

INTERVIEW WITH THE CEO



Hiroshi Takenaka,
President & CEO

In relation to capital investments for the future, we established three new manufacturing and development sites, namely the new Miyagi plant for strengthening the etch system business; the new Kunshan plant in China to address the country's expanding demand for flat panels through localization; and the TEL Technology Center Tsukuba, to enhance basic R&D activities and promote the commercialization of photovoltaic cell (PV) production equipment. In another development, in April 2012 we established TEL Technology Center Korea, in the city of Hwaseong, South Korea, with the view to strengthen business operations in South Korea's booming semiconductor market. In this manner, we invested in the future according to each of our intended objectives.

In addition, we announced two acquisitions. We have often said that the source of Tokyo Electron's growth lies in technological innovation. We believe that acquisitions fall into three categories. The first is acquisitions to strengthen existing businesses. The second is acquisitions to expand related businesses. Finally, the third is acquisitions to enter new businesses. In every category, Tokyo Electron seeks to create high-value businesses by incorporating technologies it does not have, and fusing them with its own technologies. The latest acquisitions are intended to enhance our range of products in the semiconductor advanced packaging field, which has a high growth rate, and to enter the thin-film silicon PV production equipment field, where we can harness the technologies Tokyo Electron has developed over the years.

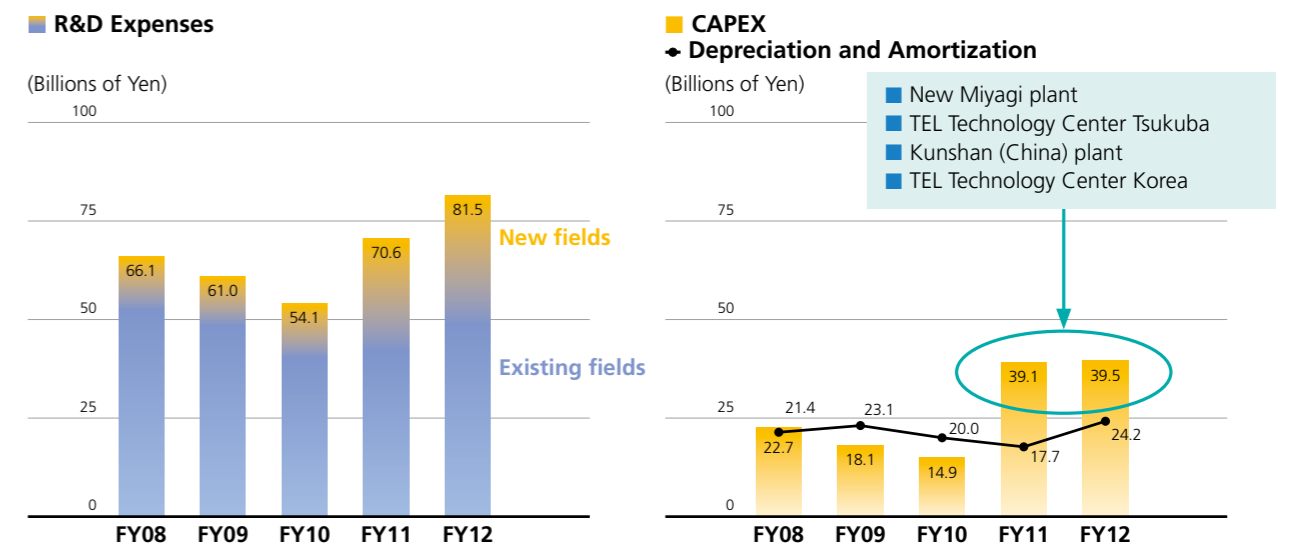
Q What progress did you make on the management front in fiscal 2012?

A The business environment surrounding Tokyo Electron was extremely severe over the past year, mainly due to the Great East Japan Earthquake that struck in March 2011, as well as the yen's rapid appreciation to historic levels and a downturn in final electronics products due to the impact of the flooding in Thailand. In this environment, Tokyo Electron managed to minimize the impact of the Great East Japan Earthquake through concerted efforts by the entire company to restore operations in the aftermath of the earthquake. Nonetheless, overall net sales decreased by around 5% year over year.

