

INTERVIEW

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Chairman & CEO

How has the business environment of the semiconductor production equipment sector changed in recent years, and what direction will it take in the future?

The driving force behind semiconductor demand has changed profoundly over the last five years. Mobile communications and digital consumer electronics are now the core applications in a market that, just five to six years ago, was mainly led by PCs. Also, we have seen the steady evolution of the PC into an item that has the features of a digital consumer product.

As a result, semiconductors are finding wider applications. The result is a large increase in demand for semiconductors. I expect this trend to continue to strengthen, driven by the emergence of various new semiconductor applications.

Another important trend is the continuing evolution of semiconductor memory. Along with the ever-improving performance of DRAM, NAND flash memory, which has emerged as an ideal storage media offering large capacity and low power consumption, is stepping into the limelight. NAND flash memory is expected to be used extensively in Third Generation (3G) mobile phones and a wide range of digital consumer items, on the strength of its ability to store lengthy digital music files and moving images. In fact, a compact PC with NAND flash memory replacing the conventional HDD as the storage device is just around the corner. With the shift toward more powerful devices, the volume and value of semiconductors going into each unit is bound to increase.

Furthermore, demand for PCs and mobile phones is growing rapidly in BRICs and other emerging markets. This geographical expansion will also work in favor of semiconductors, lifting total demand.

Taken together, this expanding range of applications, appearance of new key devices, increasing semiconductor content ratio in various products, and the geographical expansion of the demand base, will push semiconductor demand even further, suggesting that the semiconductor market will continue to experience dynamic growth. With this expanding demand, the importance and responsibilities of semiconductor production equipment (SPE) suppliers are bound to continue to increase. As a leading SPE supplier, Tokyo Electron is committed to supporting the quantitative growth and evolution of semiconductors through relentless technological innovation.

How do you view the prospects for flat panel display (FPD) production equipment, another core product of Tokyo Electron?

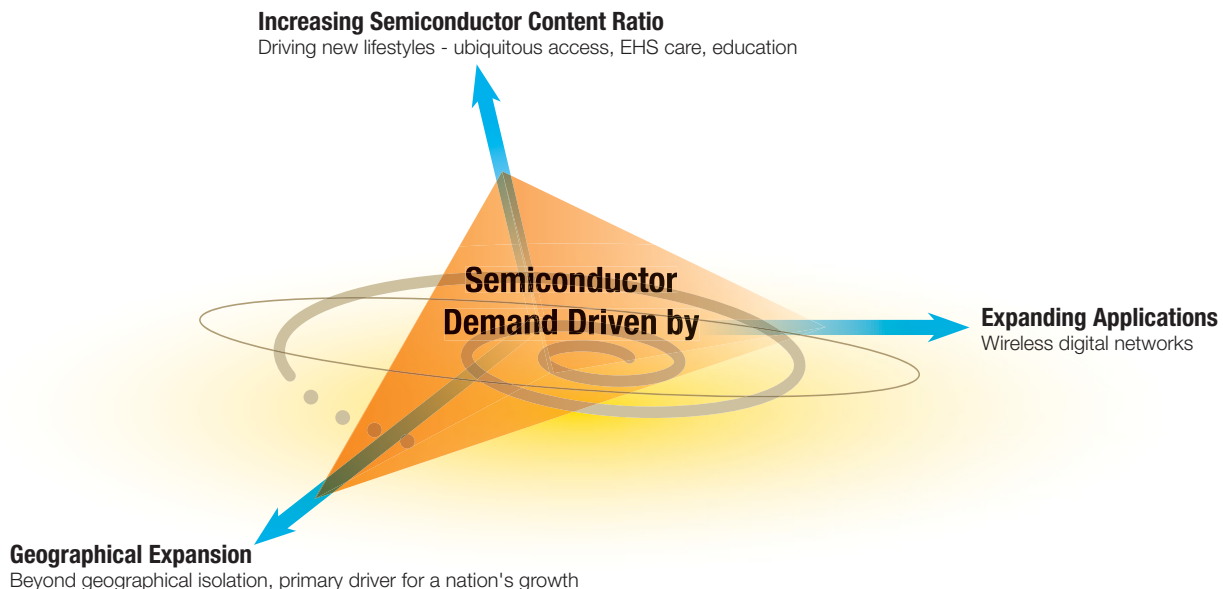
The PC monitor used to be the core application for the LCD panel. Recently, the demand for large-screen LCD TVs is witnessing explosive growth. Since many people choose large-screen TVs for viewing dynamic images of sports events, I see the Beijing 2008 Olympic Games as a trigger for replacement demand directed at larger-screen LCD TVs. There is also

the worldwide transition from analog to digital broadcasting, which is also certain to generate explosive demand.

LCD manufacturers are already increasing capital investment in response to this demand, and that should keep us busy for at least the next two years.

The shift toward larger mother glass, from which LCD panels are cut, is driving investment in production equipment. However, from a long-term perspective, we must not overlook the fact that there is a limit to increasing the size of mother glass, which means that a new round of technology innovation will be necessary. We are very aware of these factors, and Tokyo Electron is working to develop a new business vision that builds on our existing technologies.

Three Waves of Growth in the Semiconductor Market



There is a concern that increasing use of semiconductors in consumer electronics could cause a decline in semiconductor prices and this could rebound on SPE suppliers in the form of price pressure from semiconductor manufacturers. How do you plan to deal with this?

