

INTERVIEW

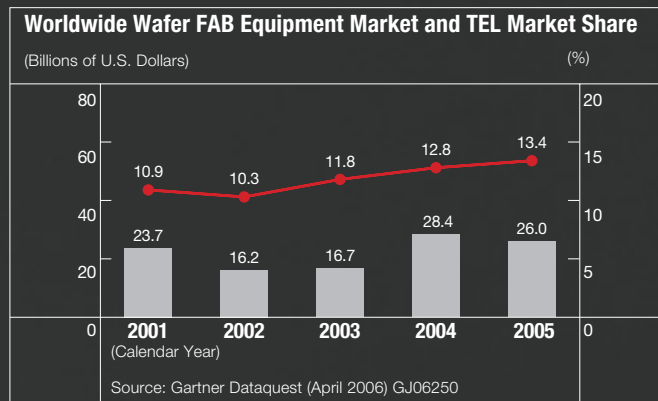
KIYOSHI SATO

President & COO

Q&A
Tokyo Electron's share of the global market for semiconductor wafer FAB equipment seems to be rising. What is driving this growth?

Asia's rising share of semiconductor capital investment in the global marketplace is one reason. Various semiconductor manufacturers such as memory manufacturers, logic IC manufacturers and foundries are making aggressive capital investments, anticipating future demand growth. Last year saw brisk capital investment in manufacturing equipment for DRAM and NAND flash memory that has high growth potential. Tokyo Electron is well established and well known for the strong support that it provides to customers in Asia. Its products have also won high marks for the advanced solutions they offer for leading-edge memory products and other high-end semiconductors. The combination of these factors is driving growth.

Looking back, surface preparation systems (cleaning systems) is an area that showed outstanding growth last year. The market share of our 300mm wet stations jumped from a single-digit figure three years ago to nearly 35%; we captured a growing share as design rules continued to shrink. Going forward, the products that we launched in the fiscal year to March 2006 are now ready to start contributing to the bottom line. I am confident that Tokyo Electron will be able to further raise its presence in the global market.



■ Worldwide Wafer FAB Equipment Market
 ● TEL Market Share

Many of Tokyo Electron’s products have leading market shares. How do you plan to increase the share of products with lower market rankings?

Market share is important, but profit margins must be given equal attention. Tokyo Electron is not interested in a high-sales, low-margin strategy. That said, a certain volume of sales is needed to boost profit margins to higher levels.

The key here is matching products with market needs. Customer needs are diversifying as semiconductor manufacturing processes become even more sophisticated. In this environment, if we don’t focus on particular market segments, the product concept will suffer and will lead to poor execution of our differentiation policy. First, we must study the market and then introduce optimized models for each market segment—products that precisely reflect the real needs of our customers.

Tokyo Electron is a relative latecomer to the silicon etch market, but this is a product area where there is room to expand our market share. We achieved a market share of more than 10% in the last year and there is a clear, underlying upward trend. In the surface preparation systems market, we expanded the product line, developing the CELLESTA (single wafer cleaning system) and Certas™ (pre-clean system) to the wet station line.

The new product lineup will meet the diversifying needs of our customers as design rules shrink.

This year we also introduced Exceliner™, an eighth-generation FPD coater/developer. It offers high levels of performance and reliability based on an entirely new concept.

Please comment on Tokyo Electron’s growth strategies.

The core concepts of our growth strategies are to nurture new technologies and develop new products. Enhancing process performance is one of the most important requirements of our customers. They demand a response to shrinking design rules and new materials, even as memory size continues to increase, processors become faster and demand for lower power consumption grows even stronger. On top of all this, customers are strongly emphasizing improved productivity for production equipment. Needless to say, quickly and correctly identifying customers’ technology needs and creating new products to address them is extremely important. Growth is driven by the ability to introduce products with such added value at the right time.

From a medium- to long-term perspective, we also aim to increase the size of our business. For this, we have to develop

New Products for the 65nm and 45nm Nodes Released in 2005



new star products to supplement our existing product line. We are thus working in R&D on diversifying into new areas while giving full attention to existing technologies.

What new trends do you see emerging in the SPE industry? What is the key to success in the new environment?

First, a few players are increasingly dominating the semiconductor and LCD sectors, and there are few customers in the world capable of continuously making massive investments. Competition for orders is likely to become intensified in such a market. Our sales, service and manufacturing operations must provide exhaustive support to our customers, thus building business relationships rooted in trust. This can only be achieved through further raising product quality and by offering the best possible customer support, in addition to quick responses to customers' real needs.

Second, there is a fierce battle for growth and survival in the SPE industry. Major SPE suppliers, and we are no exception, are looking to new areas to drive future growth, and this could intensify competition in core product lines. We will have to further hone our technology development capabilities to

take on new competition. Semiconductor production equipment with superior process performance and higher productivity is favored by customers since it helps them bring down costs. Alliances and M&As are also options to cope with the changing situation. Forming alliances with or partnering with universities and other firms is effective in accelerating product development in cases where development periods tend to be long. In some cases, M&A will also be an effective alternative.

Finally, can you comment on what you see as Tokyo Electron's corporate DNA?

I would say that our "Emphasis on the Customer," passed down throughout our history, our "Venture Spirit" and our "Readiness to Respond to Change" are the corporate genes that give Tokyo Electron its distinctive character. If you respond defensively to change, you end up retrenching, but if you adopt an aggressive stance, you open up opportunities for growth. Tokyo Electron has grown rapidly by responding positively to changing market needs. This has allowed us to evolve from being an import agency and local supplier to a global player. We will further hone our instinctive ability to respond to changing customer needs to find new opportunities for growth.

Accelerating R&D to Drive Growth
A High Level of R&D Expenses and a Global R&D Network