Meanwhile, as in the previous fiscal year, we executed sizable growth investments in preparation for future growth. In fact, we allocated R&D expenses of ¥81.5 billion in fiscal 2012, which was an all-time high. We have started to see the positive results of these outlays gradually become apparent, including improved positions in focused areas like the markets for etch systems and cleaning systems. Fiscal 2012 was also a year that saw us make steady progress in several new business fields.

Capital Investments For Medium-term Growth

Over the last 2 years, Tokyo Electron has allocated high levels of R&D expenses and made sizable capital investments, aiming at future growth.



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Q The market for semiconductor production equipment (SPE) seems to have struggled to grow since the global financial crisis erupted three years ago. What is your outlook for the industry?

A The semiconductor market has already seen fierce borderless competition for many years. A glance at recent newspapers shows that the Japanese electronics industry in particular has struggled to cope with intensified global competition. Looking around the world, demand for final electronics products still remains weak due to the lingering impact of the global financial crisis.

However, semiconductors are finding growing uses in devices that process massive amounts of data exchanged over the Internet, including PCs and smartphones, as well as servers. More semiconductors are also being used in numerous digital home appliances, as well as in automobiles and medical equipment. Considering these factors, along with accelerated growth in the supply of these products to emerging countries, we believe that growth in demand for semiconductors and related technological advances will still continue indefinitely into the future. Indeed, the arrival of the mobile computing era heralds the beginning of the second major growth phase of semiconductors.

The evolution of semiconductors will be supported by unlimited technological innovation in semiconductor production equipment, our technology. We have reconfirmed the importance of this fact.

Q What changes have taken place in the business environment surrounding Tokyo Electron? How will you respond to these changes and how will you convert them into business opportunities?

A Tokyo Electron's overseas sales ratio for SPE has now reached nearly 85%. There has also been an increasingly prominent trend for only a few major customers to make very large investments.

In response to these changes in the business environment, Tokyo Electron has conducted its most important R&D activities in close proximity to global semiconductor manufacturers. We have established cutting-edge process-technology centers in the U.S., South Korea and Taiwan, in addition to Japan. These centers allow us to work closely with customers in their semiconductor development from an early stage. Efforts are focused on embodying customers' real needs in the next generation production equipment as early as possible.

Meanwhile, our basic approach is to conduct manufacturing primarily in Japan in order to take full advantage of the country's strong manufacturing capabilities. However, we are expanding procurement of parts and materials to the rest of Asia, in order to leverage the yen's recent appreciation, in an effort to improve the overseas procurement ratio. In the SPE business, we will work to strengthen Tokyo Electron's position and enhance profitability through these types of development and manufacturing strategies.

In the flat panel display (FPD) production equipment business, the market has now arrived at a major turning point. There has been a large drop in the prices of large LCD TVs at mass home appliance retailers. Because of the commoditization of LCD panels, FPD production equipment has also faced fierce price-based competition from emerging Asia-based players. In response, Tokyo Electron will maintain its competitive edge in the market by building manufacturing infrastructure in China, which has enormous untapped demand for panels, while striving to improve its cost structure. Furthermore, we are eyeing the full-scale emergence of the market for OLED TVs around 2015. OLED TVs promise to rival LCD TVs as the new generation of TVs. Accordingly, Tokyo Electron will accelerate the confirmation of the commercial viability of OLED display production equipment for large panels, and launch this business as early as possible.

Expanding Our Global Development Network

We use our development network linked to our major customers throughout the world to speedily create the products that they demand.



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Q Could you please go into a little more detail on your new businesses?

A Tokyo Electron has executed high levels of R&D and capital investment over the past two years, and has recently announced two corporate acquisitions. In addition to strengthening existing businesses, these measures are aimed at creating new growth drivers for Tokyo Electron.

