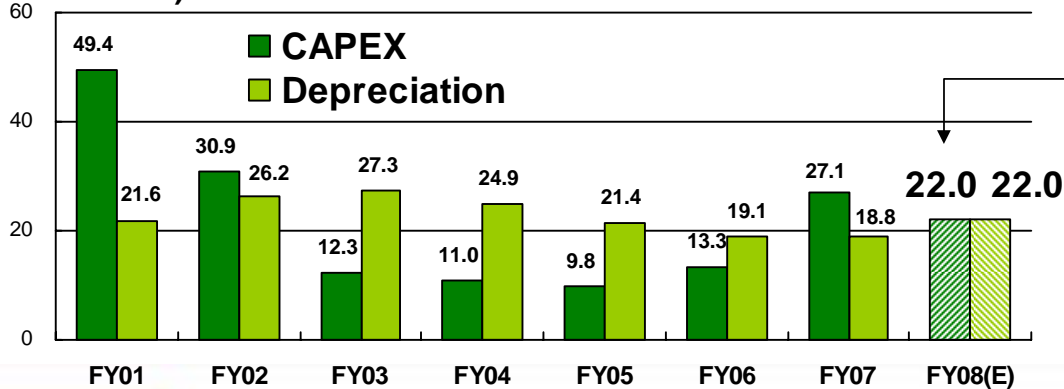


# R&D Expenses and Capital Expenditures Sustaining Further Growth

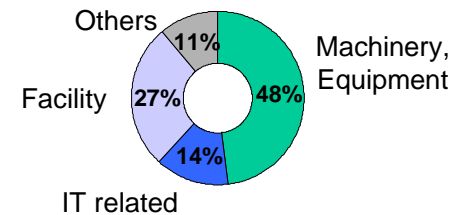
(Billions of Yen)



(Billions of Yen)



Capital expenditures



# Summary

- ❏ **FY 2008 market environment: Growth in semiconductor capex, trough year for FPD capex**
- ❏ **Record sales and profits for 2<sup>nd</sup> successive year**
- ❏ **Expect to achieve OPM target of 17% six months early (FY07 H2 + FY08 H1 17%+)**
- ❏ **Implement growth strategies aiming for higher profits. Three core strategic elements are “high value added products”, “high production efficiency”, and “new businesses”. TEL is spending a high-level of R&D expenses to achieve further growth.**