The digital consumer market is characterized by a wide range of products and price volatility. In this environment, semiconductor manufacturers, our customers, need to step up new product launches to stay competitive. They have to raise productivity by cutting down the lead time for the start-up of new production lines, shorten manufacturing cycle times and boost yields. Furthermore, customers' expectations toward us to come up with technological advances in semiconductor processes are increasing, as seen in responding to lower power consumption demands.

It is very clear to me that responding with revolutionary new technologies and developing SPE with superior cost performance are the best ways to meet our customers' real needs. If we can supply highly reliable SPE with outstanding productivity and process performance, we can expect to win

customer satisfaction and to get a fair price for our products.

But it goes without saying that we should not minimize the focus on cost reduction.

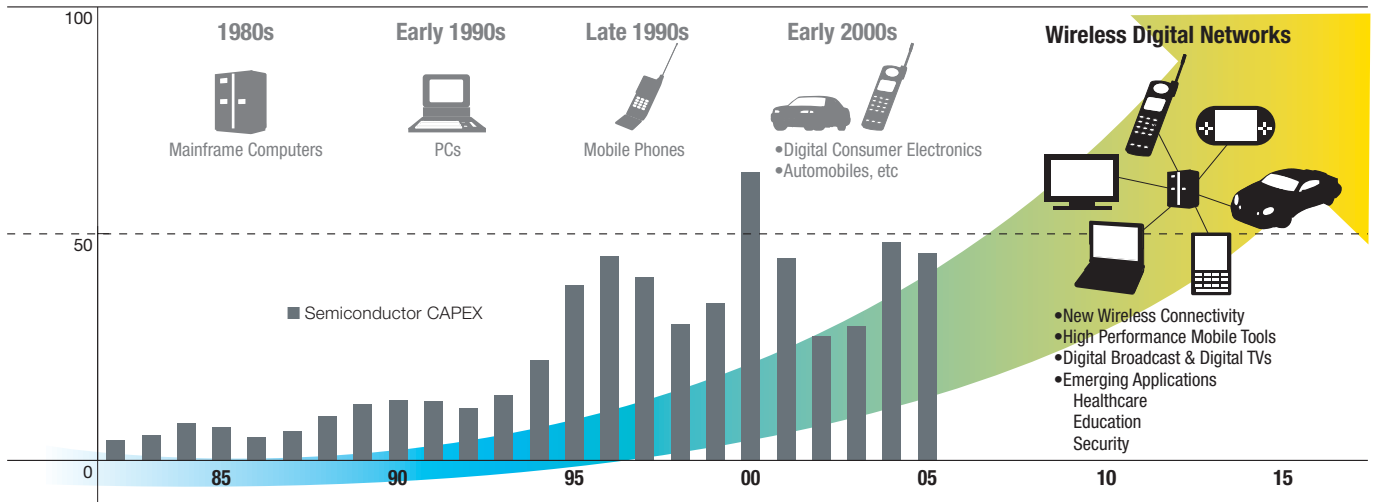
What do you see as currently the most important management issue?

As a business, our goal is to continually generate a high level of cash flow. In this context, raising the operating margin and asset turnover are the most pressing management issues. In the past fiscal year, our operating margin improved to 11.2% following a harsh recession in semiconductors. But we are far from satisfied with this. We will continue to make every effort possible to further raise our operating margin. Raising profit margins boils down to strengthening product development and manufacturing capabilities, the core activities of any manufacturing company. In view of these considerations, we need to further increase our R&D spending.

Tokyo Electron is committed to continuing to improve its technology and to creating new businesses. To achieve these goals, a sound corporate culture must be passed down to future generations. Tokyo Electron was established in 1963 by

Wireless digital networks will drive the market

(Billions of U.S. Dollars)



a few young people full of venture spirit. That spirit has been passed down through the years, making it possible for Tokyo Electron to launch innovative equipment for semiconductor and LCD panel manufacturing, areas characterized by rapid technological change. The environment in which we operate has changed profoundly since we entered the 21st century, and the speed of the technological innovation demanded has accelerated. As the global leader in SPE, Tokyo Electron must rise to the challenge of innovating still more. We must meet this challenge by ensuring that a venture spirit is instilled throughout our organization.

Tokyo Electron has a strong cash position through successful cash flow management. How do you plan to use this cash and what are your policies regarding the sharing of profits with your shareholders?

In fiscal 2006, we used part of the cash to retire debt, raise the cash position, and other moves to strengthen our financial base.

The use of cash flow is based on our comprehensive judgment of the operating environment and the company's financial position at that time. Since we believe that the best

way to return profit to shareholders is to maximize corporate value through sustained growth, continuing investment in growth areas is given the highest priority in the allocation of cash flow. This is because, unlike other markets, the sheer speed of technological innovation in the markets in which Tokyo Electron operates is astounding.

Tokyo Electron will be quick to identify potential growth technologies. We also consider strategic alliances and M&As as important options for acquiring new technologies and intellectual property rights.

Dividends to shareholders are also an important management issue. Tokyo Electron's dividend policy is to continue linking dividends to consolidated net income, with the aim of a consolidated payout ratio of 20%. I am pleased to note that Tokyo Electron has increased its dividend for three consecutive years up to the fiscal year ended March 2006.