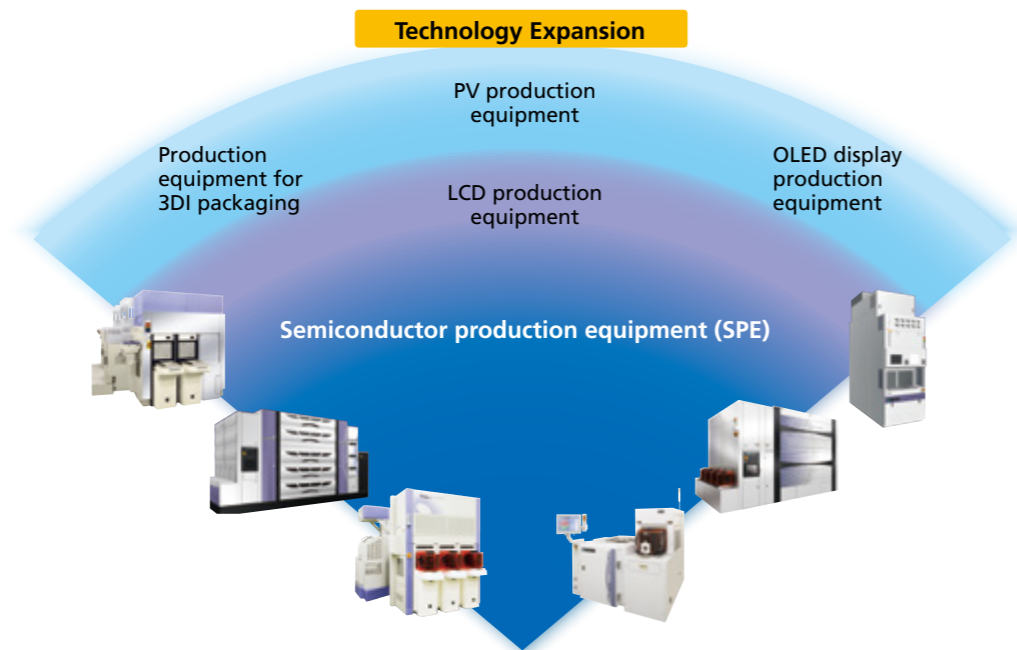
These growth drivers include new products based on new plasma technology that uses a radial line slot antenna; 3DI packaging technology in the wafer level packaging field; next-generation test systems; OLED display production equipment; and thin-film silicon PV production equipment. If these growth drivers become viable, Tokyo Electron will create new businesses worth between ¥100 billion and ¥200 billion combined.

Elsewhere, while miniaturization is becoming more and more difficult for memory chips, the era of STT-MRAM, a promising candidate for the next generation of memory, is drawing near. Eyeing the development of this revolutionary new device, Tokyo Electron has teamed up with Tohoku University, which possesses the world's most advanced technology in this field. Under this partnership, Tokyo Electron will take on the challenge of developing high volume production technology for these devices as a production equipment manufacturer.

If new business fields emerge, and STT-MRAM devices are successfully introduced in the market as well, we expect they will allow us to establish new growth drivers alongside our existing core SPE products.

Developing Businesses in New Fields

We are targeting business expansion by entering new business fields where we can take full advantage of our core SPE Technology.



Q Tokyo Electron has transformed itself into an enterprise that can generate stable cash flow. What is your policy on returning profits to shareholders and using cash?

A The year before last, we raised the performance-linked dividend payout ratio target from 20% to 35%, as part of our effort to increase returns to shareholders. In addition, as Tokyo Electron marks the 50th year of its founding, we plan to pay a commemorative dividend of ¥20 per share, expressing our appreciation for the continued support of shareholders.

However, we believe that our shareholders' strongest expectations for Tokyo Electron are for us to enhance its corporate value by achieving growth. Therefore, we intend to continue using surplus funds primarily to invest in technology development, as well as for other growth investments including corporate acquisitions.

At the same time, we will undertake appropriate considerations for stock buybacks depending on situations. While remaining consciously aware about the need both to drive sales and earnings growth and improve ROE, management will continue to provide the leadership needed to enhance Tokyo Electron's corporate value.